Global oil and gas transactions review 2012

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Introduction

Welcome to Ernst & Young's annual review of global oil and gas transaction activity. In this report, we look back at some of the main trends in oil and gas deal activity over 2012 and explore the outlook for transactions in the sector in 2013. We analyze the diverse dynamics in the upstream, midstream, downstream and oilfield services segments, as well as the regional trends that underlie the macro environment.

With an average of more than four transactions every day, oil and gas has remained one of the most active and resilient global sectors for M&A. The continuing turbulence in many parts of the global economy and its capital markets that characterized 2012 created both opportunities and challenges for a sector that is all about capital flows and the global economy. Capital is on the management agenda of every organization, whether the challenge is to raise it, invest it or preserve it.

In 2012, the oil and gas transaction value recorded was US$402b. This value was significantly higher than the US$337b posted in 2011 and eclipsed the previous record of US$393b from 2010. An increased willingness to commit to larger transactions underpins these statistics. In 2012, 92 oil and gas transactions exceeded US$1b in value, compared with just 71 in 2011. Rosneft's acquisition of TNK-BP in two deals, worth a combined US$60b, outpaced 2011's largest deal, Kinder Morgan's acquisition of El Paso for US$38b. Four oil and gas transactions exceeded US$10b in value in 2012, compared with just two in 2011.

Looking beyond the megadeals, the 1,616 oil and gas transactions recorded in 2012 represented a marginal decrease from the 1,664 deals in 2011. A volume of 1,225 in asset deals was virtually identical to the prior-year total, while corporate deal volumes of 391 were 10% lower. Volatility in capital markets steered sellers toward asset deals, and unpredictable movements in valuations also pushed buyers in this direction.

The volume of deals was relatively consistent each quarter. But deal values trended upward during each quarter, with Q4's US$171b total nearly tripling the US$62b recorded in Q1. Despite the distorting effects of a few large deals in Q4, the underlying upward trend points to a healthy outlook for activity in 2013.

Upstream remained the most active segment, with US$284b of transactions accounting for 71% of total deal values. North America continued to be the dominant region for activity, covering approximately 52% of upstream transaction volume. Nonetheless, this was a decline in the region's relative importance, with upstream deal activity in the US dropping by nearly 20% as shale gas activity declined, largely a victim of its own success in previous years. Canada, conversely, posted a 20% increase in volumes. The key themes underpinning upstream activity – International Oil Companies' (IOCs) portfolio optimization, National Oil Companies' (NOCs) international expansion and capital management in the mid-cap space – look set to continue to drive activity levels through 2013.

Transaction values in the downstream segment were flat at US$42b, with volumes also fairly stagnant at 162 transactions. Ownership change in retail and refining in mature markets continued, stemming from ongoing portfolio rebalance and capital allocation reviews. Growing demand and capacity, particularly in Asian markets, supported a brighter picture for other markets, albeit with relatively low transaction levels. Storage facilities that deliver global connectivity and trading potential remain attractive to acquirers, with conversion of refining facilities also being considered.

Without a repeat of a corporate deal of the scale of Kinder Morgan's acquisition of El Paso Corp., the midstream segment reported a 42% fall in aggregate value, although the US$50b of recorded deals was still double the level of 2010. North America accounted for 78% of all midstream transactions, but this was a decline from the 83% dominance of the region in 2011. We expect midstream activity levels to continue to increase outside of North America as infrastructure ownership further disaggregates from upstream assets, driven by capital allocation and regulatory factors.

The fastest-growing segment for activity was oilfield services, repeating last year's position. Total oilfield service volumes of 212 were almost a 10% year-over-year increase. The aggregate deal value in 2012 dropped by a third to US$26b, reflecting the absence of deals with scale comparable to the US$8.7b Ensco-Pride merger of 2011. Financial investors demonstrated increased appetite for oilfield services transactions, playing a role in 3 of the segment's top 10 deals. Access to new technologies, particularly around deepwater applications, has enabled expansion into hard-to-access growth markets, which has fueled trade player activity.

We're beginning a new year, but it is unlikely to be a new story for transactions in the oil and gas sector. The dynamics of an energy-hungry world and a capital-hungry sector will continue to combine to drive transaction activity. We expect 2013 to be another robust year of activity for transactions across every segment of the oil and gas value chain.

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Upstream

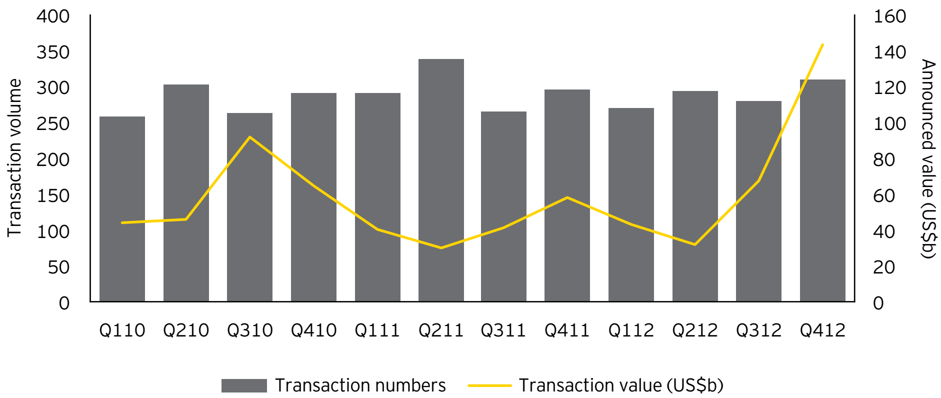
Economic uncertainty did not let up in 2012. The Eurozone debt crisis has continued to grab headlines, emerging market growth has continued to slow and political unrest continues to impact a number of regions. Against this uncertain economic outlook M&A markets have witnessed a noticeable drop-off in deal activity, further compounded by tight credit markets and low investor confidence. However, the oil and gas sector has shown resilience and, while deal activity is down from the prior year, M&A spend is up and the sector has outperformed relative to the wider market.

Three key themes underpinned deal activity in 2012. IOCs and larger independents have focused on optimizing their asset portfolios, NOCs have continued to expand into international markets with a number of key acquisitions and joint ventures, and mid-cap companies with sizable capital commitments have had to entertain varied strategic options as conventional debt and equity investment remains challenging. Relative oil pricing stability and a significant number of large discoveries have also championed activity in the sector.

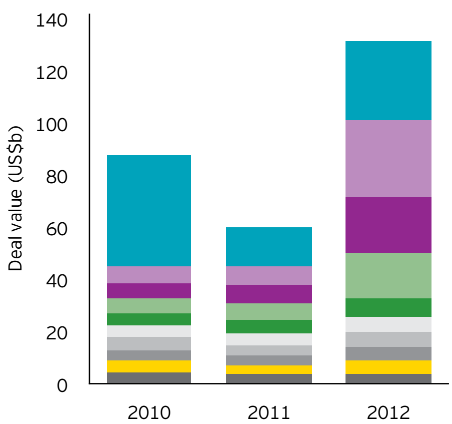
Activity levels declined slightly, but M&A spend rose significantly

There were a total of 1152 transactions in the upstream sector, marginally down 3 %

Upstream deal values and volumes



Top 10 deals by value



Source: IHS Herold Inc.

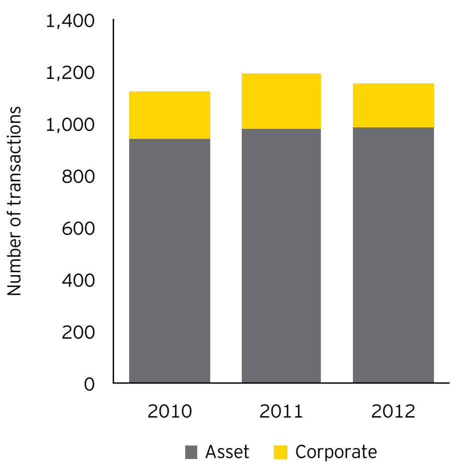
from 2011, but total announced transaction values were US$284b, up a significant 68% from the prior year. A small number of high-profile, high-value deals in the second half of 2012 account for much of this increased value, but the rise in M&A spend is widespread, with 20 more deals exceeding US$500m in 2012 than in 2011, an increase of 38%. The chart below shows the value of the top 10 largest upstream transactions in each of the last three years.

Rosneft's acquisition of TNK-BP for a combined value of approximately US$60b (inclusive of excess working capital) was the largest announced deal in the sector and will be the oil and gas sector's third-largest deal ever. The transaction, undertaken as two separate divestments by BP and the AAR consortium selling their 50% stakes, will make Rosneft the world's largest listed oil and gas company and will give BP a 19.75% share in the Russian energy giant.

Asset-led transactions continue to dominate over corporate transactions, accounting for 85% of total deals, with the number of corporate deals showing a marked 20% decline from 2011. Asset deals, either full exits or partial divestments, still offer an accessible means of raising capital for most companies. A number of significant corporate deals occurred during the year, but with equity market volatility and reduced pricing, it is often easier to reach agreement on underlying asset value than corporate valuations.

On a regional basis, North America continued to lead transaction activity, with more than 52% of all announced deals, in line with 2011. Despite the dominance, the number of announced transactions in the US fell 18% from 2011 levels while Canadian transaction levels rose 20%. North America accounted for 45% of announced deal values, with US$97b of transaction value in the US and a further US$51b in Canada. The CIS's US$77b in announced deal value is up significantly from 2011's US$16b thanks to the Rosneft/TNK-BP transactions.

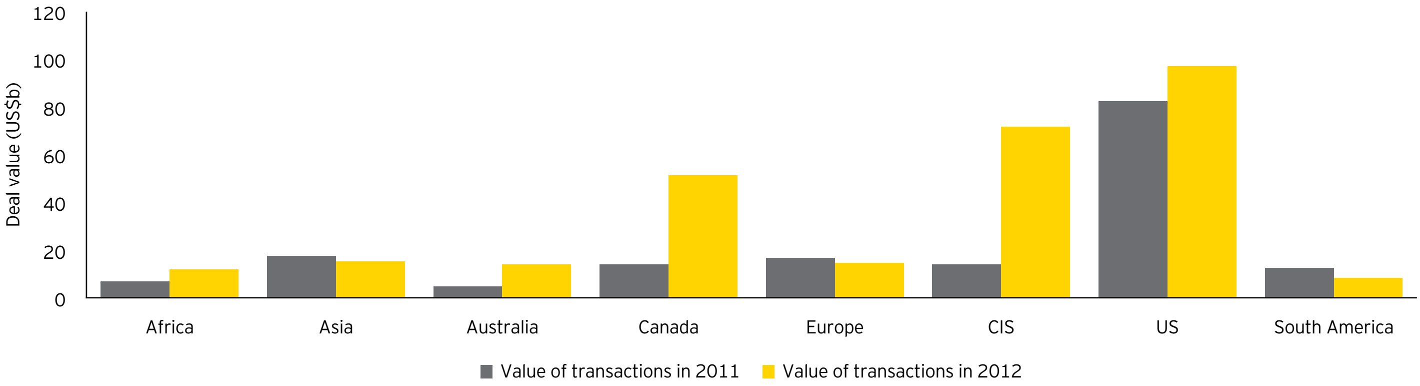
Deal volume — asset vs. corporate transactions



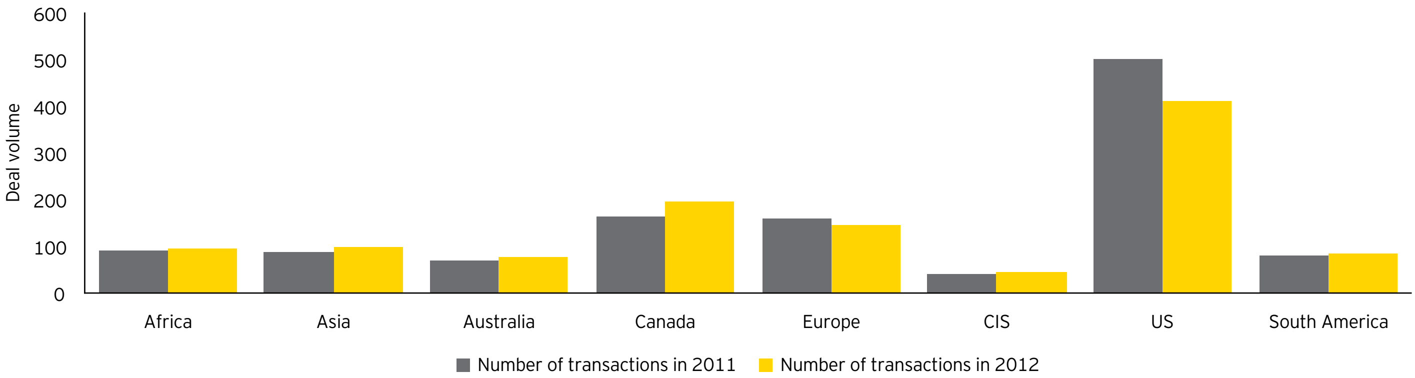
Deal value — asset vs. corporate transactions

Source: IHS Herold Inc.

Deal value by region



Number of deals by region



Source: IHS Herold Inc.

Unconventionals — the new conventional?

Unconventional resources continue to be a major transactions driver, featuring in a quarter of all transactions announced in the year. Not surprisingly, North America continues to account for the majority of activity. With US gas prices still depressed from the impact of the shale gas boom, much of the focus for the year has been on the fast-emerging shale oil plays, and acreage on the coveted Bakken and Eagle Ford shales collectively featured in a staggering 80 transactions.

Given the high capital requirements, major oil and gas companies and the large NOCs dominate unconventional M&A activity as they increase their exposure to the booming sector, often to the benefit of the regions' early independent explorers. ExxonMobil's acquisition of Denbury's Bakken Shale assets for approximately US$2b increases the oil major's acreage there by 50% and eases its heavy unconventional gas weighting. However, its subsequent acquisition of Celtic Exploration for US$3.2b offered significant acreage in the Montney and Duvernay gas shales and is evidence that the major has lost little of its appetite for North American gas. Shell's and Chevron's acquisitions of Permian Basin asset packages from Chesapeake for US$1.9b and US$1b, respectively, are further evidence of the attraction of US unconventional reserves to the majors.

North American unconventional assets continue to attract investment from the Chinese NOCs. The year's second-largest transaction was CNOOC's US$20b acquisition of Nexen, which has provided the Chinese company with even greater access to Canadian reserves through its interest in Alberta oil sands and Horn River shale gas, as well as a range of conventional assets across the globe. PetroChina's US$2.2b acquisition of a 49.9% interest in Encana's Duvernay acreage in west central Alberta was one of three sizable transactions the company made in Canada in 2012. Further evidence of this continuing theme is Sinopec's US$2.2b acquisition of a 33.3% interest in five of Devon Energy's new unconventional resource plays in the US.

On the other side of the Atlantic, shale in Europe is still some way behind the US, and only a handful of transactions took place in the unconventional space in 2012. Chevron added to its European shale exposure with the acquisition of 50% of a private Lithuanian company to target Lithuania's estimated 120 billion cubic meters of shale gas. San Leon's announced US$31m merger with Aurelian Oil and Gas will make the enlarged group the largest foreign acreage holder in Poland.

North Sea continues to benefit from renewed interest

The North Sea witnessed yet another resurgent year, with a number of significant deals and record applicants for the UK's 27th licensing round. The largest announced transaction was Wintershall's acquisition of selected Norwegian North Sea assets from Statoil for US$1.35b cash plus a 15% stake in the Edvard Grieg development, one of three deals over US$1b in the region. TAQA reinforced its established UK North Sea presence with the announced US$1.1b acquisition of a number of BP's interests in central North Sea oil and gas fields. Sinopec's US$1.5b entry into the North Sea with the acquisition of 49% of Talisman's UK North Sea portfolio reflects the resurgent region's global appeal, further supported by Mitsui's US$280m entry acquisition of BP's interests in the Alba and Britannia fields, and KUFPEC's North Sea re-entry with the farm-in to 35% of EnQuest's interest in the Alma and Galia developments.

Eight of the 10 largest announced deals in the North Sea were in the UK despite the lingering fiscal uncertainty following the prior year's tax changes and the decommissioning issue. While the recent uptick in activity is very positive for those dependent on the North Sea, the future of more mature assets will lie in the hands of the smaller independents as majors and larger independents look to transition assets to fund other global developments. In the UK, the treatment of abandonment liabilities continues to be a major obstacle to this transition. The uncertainty around taking on potentially huge costs to retire UK installations is a major deterrent for would-be buyers of mature fields. This area has been a focus of discussions between industry and government, supported by Ernst & Young, and we hope for positive developments in 2013.

NOCs increased M&A spend

NOCs were buyers for a modest 7% of transactions by number but a telling 44% of total announced transaction value. Rosneft's US$60b acquisition of TNK-BP and CNOOC's US$21b (including surplus working capital) acquisition of Nexen allow for a heavy weighting, but NOCs were on the buy side for 60% of the top 10 transactions by value and 30% of the largest 50 deals. Backed by strong cash reserves, NOCs have looked to increase production levels through large acquisitions in favor of international exploration, buying not only access to required resources but also skilled personnel and opportunities for knowledge transfer. As mentioned in our report last year, NOCs have more recently sought opportunities to form joint ventures with the larger oil companies on international exploration activities, and this is expected to yield greater organic growth in the longer term. For the short term, we expect NOCs to continue to be a significant driver for large transactions.

Private equity has played an important role in the sector since the economic downturn, providing a key source of investment for the mid-cap community. The sector has seen increased private equity interest across the upstream, downstream and services sector over the year as it continues to offer opportunities for growth and attractive investment returns. Private equity firms were involved in 45 upstream transactions either directly or through portfolio companies and were on the buy side for 33 of these, co-investing into US$18b of transaction value in the sector, up 43% from 2011 levels.

In the year's largest PE-backed investment, a consortium led by Apollo Global Management, including Riverstone, acquired El Paso's E&P business, EP Energy, for US$7.2b. The PE-backed vehicle now owns a range of producing US conventional assets and unconventional reserves in the Eagle Ford, Wolfcamp and Haynesville shale plays, as well as assets in Brazil and Egypt. Investment in unconventional opportunities has generated significant returns for early PE investors, and KKR has looked to build on sizable gains made in 2010 and 2011 through combined investment of over US$1b in 2012, including the formation of a partnership with Chesapeake targeting mineral rights and overriding royalty investments in US unconventionals.

Much of the same for 2013

This year faces many of the same challenges as the start of 2012. The uncertain economic outlook is unlikely to be resolved in the short term. We expect the sector to continue to demonstrate its resilience in M&A terms as the key drivers remain the same. Funding remains a challenge for smaller companies for both debt and equity, and we continue to expect cash constraints coupled with cost escalation to be a driver for both asset and corporate opportunities. Those at the larger end of the scale with stronger balance sheets may benefit.

The significant discoveries in East and West Africa are expected to generate greater M&A activity in the region, and we continue to monitor exploration progress in the Arctic. The US unconventional boom shows no signs of slowing down, and interest is building in China, South America and Europe. Recent unconventional developments have fundamentally changed the global demand picture, and it will be fascinating to watch the impact of the developing LNG market. These developments are likely to impact all markets, and we expect to see continued appetite for strategic political partnerships between NOCs and key global players to best navigate the uncertainty.

Downstream

Transaction activities declined marginally during 2012

The downstream sector's number of transactions fell to 162 in 2012, some 6% lower than 2011. This decline is particularly evident in the United States and South America, where transaction volumes have reduced by 8 and 7, respectively. Companies remain fundamentally cautious in those mature markets due to the continuing downside risks for oil product demand, driven by uncertain economic outlook and austerity measures. In contrast, transaction volumes in Asia have increased by 9 as demand for oil products continues to grow in the region.

However, the disclosed value of downstream transactions in 2012 of US$42.3b is similar to the prior year. Based on disclosed values, the top 10 deals in the sector during 2012 had a combined value of US$25.4b, accounting for nearly 63% of the disclosed value of all transactions in the sector globally.

Two of the largest announced transactions during the year involved Macquarie European Infrastructure Fund's acquisition of a 12,000-km gas transmission system in Germany for US$4.1b and TonenGeneral Sekiyu K.K.'s acquisition of 3,813 service stations, 2 lubricant blending plants, 4 refineries and 10 terminals in Japan for US$3.9b.

Top 10 transactions in 2012 based on disclosed value

Announced date	Buyers	Sellers	Nature of asset	Value US$m
16 May 12	Macquarie European Infrastructure Fund	E.ON AG	Gas transmission system in Germany	4,118
30 Jan 12	TonenGeneral Sekiyu K.K.	Exxon Mobil Corporation	Retail, refining and storage assets in Japan	3,935
18 Apr 12	Alimentation Couche-Tard Inc.	Statoil ASA	54% share of Statoil Fuel & Retail ASA	3,371
29 May 12	Cosan SA Industria e Comercio	BG Group plc	60.1% holding in Companhia de Gas de Sao Paulo, a gas distribution company in Brazil	2,707
1 Nov 12	Williams Partners LP	Williams Companies, Inc.	83% interest in Geismar olefins production facility, propylene splitter and pipelines in the US	2,364
19 Jul 12	Current shareholders	Georgia Gulf Corporation	PPG Industries separated its chemicals business and then merged it with Georgia Gulf Corporation. PPG shareholders will receive approximately 50.5% of the shares of the merged company	2,082
6 Jun 12	Corporacion Financiera Colombiana SA	Promigas SA ESP	75% of Colombian company Promigas, a natural gas transmission and distribution company	1,858
28 Feb 12	The Blackstone Group LP	Cheniere Energy, Inc.	Equity ownership interest in Cheniere Energy Partners, which is building an LNG export facility in Sabine Pass, Louisiana	1,998
26 Apr 12	Suburban Propane Partners LP	Inergy LP	Propane operations in 33 US states from 338 customer service centers	1,800
13 Aug 12	Tesoro Corporation	BP plc	Carson refinery, ARCO-branded retail marketing network	1,175

Source: IHS Herold Inc.

Forty-two percent of downstream transaction volumes were in the United States (68), with Europe (28) and Asia (20) together accounting for a further 30% of volume.

Similar to 2011, the volume of asset transactions exceeded those that were corporate in nature. There were 111 announced asset transactions with a disclosed value of US$24.6b, compared with 51 corporate transactions with a disclosed value of US$17.7b.

Deal volume — asset vs. corporate transactions

Source: IHS Herold Inc.

Deal value — asset vs. corporate transactions

Source: IHS Herold Inc.

Refining

There were 47 transactions involving refineries during 2012, of which 29 involved refineries in the United States and Europe.

In the United States, the key refining transactions announced during the year include the divestment of BP's refineries in Texas City, TX, for US$598m to Marathon Petroleum Corporation and in Carson, CA, for US$1.2b to Tesoro Corporation. These strategic divestments, due to complete 2H 2013, enable BP to focus its North American fuels investments on its three northern refineries (Whiting Refinery in Northwest Indiana, Cherry Point Refinery in the state of Washington and the Husky joint venture in Ohio), which are crude feedstock advantaged, and its associated marketing businesses.

Another interesting refining transaction in the United States during 2012 involves Delta Air Lines acquiring the Trainer refinery south of Philadelphia, PA, from Phillips 66 for US$180m. The acquisition includes the delivery network for jet fuel reaching Delta's operations throughout the Northeast, including its hubs at the LaGuardia and JFK airports. Trainer has a crude oil processing capacity of 185,000 barrel per day, and Delta expects to spend a further US$100m to convert the existing infrastructure to maximize jet fuel production. Delta expects production at the refinery, combined with multi-year swap agreements to exchange refined products from the refinery for jet fuel, will meet 80% of Delta's jet fuel needs in the US. Delta expects to save about US$100m on fuel in 2012 and to recover its investment in the first year of operations. Could this be a start of a trend in major domestic airlines acquiring refining assets to hedge against increasing jetfuel prices?

In Europe, Petroplus primarily drove refining transactions during 2012. Petroplus had a portfolio of refineries across Europe with a combined refining capacity of 667,000 barrels per day. The company filed for bankruptcy on 24 January 2012 after its bankers refused to extend a US$1b credit facility following breach of debt covenants. Administrators were subsequently appointed, and the various Petroplus refineries were acquired by:

- Antwerp (Belgium) — Gunvor Group Ltd., which intends to restart the refinery.
- Cressier (Switzerland) — Varo Holding SA (joint venture between AtlasInvest and Vitol Group), which intends to restart the refinery. It also acquired Petroplus' Swiss marketing and logistics assets.
- Ingolstadt (Germany) — Gunvor Group Ltd., which intends to restart the refinery. It also acquired Petroplus' German marketing activities.
- Teeside (UK) — This refinery has been converted to a storage terminal and acquired by Greenergy.
- Coryton (UK) — Royal Vopak, Greenergy and Shell UK Limited, with plans to develop and invest in an import and distribution terminal to be managed by Vopak. The initial storage capacity will be approximately 500,000 cubic meters with the potential to expand to up to 1m cubic meters.

As of the date of writing, Petroplus' refinery in Petit Couronne and terminal in Reichstett-Vendenheim (both in France) have yet to be sold.

There was some respite for European refiners during 2012. Since the second quarter, refining margins have improved significantly due to contraction in capacity

(lower product stocks and crude runs) as a result of refinery closures and seasonal maintenance in Europe, unplanned refining stoppages across the Atlantic and limited export from East of Suez due to strong regional demand. The average NWE Brent Hydroskimming margin and NWE Brent Cracking margin between April and October 2012 is US$0.89 per barrel (compared with negative US$2.16 per barrel in 2011) and US$6.46 per barrel (US$0.16 per barrel in 2011), respectively. However, this respite for European refiners is likely to be temporary as refineries come back online during 2013.

Outside North America and Europe, the key refining transactions include Valero's ongoing divestment of its 235,000-barrel-per-day refinery in Aruba for US$350m and ZAO Neftgazsbyt's acquisition of 51.9% interest in the OAO Slavneft-Yaroslavl Mendeleyev refinery.

Similar trend set to continue in 2013

In 2013, we expect that the European and United States refineries (with the exception of those in the Midwest) would continue to feel the effects of low refining margins and utilization because oil product demand has seen limited improvement and crude prices remain high. Furthermore, competition from additional refining capacity (particularly in Asia and the Middle East) and compliance with increasingly stringent environmental and product quality laws will exacerbate the pressure on margins.

IOCs and independent refiners should continue to rebalance their United States and European refining portfolio through one or a combination of the following:

- Divesting non-core refining assets
- Partially shutting down key refineries
- Fully shutting down less complex sites and converting to storage terminals to defer expensive remediation and cleanup costs
- Postponing new refining capacity and upgrading projects
- Seeking new equity partners for capital injection

Various groups of buyers, especially those from Asia and FSU with equity crude and oil traders, are likely to be interested in the relatively complex refining assets. On the other hand, interest for relatively simple refineries would depend on whether they could be converted into storage facilities. Given the number of refineries that are in the market and the current low-margin environment, buyers currently benefit from negotiation strength and suppressed valuations.

Conversely, refiners in emerging markets are benefiting from growing regional oil demand and are, therefore, building new capacity. In Asia and the Middle East, additional refining capacity coming online between 2011 and 2015 is forecast to be 5 million barrels per day. Due to their more advantageous configuration and scale, low-cost crude and less stringent environmental legislations, these refiners are possibly looking to export into North America and Europe.

Retail

There were 29 transactions during 2012 involving retail marketing assets, with the United States and Europe accounting for 70% of these transactions.

However, the largest retail marketing transaction (in terms of disclosed value) during the year took place in Japan when TonenGeneral Sekiyu K.K. acquired 3,813 service stations, 2 lubricant blending plants, 4 refineries and 10 terminals in Japan from ExxonMobil for US$3.9b. TonenGeneral Sekiyu K.K. will merge these assets with its 904 service stations, its lubricant blending plant, its 3 refineries (with combined capacity of approximately 661,000 barrels per day) and 1 terminal. Furthermore, TonenGeneral Sekiyu K.K. will have exclusive use of Esso and Mobil brands in Japan.

The other key transaction in the retail marketing space is Alimentation Couche-Tard's acquisition of 54% of Statoil Fuel & Retail ASA for US$3.4b. The offer price represents a 47.3% premium to the closing share price of Statoil Fuel & Retail shares on the last trading day before the deal announcement. Alimentation Couche-Tard is a North American convenience store operator based in Canada, and this transaction would provide it with access to the convenience offerings in approximately 2,300 service stations in Scandinavia, Poland, the Baltics and Russia. Given that IOCs have had limited success with their convenience offerings historically, it would be interesting to see whether a convenience store specialist would be able to generate further value from service stations in Europe.

Majors' divestment trend set to continue

During 2013, we expect that major integrated oil companies would continue with their divestment plans to exit from mature retail markets in the United States and Europe, where they do not have the necessary economies of scale to generate the required return on capital and where they may lack an integrated refining position. This move will be predominantly driven by:

- Strategic focus on upstream, not only due to the higher level of returns but also because integrated oil companies are judged on their ability to replenish reserves. Hence, capital expenditure is weighted toward E&P.
- Prioritization of limited downstream capital expenditures toward growth regions, such as Asia, often in a joint venture with the local oil companies.

However, in mature markets, where the major integrated oil companies have the necessary economies of scale, they have shown a willingness to invest.

As marketing margins are usually more robust than refining margins, we expect to see continuing strong interest from various parties for retail marketing networks, particularly those with decent throughputs, strategically located sites and strong non-fuel offerings (or an ability to develop one), such as:

- Regional and national oil companies looking to expand within their supply envelope
- Independent retailers looking to improve their market share and economies of scale
- PE firms looking to build competitive advantage through specialization as opposed to control over the full supply chain

Given the level of competition, retail marketing networks of a decent quality and size would likely command a premium.

Storage

There were 36 transactions during 2012 involving storage terminals, with the United States and Europe accounting for 67% of these transactions. The largest storage transaction in terms of disclosed deal size is the Blackstone Group's acquisition of an equity interest in Cheniere Energy Partners for US$2.0b. Cheniere Energy Partners is building a liquid natural gas (LNG) liquefaction and export facility in Sabine Pass, LA. The Sabine Pass terminal has regasification and send-out capacity of 4 billion cubic feet per day and storage capacity of 16.9 billion cubic feet equivalent.

Storage terminals are a crucial part of the downstream supply and trading industry. In recent years, demand for capacity has climbed, especially in the United States and Europe, due to:

- Increasing geographic imbalances between refining production and consumption
- Increasing products with different specifications to comply with regulations, leading to a greater need of segregated storage and blending capabilities
- Increasing activity from independent retailers/distributors and hypermarkets
- The impact of oil trading, contango storage and compliance with compulsory stock obligations

Given the strategic nature of storage assets, competition is intense between oil and gas companies, independent storage operators, oil traders and infrastructure funds. A valuation metric of 10x EBITDA is common on storage transactions in the United States and Europe.

In Asia, storage terminal transactions have been minimal during 2012 as the region is well served by existing storage terminals in the major ports in Singapore, China, Korea and Japan.

We expect competition for storage terminals in the United States and Europe to remain intense. The alternative would be to acquire refineries that have been or could be converted into storage terminals. An example of this is Royal Vopak, Greenergy and Shell UK's acquisition of the Coryton refinery with plans to develop and invest in an import and distribution terminal to be managed by Vopak.

However, according to Wood Mackenzie, a further four million cubic meters' worth of storage is being constructed in the ARA, and this may reduce the pressure for storage assets in the medium term in Western Europe.

The midstream segment

The number of transactions in the midstream segment in 2012 decreased by 19%, from 111 in 2011 to 90 in 2012. The reported deal value decreased significantly, from US$87.3b in 2011 to US$50.3b in 2012.

There were several large transactions in 2012. The top five (in terms of reported deal value):

- Cassa Depositi e Prestiti SpA acquired 30% of Snam SpA from Eni SpA for US$7.7b. Snam SpA is a natural gas transportation, regasification, storage and distribution company in Italy.
- Kinder Morgan Energy Partners, LP acquired 100% of Tennessee Gas Pipeline and a 50% interest in El Paso Natural Gas pipeline from Kinder Morgan, Inc. for approximately US$6.2b.
- Pembina acquired Provident Energy for US$3.8b. Provident Energy is a Canadian company that owns and manages a natural gas liquids infrastructure and logistics business.
- Tallgrass Energy Partners, LP acquired certain midstream assets from Kinder Morgan Energy Partners, LP for US$3.3b, including the Kinder Morgan Interstate Gas Transmission, Trailblazer Pipeline Company, the Casper-Douglas natural gas processing and West Frenchie Draw treating facilities in Wyoming, and KMP's 50% interest in the Rockies Express Pipeline.
- Global Infrastructure Partners acquired Chesapeake Midstream Development, LP for US$2.7b. The assets include gathering and processing systems in the Eagle Ford, Utica, Haynesville and Powder River Basin Niobrara shale plays.

In line with the development of the gas fields in the United States, 74% of midstream transaction activity in 2012 relates to that region, primarily involving assets related to gas gathering and processing. We expect the trend of disaggregating infrastructure ownership to continue in 2013, not only in the United States, but globally.

Oilfield services

Overview

Transaction levels stayed resilient in the oilfield services sector in 2012. The year started strongly with the announcement of National Oilwell Varco's acquisition of NKT Flexibles I/S (NKT) for approximately US$670m in cash. That deal highlighted a number of themes that characterized 2012:

- A series of acquisitions by US companies overseas
- A focus on acquiring new technologies, particularly for deepwater applications
- Continued interest in acquiring businesses that give buyers rapid entries to hard-to-access growth markets

Overall, transaction levels remained buoyant, with 212 oilfield services deals announced, compared with 194 in 2011, based on IHS Herold data. The average disclosed deal value fell from US$424m to US$233m, but this is partly due to some very large deals in 2011, such as the US$8.7b merger of Ensco plc and Pride International in February 2011. Excluding these very large deals, most market participants reported an uptick in deal activity and valuation trends by the end of 2012.

What is driving valuations?

Valuations climbed in 2012, thanks to a stable oil price, strong current trading and healthy growth prospects for companies, and improved financing options. While the multiples achieved for deals is not back at the highs of 2007–08, it is possible to point to a number of transactions where a premium price was realised.

CGGVeritas' acquisition of Fugro's Geoscience division is one such example. At an enterprise value of over US$1.5b, it was one of the largest deals of the year. IHS Herold reported a 12-month trailing EBITDA multiple of 14.3x. From a CGG Veritas perspective, the deal created a US$1b EBITDA integrated geosciences business that was expected to be earnings accretive from 2013, demonstrating the continued possibilities for strong pricing in strategic acquisitions. Three of the year's biggest deals involved private equity buyers — an investor category notable by its absence in recent years. Funds managed by Castle Harlan, CHAMP Private Equity and Lime Rock Partners backed Shelf Drilling's acquisition of 38 shallow-water rigs from Transocean for US$1.05b.

Top 10 transactions in 2012 based on disclosed value

Announced Date	Buyers	Target	Sellers	Nature of Asset	US$MM
5 Nov 12	SapuraKencana Petroleum Berhad	Tender rig businesses of both companies	Seadrill Limited	MOU to integrate both companies' tender rig businesses	2,900
9 Aug 12	National Oilwell Varco, Inc.	Robbins & Myers Energy Systems, L.P.	Listed business	Supplier of application-critical equipment and systems	2,330
26 Nov 12	Royal Boskalis Westminster N.V.	Dockwise Ltd.	Listed business	Marine services provider of logistics management of large and heavy structures (under negotiation; value of initial offer)	1,594
24 Sep 12	Compagnie Generale de Geophysique-Veritas	Fugro Geoscience Division	Fugro N.V.	Fugro's Geoscience Division, excluding existing multi-client library and nodes businesses	1,557
18 Sep 12	Waste Connections, Inc.	R360 Environmental Solutions, Inc.	Blue Sage Capital	"US-based oilfield environmental solutions company"	1,300
10 Sep 12	Shelf Drilling International Holdings Ltd.	38 shallow water drilling rigs	Transocean Ltd.	38 shallow water drilling rigs	1,050
21 Feb 12	URS Corporation	Flint Energy Services Ltd.	Listed business	Provider of construction services, with a focus on the oil, oil sands and gas producing regions of Western Canada and in the Southwest, Appalachian and Rocky Mountain regions of the US	1,005
11 Jun 12	Apax Partners LLP;JMI Equity, Inc.	Paradigm Ltd.	Fox Paine & Company, LLC	Independent software vendor providing solutions for seismic processing and imaging, interpretation, modeling to reservoir characterization, and well planning and drilling	1,000
11 Apr 12	National Oilwell Varco, Inc.	Wilson International Inc.	Schlumberger Ltd	Distributor of pipes, valves and fittings	906
3 Feb 12	National Oilwell Varco, Inc.	NKT Flexibles I/S	NKT Holding A/S;Subsea 7 S.A.	Designer and manufacturer of flexible pipe products and systems for offshore applications	670

Source: IHS Herold Inc.

Private equity returns

Three of the year's biggest deals involved private equity buyers — an investor category notable by its absence in recent years. Funds managed by Castle Harlan, CHAMP Private Equity and Lime Rock Partners backed Shelf Drilling's acquisition of 38 shallow-water rigs from Transocean for US$1.05b.

Based in Dubai with operations across Asia, Africa and the Middle East, Shelf Drilling was created in the asset transfer as a shallow-water rig specialist. The company increased Transocean's focus on high-specification floaters and jackups. From a corporate finance perspective, it was multifaceted, involving US$195m of vendor loan finance in the form of preference shares and a transition services agreement, as well as moving 3,500 Transocean staff to the acquirer.

In mature markets, private equity's renewed interest in oil and gas has been prompted mainly by a search for growth that is absent from many industries outside of oil and gas, as well as confidence over medium- and long-term fundamentals in the sector.

It was also evident that many private equity houses have reduced thresholds for minimum deal sizes, looking to acquire a platform and then bolt on further acquisitions. This is widening the available asset pool for private equity buyers across all sections of the market.

Conditions continued to ease on the banking front, with more banks looking to participate in transactions and increasing leverage in Europe. Market participants reported that finance could usually be found for deals up to enterprise values in the region of US$300m. A typical structure might be based on 50% gearing, with up to four banks each contributing US$40m. Above this level, many more banks might be required, each offering smaller debt tranches. Larger deals often involved a long tail of more than 10 banks, increasing transaction risk.

Corporates going global

Buyers continued to invest to increase their international presence. IHS Herold classed 35% of transactions as global in nature.

Leading the corporate activity was National Oilwell Varco, the acquirer in 3 of the top 10 transactions by disclosed value.

As mentioned above, NOV's acquisition of NKT Flexibles, a Denmark-based joint venture between Subsea7 and NKT Holding, provides an example of a strong trend in cross-border acquisitions, where buyers in mature markets sought to acquire established businesses that have built presence in fast-growth regions. NKT is a designer and manufacturer of flexible pipe products and systems for offshore applications (particularly FPSOs). It had recently signed a supply framework agreement with Petrobras and decided to construct a new facility in Brazil.

As might have been predicted, the biggest transaction of the year — by some distance at $2.9b — was conducted in Asia. It was announced in November that Malaysia's SapuraKencana Petroleum Berhad and New York- and Oslo-listed Seadrill had agreed an MOU to combine their tender rig businesses.

Building on a partnership since 1991, the integrated business will comprise 16 operating rigs as well as five under construction. The transaction seeks to create a leading player in the Far East market, with SapuraKencana taking over all the rigs.

This is to be achieved by a combination of equity and debt instruments. These comprise Seadrill adding to its existing 6.4% stake in SapuraKencana through receipt of new shares to a minimum value of US$350m, and SapuraKencana completing remaining capital expenditure on new rigs and taking on existing debt. The transaction will be also funded through new debt, SapuraKencana's existing cash reserves and a US$187m seller's note. Lastly, the memorandum of understanding (MOU) includes detailed provisions for both parties to grow their joint venture activities in Brazil, building on 2011 contract wins, another move indicative of wider industry trends and ambitions.

The rise of NOC power, particularly in fast-growth emerging markets, seems certain to drive transaction activity in 2013. As local oilfield services companies in these markets mature, they are acquiring in order to expand technical capabilities. In the other direction, cash-rich buyers from mature markets will continue to invest for faster growth and to secure local relationships with NOCs and deliver local content requirements.

Oilfield services: the new tech sector?

Access to innovative technology was a major driver of transaction volumes and values during 2012. Increasingly, buyers are searching for technology that will enhance efficiency, increase recovery of hydrocarbons, embed their position with IOCs and increasingly with NOCs that will then enable them to sell in other products and services. Technology transactions took place at every point in the deal market, with valuation metrics rarely seen in traditional oil and gas transactions.

In the mid-market, energy industry technology provider KBC Advanced Technologies paid a 9.1x revenue multiple to acquire Infochem Computer Services, an Australian provider of software and services to the upstream market. In addition to, Synergies from combining software development and sales functions, key reasons cited for KBC's interest were software and intellectual property in the chemistry of oil and gas fluids to enable accurate modeling of reservoirs to maximize production.

Among the year's larger deals, Apax Partners and JMI Equity's US$1b acquisition of E&P software provider Paradigm was one of the biggest deals of the year, and a sign of resurgent private equity. It also delivered a 10x money multiple on Paine & Partners' US$100m acquisition in 2002. Apax cited Paradigm's technical innovation, market-leading intellectual property and leading scientists and software engineers as major deal drivers.

Outlook for 2013

We see several causes for continued optimism in the global oilfield services sector. A relatively stable oil price, a recovering banking sector and strong order books augur well for a period of relative buoyancy, enabling seller exits and new investment in technology and geographic expansion.

The changing demands of the industry, such as access to NOC clients in fast-growth markets, or new technologies to service burgeoning unconventional production, mean that ambitious players in oilfield services will continue to have M&A, JVs and business combinations high on their agenda for some time to come.

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» Africa

In many parts of Africa, 2011 was a year of conflict, particularly across the north of the continent. Many predicted that 2012 would see a rebound from this and that the recent trend of a strong increase in transaction volumes would continue. Although global interest in acreage in Africa has continued, ongoing tensions and political instability may have impacted transaction activity in 2012.

Africa's transaction volumes increased from 93 in 2011 to 97 in 2012. Although there has only been a moderate increase in transaction volume, reported transaction values have grown significantly, with US$11.7b of deals in 2012, up from US$7.7b reported for 2011. Sinopec's US$2.5b acquisition of Total's 20% interest in Nigerian deepwater block OML 138, the largest oil and gas transaction in Africa during 2012, gave a significant boost to the average deal value.

As in previous years, upstream asset deals continued to be the dominant category, accounting for 85 of the 97 transactions. There was only one reported oilfield service deal and three downstream deals, compared with two of each in 2011. Although there were only eight upstream corporate transactions in 2012, these included the competitive process to acquire UK-listed Cove Energy plc completed by PTTEP for US$1.8b and the merger between two other UK-listed companies, Petroceltic and Melrose Resources. These large deals meant that the value of Africa-focused corporate transactions increased 132% year-over-year in 2012. This trend also indicates the growing financial strength and value of relatively junior companies that have focused resources and time in developing highly prospective African blocks through the exploration and development phases and more recently into production.

Transaction types and value by region were broadly in line with expectations, driven by the area's political and development stage. In North Africa, a marginal improvement in the political stability led to increased transaction volumes to 20 in 2012, compared with 16 the previous year. Transaction values also increased to US$2.5b in 2012 compared with US$1.3b the previous year. This increase was significantly driven by the December announcement of PT Pertamina's US$1.8b acquisition of ConocoPhillips' Algerian business.

High-value Nigerian asset deals dominated West Africa's transactions, namely Sinopec's acquisition (as mentioned previously) and onshore asset divestments by majors Shell, Total and ENI, totaling US$1.5b. As international majors have reduced their exposure to Nigerian assets, resource-hungry acquirers from the East and players from within Nigeria have willingly taken up this capacity. With Nigerian companies, such as Eland and Oando gaining a presence in the global capital markets, we expect indigenous African oil and gas players to increase their presence. Most notably, Oando announced in December the US$1.8b acquisition of ConocoPhillips' Nigerian business, a trend we expect to continue.

Large discoveries in East Africa in 2012 have led to continued interest in the region. Although transaction value and volume were down in 2012, a few high-value deals skewed the 2011 data. Smaller-asset farm-in volumes were on par with 2011 and contributed to the majority of transaction volume in the region. Of particular interest in 2012, was the bidding war for a stake in the booming offshore Rovuma Basin, with the Thai NOC, PTT Exploration, outbidding Shell for the 8.5% Cove Energy stake in a US$1.8b deal.

Southern Africa witnessed an increase in deal volume from eight in 2011 to 20 in 2012, although aggregate deal value fell to US$338m from US$702m the previous year. The Southern African market saw interesting developments: PetroSA completed its farm-out of equity in Blocks 5/6/7 to Anadarko, setting the tone for increased future offshore exploration, and the hydraulic fracturing moratorium was lifted, paving the way for increased activity in the Karoo basin as companies pursue shale gas production in the coming years.

The expected outlook for 2013 is for greater deal flow and consistency with the 2012 regional trends. Willing sellers and buyers are waiting in line to transact on high-quality North African assets, but whether volumes return in this region will continue to depend on the political stability or lack thereof. We expect to see further high-value transactions in West Africa and for these to once again dominate the 2013 data. In East Africa, governments are continuing licensing rounds to benefit from the increased interest in the region. We expect acreage holders from previous licensing rounds to continue with their exploration work programs and look to farm out to larger, better-funded companies as these commitments grow more expensive. Finally, in Southern Africa, we expect further farm-ins to exploration blocks and the results of current work in the region to drive transaction interest.

Australia

In 2012, transaction activity in Australia was again relatively subdued. Continued tight conditions in equity markets meant Australia's deal-hungry junior oil and gas companies remained starved of opportunity, and as a result, the number of deals remained steady at 86, compared with 84 last year. However, over the period, the value of Australian oil and gas transactions more than doubled from US$7.8b to US$16.2b. Consistent with 2011, most of the transactions (88%) were in the upstream sector.

The major transaction focus of 2012 related to the continued commercialization of Queensland's CSG-to-LNG developments and positioning for the future development of Western Australia's Browse Basin gas reserves. The largest deal announced in 2012 (at US$2.34b) involved Chevron agreeing to sell its interests in the giant Browse project (estimated at 17.2% of a unitized Browse development) to Shell in return for Shell's 33.3% interest in the Clio-Acme fields and US$450m. This deal almost triples Shell's interest in Browse and makes it, along with Woodside, a major player in its future. For Chevron, the deal secures more gas closer to its Gorgon and Wheatstone projects in the Carnarvon Basin. Following this, PetroChina acquired BHP Billiton's estimated 10.2% unitized interest in Browse for US$1.63b, while earlier in the year, a joint venture between Japanese traders Mitsui and Mitsubishi (MIMI) acquired a 14.7% interest in Browse from Woodside for US$2b. In total, an estimated 41.1% of the undeveloped Browse project was traded in 2012 for US$5.97b.

As CSG-to-LNG proponents in Queensland advance their projects, they have been shoring up their financing and offtake positions by bringing in further minority partners. In Q1 2012, the ConocoPhillips/Origin Energy JV (APLNG) sold an additional 10% interest to Sinopec for US$1.4b and signed agreements for further LNG supply. This transaction increases Sinopec's interest in APLNG to 25%. Then in Q4, BG Group announced that it had signed a deal with CNOOC valued at US$1.93b to increase its investment in the Queensland Curtis LNG project. This now means that all three of China's national oil companies are significantly invested in separate CSG-to-LNG projects in Queensland.

Australia's frontier basins also saw further investments, driven by the lure of large, unconventional resources. Buru acquired more acreage in the Canning Basin, while Total and Statoil separately farmed in to permits in the Southern Georgina Basin in central Australia. The potentially large shale gas opportunity in the proven Cooper Basin continues to be advanced by proponents, such as Santos, Beach Energy and Senex. Santos commissioned Australia's first shale gas production well in 2012, and transaction activity may follow in 2013 as acreage is consolidated and partners are bought in to further develop these assets.

More transaction activity is expected in 2013 in the upstream sector, along with more investment in Queensland's CSG-to-LNG projects and possible project consolidation. The continued evaluation of vast shale opportunities in the Canning, Cooper and central Australian basins is likely to increase investment activity in these regions as proponents seek technical knowledge and capital to advance their projects. We also expect to see more corporate transactions and consolidation among junior oil and gas companies as a result of equity capital markets remaining relatively tight.

Canada

Interest in Canada's oil and gas industry continues to grow around the world. Over the last year, the Canadian transactions market has been very active. Much of the activity can be attributed to the focus of well-capitalized players on technology-enabled oil and liquid plays, as well as a very challenging natural gas price environment for others that resulted in distressed M&A. Yet, the year's most significant trend is Asian investors' increased interest and the Canadian government's high-profile deliberations about the implications of foreign investment in Canada's oil and gas industry.

But Canadian transactions will look different in the future — influenced by macro-factors, including the growth of US unconventional oil and natural gas production, transportation and infrastructure constraints, increased environmental regulations, continued interest from Asian investors (both state-owned enterprises and private investors) and new clarity on the rules governing foreign investment.

Looking back

Over a decade ago, news headlines described record levels of M&A transactions in the Canadian oil and gas sector. US buyers raced to take over the Canadian industry as natural gas prices surged. Concern about the "Americanization" of the Canadian energy business abounded.

Fast-forward to today, and what a different story has played out in the past year. CNOOC Limited's acquisition of Nexen Inc. and Petronas' acquisition of Progress Energy Resources received considerable attention from regulators, policy makers, media and the public. The debate about how best to fund the Canadian oil and gas industry and what qualifies as "net benefit to Canada" took center stage.

The volume of Canadian transaction activity in 2012 was up 18% compared with 2011 (228 vs. 193) but was dramatically more robust in relation to deal values, led predominantly by the upstream sector. Deal value increased by 241% year-over-year, from US$15.2b to US$51.9b. However, this is somewhat skewed due to the US$15.1b CNOOC and $5.8b Petronas deals.

There was also Mitsubishi Corporation's US$2.9b transaction with Encana Corporation for a 40% stake in the Cutbank Ridge gas assets, PetroChina Company Limited's two transactions with the US$2.2b joint venture in a Duvernay shale gas play with Encana Corp and the US$665.8m purchase of the remaining 40% interest in MacKay River Oil Sands project from Athabasca Oil Corporation, and Toyota Tsusho Corporation's US$608m royalty interest acquisition in Alberta coalbed methane production from Encana.

Overall, there were 10 blockbuster transactions in 2012 with a deal value of over US$1b, compared with only five in 2011. Asian investment into Canada accounted for US$27.3b of total deal value, compared with US$6.1b in 2011 and US$9.2b in 2010.

The mix of deals between asset packages and corporate acquisitions shifted toward corporate transactions, which constituted 70% of total deals in 2012 compared with 56% in 2011. In part, this reflects the nature of buyers, as traditional Canadian domestic buyers faced capital constraints, restricting Canadian producers' portfolio rationalization activities.

Significant corporate transactions in 2012 included Exxon Mobil Corporation's US$3.2b acquisition of Celtic Exploration Ltd. for its Western Canadian gas-weighted producing assets in the Montney and Duvernay basins, and Pengrowth Energy Corporation's US$2.1b acquisition of NAL Energy Corporation and its related light oil properties in Alberta and Saskatchewan and gas properties in British Columbia and Ontario.

Many of the asset packages that did change hands were focused on the tight gas/shale gas plays in British Columbia and northwestern Alberta. These include Mitsubishi's partnering with Encana in the Cutbank Ridge assets, PetroChina's partnering, also with Encana, in a Duvernay shale gas play and Penn West Exploration's sale of producing properties to an undisclosed buyer for US$1.3b. In addition, Royal Dutch Shell plc acquired deepwater exploratory licenses in Nova Scotia with a work commitment of US$956.4m.

Domestic transactions were led by Crescent Point Energy Corp., which acquired Wild Stream Exploration Inc. and its Saskatchewan and Alberta light oil properties for US$616.1m, Cutpick Energy Inc. and its Alberta light oil assets for US$431.1m, and the acquisition of Saskatchewan Bakken light oil assets from PetroBakken Energy Ltd. for US$426.8m. Interestingly, Crescent Point completed six Canadian acquisitions alone in 2012 with a total value of approximately US$2b.

On the midstream/downstream front, there were two significant transactions, with Pembina Pipeline Corporation's acquisition of Provident Energy Ltd. and its transportation, extraction, marketing and storage businesses in North America for US$3.8b, and Enbridge Income Fund Holdings Inc.'s US$1.2b deal for Alberta oil storage capacity and Ontario wind- and solar-powered electricity generation from Enbridge Incorporated.

While there was only one material transaction (in global terms) in the oilfield services space — URS Corporation's US$1b acquisition of Flint Energy Services Ltd. — the highly fragmented Canadian market continued to consolidate significantly, resulting in very robust interest from both private equity and strategic acquirers.

Looking ahead

Transaction activity in Canada is set to continue in the year ahead. Domestic players need to achieve scale to manage the risks of unconventional resource development, along with ongoing cost pressures. These pressures are resulting in part from low natural gas prices, large negative price differentials on Canadian oil given transportation constraints, general inflationary pressures and the need to generate yield for investors.

Foreign interest remains strong, but foreign entities will have to structure future transactions more creatively. Complete control transactions will be far more infrequent. Instead, expect to see foreign investors put renewed emphasis on entering strategic alliances and joint ventures, with Canadian domestic partners retaining some form of control (as was the case with the previously mentioned PetroChina's 49.9% JV with Encana that was announced on December 13, 2012). These partnerships will enable companies to share risk and pool Canadian expertise with foreign financial strength. Canadian companies also stand to benefit by gaining access to foreign markets where demand appetite and the economic return is higher due to the commodity pricing environment.

What else can companies expect in 2013?

- **Back to business basics.** The findings of our 7th biannual global Capital Confidence Barometer indicate a decline in companies' appetite to transact, with many respondents noting they will refocus on business fundamentals. Cost reduction, performance improvement, capital allocation and targeted organic growth initiatives will dominate the boardroom agenda.
- **Unconventionals have changed the energy dynamic.** Shale gas, tight oil and the oil sands are seen as fundamentally changing the global supply/demand picture, including influencing where companies deploy their capital. North American unconventionals, in particular, continue to attract more attention, especially in light of ongoing global geopolitical concerns.
- **Technology is the name of the game.** Whether operating in East Africa, Iraq or Alberta, technology now plays a critical role in accessing reserves in increasingly difficult and challenging geological formations. Technological advances have made the unconventional resource boom possible and will allow for advances in critical environmental efficiencies, such as reductions in water usage and greenhouse gas emissions.
- **People are everything.** Part of the interest in Canada by NOCs is to gain access to and to learn from Canadian expertise. NOCs can buy the latest technologies, but they stand to benefit more from the business acumen and know-how developed by Canadians and applied in the Canadian energy sector.
- **Assets will be priced with a far greater appreciation of underlying risks.** This is especially true given the geopolitical environment in certain asset locations. Expect to see an increased discount applied to assets in these challenging jurisdictions. Interest in Canada's oil and gas industry will remain high as foreign investors continue to be attracted to long-life reserves and the stable economic, regulatory and political environment, as well as the transparency and sophistication of the Canadian industry.

Canada will also continue to lay the groundwork for the exportation of LNG as the shale gas revolution unfolds. Not surprisingly, Asia is very interested in this initiative as a potential beneficiary of this new supply chain.

But with continued foreign investment in Western Canada comes a number of unique challenges and complexities in the form of cultural and business differences. These factors must be considered and properly managed in order for all parties involved to succeed in executing their business strategy. NOCs are eager to implement global best practices to further improve operational performance. Real value can be realized by excelling at post-transaction integration. There is a growing recognition that the value of a deal is really obtained through the effective integration of the business post-close, as opposed to the purchase price.

There is a new horizon ahead, and all of these trends will enable those in the Canadian oil and gas industry to proactively pursue new areas of sustainability — including areas such as the oil sands, tight shale oil and gas, and LNG projects — and continue building and strengthening strategic relationships and alliances with key global players that were so prevalent in 2012.

CIS

In 2012, the CIS region showed significant activity and remarkable events in oil and gas transactions. The deal value of transactions in the region tripled from 2011 levels and reached US$77.3b, but the number of deals was slightly down from 2011. The main reason for this growth in value is the huge acquisition of TNK-BP by the Russian state company Rosneft.

BP agreed to sell its 50% stake in TNK-BP to Rosneft in a cash and stock transaction (US$17.1b and 12.84% stake in Rosneft). The companies entered into definitive agreements for the deal. In addition, BP intends to use US$4.8b of the cash consideration to acquire a further 5.66% stake in Rosneft from the Russian government. With a 1.25% holding in Rosneft already, BP would have a total stake of 19.75% in the Russian giant when the proposed transaction is complete. In December 2012, Rosneft signed two loan agreements with a group of international banks to finance the acquisition.

Rosneft also signed an agreement to purchase a 50% stake in TNK-BP from the AAR Consortium (Alfa Group, Access Industries and Renova Group). Russian and European antimonopoly bodies must approve the completion of the deal, which is expected to occur in the first half of 2013.

TNK-BP's primary exploration and production operations are in Russia: Western Siberia, Volga-Urals and East Siberia basins. The overseas assets are in Vietnam, Venezuela and Brazil. TNK-BP owns five refineries, four of which are in Russia and one in Ukraine, and has an approximate 50% interest in a Russian refinery, YANOS, with Gazprom Neft. Total estimated 2P reserves are 12.15 billion boe and 3P reserves are 18.84 billion boe. As a result of the purchases, Rosneft will be transformed into the world's largest listed oil company that will dominate Russia's energy sector.

On the conventional side of Russian resources, the prior year's consolidation trend continued. Rosneft was one of the driving forces, purchasing stakes in companies with assets in Eastern Siberia. The segment of conventional resources also marked a trend of joint ventures (JVs). Rosneft and Itera as well as Zarubezhneft and ALROSA have cooperated in gas exploration and development projects in Yamal-Nenets region.

The trend of JVs to explore Arctic and offshore plays continued, as Russian NOCs need technical support as well as financing for the high-risk exploration. The recent agreement between Rosneft and ExxonMobil for joint offshore developments in the Kara and Black seas, signed in 2011, was followed by similar JVs involving the Russian NOC with Eni, focusing on Barents Sea exploration, and with Statoil, focusing on exploration in the Barents and Okhotsk seas. The Russian government highly supports this trend as it finishes creating the state program to explore and develop Arctic continental shelf mineral resources for 2012–30.

Another prevalent trend in 2012 was international activity by Russian oil and gas companies. Rosneft established a JV with a subsidiary of PDVSA to develop extra-heavy crude in the Orinoco Belt in Venezuela. The Venezuelan government approved another joint venture, between PDVSA and Gazprom, to operate two mature fields in the country. LUKOIL continued to expand operations in West Africa by acquiring stake in the geological exploration, development and production project at the offshore block in the Gulf of Guinea offshore Sierra Leone. LUKOIL has also raised its share in the West Qurna 2 field in Iraq by purchasing 18.75% from Statoil.

With the Rosneft deals, upstream was the big gainer, while activity declined in the midstream and OFS segments. As for downstream in the region, deal value increased significantly in 2012.

TNK-BP acquired the Koltsovo fuel refilling company, which is the operator of the jet fuel storage and filling services at the Ekaterinburg international airport in the Sverdlovsk region in Russia. Asian companies are also interested in the CIS downstream segment. Sinopec International has signed an agreement with the Russian gas processing and petrochemicals company SIBUR, in which Sinopec will acquire a 25% plus 1 share of the Krasnoyarsk Synthetic Rubbers Plant. LUKOIL continued expanding internationally in the sector by purchasing an additional 20% interest in a JV that was established to operate the ISAB refining complex in Italy, as well as 46 filling stations in the Netherlands and 13 stations in Belgium.

Europe

Europe's oil and gas sector delivered strong activity in 2012. Overall transaction volumes of 179 fell short of 2011's 189 deals, but their combined value of US$29.3b exceeded the 2011 level of US$24.1b. Very few articles written about Europe's economies during 2012 were able to comment on such positive trends.

Upstream, where European activity centers on the North Sea, delivered the greatest share of deal volume. In 2012, European upstream transaction volumes of 139 were down slightly from the 146 deals of 2011, whereas overall deal value of US$11.7b was comparable to the US$10.6b achieved in 2011. The largest of these transactions, valued at US$1.6b, was Statoil's asset swap with Wintershall. Talisman's sale of a 49% stake in its UK North Sea business to Sinopec for US$1.5b is also worthy of mention, reflecting a potentially groundbreaking strategic partnership in the region.

Several countries share the North Sea, with Norway, the Netherlands and the UK serving as the key transaction destinations. As well as different fiscal and regulatory regimes, the North Sea offers investors opportunities such as mature basins, particularly in the Southern gas province (where larger players are divesting), and frontier exploration in more northerly provinces. One of 2012's largest upstream discoveries was in the North Sea — the Johan Sverdrup discovery in Norway.

North Sea transaction volumes are expected to increase in 2013. Exploration excitement continues, and pending changes in UK decommissioning tax relief and the associated financial guarantee requirements are anticipated to increase liquidity around more established assets. The proposed new policy, which Ernst & Young has been involved in developing, should help make transactions more deliverable, especially for large companies divesting to smaller ones.

Europe's largest oil and gas transactions in 2012 were in infrastructure. ENI's sale of a 30% stake less one share in Snam to Cassa Depositi e Prestiti (CDP) was valued at US$7.7b, whereas E.ON's sale of Open Grid Europe to a consortium of financial investors added a further US$4.1b to the region's deal values. More broadly, we anticipate further ownership change in midstream segments as a result of both capital rationalization by the incumbents and the regulatory requirements of unbundling in some countries.

Europe's wider downstream segment is mature, presenting both challenges and opportunities to potential transactors. Deal volumes in this market remained relatively subdued, with 28 deals reflecting a fall from the 30 European downstream deals of 2011.

Nonetheless, Alimentation Couche-Tard's US$3.4b acquisition of Statoil Fuel & Retail highlights the continuing potential of a region with a very significant consumer base. The unraveling of Petroplus through formal insolvency offered potential strategic investment opportunities. A consortium acquisition of the UK's Coryton refinery underlined both the need for creativity to succeed in a competitive downstream province and the importance of an integrated flow along the value chain (in this case through three different organizations).

European oilfield services transaction activity did not rebound as expected in 2012. Many potential sellers have taken longer than expected to restore the order books and margin levels that would support divestments at prices in line with their current owners' expectations. However, the outlook is for a greater level of activity, with many divestment processes already under way or planned for early 2013. Along with continued interest from well-capitalized trade players, 2012 has seen a real return to the market from private equity investors, both generalist funds and more specialized energy investors.

Finally, although it is not reflected in the transaction data, Europe's capital markets continued to play a vital role in supporting the oil and gas sector. Of the 130 companies listed in the UK, for example, less than 25% have any operations in the North Sea. During 2012, there was a clear divide between those with capital and those without, which led to a number of corporate transactions. One high-profile example is PTT-EP's acquisition of Cove Energy plc following a bidding war with Shell.

Apart from the potential impact of UK fiscal changes referenced earlier, there is little reason to anticipate that 2013 will be materially different from 2012 in the European oil and gas sector. This is positive. If only Europe's wider economy would follow.

Far East

Amid increasing domestic demand for oil and gas and insufficient scope to expand production domestically, the Asian NOCs continued to expand their presence overseas, amassing a strong reserves base to ensure the supply of oil and gas. After the Fukushima nuclear incident, Japanese oil and gas companies have significantly boosted overseas investment to acquire stakes in natural gas assets to meet rising domestic demand.

Inbound transaction activity increased in the Far East region in 2012, with reported deal value up from US$5b in 2011 to US$12.9b in 2012, and deal volumes up from 59 in 2011 to 79 in 2012. That strong growth notwithstanding, the "action" in Far East transaction activity is more notably outbound.

Asian NOCs continue to invest in overseas acquisitions

Backed by robust cash reserves, the Asian NOCs remained active throughout 2012 in the transaction market. Major transactions were largely driven by the Chinese NOCs that focused on acquiring stakes in upstream assets in politically stable countries, particularly unconventional plays in North America, Australia and the North Sea. Important acquisitions by the Chinese NOCs include:

- December 2012 – PetroChina's subsidiary acquired a 49.9% interest in Encana's 445,000 acres in the Duvernay play for total consideration of US$2.2b.
- December 2012 – PetroChina acquired BHP Billiton's interest in the Browse LNG Development, including 8.3% in the East Browse Joint Venture (JV) and 20% in the West Browse JV, located offshore Western Australia, for US$1.6b.
- November 2012 – Sinopec acquired a 20% stake in OML block for approximately US$2.5b in Nigeria.
- July 2012 – CNOOC's acquisition of Nexen for US$21b.

In contrast with the previous year, Asian NOCs have made diversified acquisitions to balance and optimize their portfolios based on resources, expected economic returns and associated risks. The NOCs pursued opportunities across the globe with continued focus on the North American unconventional resources, particularly shale gas. Such examples include:

- December 2012 – PT Pertamina agreed to buy stakes in three Algerian oil fields from ConocoPhillips for US$1.8 billion.
- July 2012 – Petronas acquired Progress Energy Resources for US$5.8b.
- June 2012 – PT Pertamina acquired a 32% interest in Petrodelta SA for US$725m.
- May 2012 – PTT Exploration and Production acquired Cove Energy for US$1.8b.

Japan is stepping up its overseas investment to ensure reliable energy supply

Post-Fukushima, Japanese companies have been actively pursuing stakes in oil and gas assets, especially in countries with a stable financial and regulatory regime, to secure supplies for their energy needs. Cases in point are:

- August 2012 – Sumitomo Corporation acquired a 30% interest in Devon Energy's 650,000 net acres in the Cline Shale and the Midland-Wolfcamp Shale for $1.4b in cash and drill carry.
- May 2012 – Mitsui and Mitsubishi's JV, Japan Australia LNG (MIMI Browse) Pty Ltd., acquired a portion of Woodside Petroleum's equity stake in the proposed Western Australia Browse LNG Development for US$2b.
- May 2012 – Mitsubishi acquired a 40% interest in Encana's Cutbank Ridge assets in British Columbia for a total consideration of US$2.9b.

Service companies expand portfolios to tap emerging opportunities

The oilfield services (OFS) sector maintained the momentum in the transaction market with a substantial rise in deal value. To increase their profitability and tap the growing deepwater and unconventional market opportunities, OFS and drilling companies focused on forging partnerships and JVs with established firms.

- November 2012 — SapuraKencana and Seadrill have entered into a non-binding MOU to integrate their tender rig businesses. Under the terms of agreement, SapuraKencana will take over the rigs, including the full tender rig organization for an enterprise value of US$2.9b, while Seadrill will receive a minimum of US$350m in new shares of SapuraKencana.
- November 2012 — Seadrill acquired ultra-deepwater semi-submersible rig Songa Eclipse from Songa Offshore for a consideration of US$590m.
- September 2012 — Schlumberger formed a JV with Anton Oilfield Services (Antonoil), an independent oilfield services company in China, to provide integrated project management services for the development of onshore oil and gas projects (with a specific focus on unconventional sources) in China. In the JV, Antonoil holds a 40% stake and Schlumberger holds the remaining 60% stake.

Strengthening position in the international downstream market

Besides securing energy resources, Asian oil and gas companies, including NOCs, have been strategically expanding their downstream presence in developed economies to derive synergies with their growing global upstream production. Additionally, the downstream expansion helps them strengthen their international oil trading position with the addition of refining capacity, product storage, pipelines and other logistical assets. For example, in October 2012, Sinopec acquired a 50% interest in tank firm Vesta Terminals through a JV with Swiss-based Mercuria Energy for US$220.1m.

Australia remains the destination for M&A activities in the region

Despite a marginal increase of 2.4% in deal count, Australia witnessed a significant rise of 107.2% in deal value in 2012 compared with 2011. Seven multibillion-dollar deals in the upstream and midstream segments fueled the rise, accounting for 86.3% of the region's total deal value. In 2012, the Chinese NOCs and Japanese oil and gas companies made a significant investment in Australia to ensure reliable gas supplies in the form of LNG.

Outlook

Despite substantial economic worries and geopolitical uncertainty, we expect the Asian NOCs to pursue overseas acquisition opportunities. A number of companies have signaled their intention to acquire additional overseas assets. Additionally, the Japanese government's decision to phase out the use of nuclear power in the country by 2040 is likely to deepen its dependence on oil and gas imports. This means that we may see Japanese energy companies engage in further deals or partnerships to secure access to supplies. Further, we expect more inbound deals in China and Australia due to an increase in unconventional and deepwater exploration activities.

India

India's dependence on energy imports continues to increase given the country's stagnant domestic production and heightened demand of oil and gas. To augment domestic production and increase the availability of oil and gas, the government of India is considering changes to its policies to attract foreign investment. Moreover, Indian oil and gas companies, especially state-owned companies, are adopting strategies to increase their international footprint, mainly in the upstream segment. The underlying theme around most of the deals concluded in 2012 has been on securing assured oil and gas supplies and developing the domestic natural gas infrastructure. Deals were concluded in all segments of the oil and gas value chain. Marquee transactions included ONGC Videsh Limited (OVL) buying ConocoPhillips' interest in Kashagan for US$5b and Gujarat State Petroleum Corporation (GSPC) acquiring BG Group's stake in the downstream gas distribution business of Gujarat Gas Company Limited (GGCL) for about US$470m.

Total reported oil and gas transaction value dropped in 2012, declining from US$10.5b in 2011 to US$4.5b in 2012. Similarly, deal activity, in terms of the number of deals, declined in 2012.

Upstream

India's state-owned companies dominated the transaction space in the upstream segment:

- In one of the largest foreign investments by an Indian company, OVL acquired ConocoPhillips' 8.4% participating interest in the North Caspian Sea production sharing contract (Kashagan) for approximately US$5b. The deal marks OVL's entry into the promising oil-rich North Caspian Sea region.
- ONGC farmed out 26% participating interest in one of its deepwater block in the KG basin to INPEX Corporation as part of its initiative to enter partnership deals with foreign companies via stake sales in exploration blocks and gain technical expertise to increase domestic production of oil and gas.
- In an important inbound deal, ConocoPhillips and Oil and Natural Gas Corporation (ONGC) have decided to collaborate in developing deepwater projects along the eastern coast of India.
- OVL also acquired Hess Corporation's 2.7% participating interest in certain oil fields in Azerbaijan for US$1b as part of its initiative to secure assets abroad.
- ONGC and China National Petroleum Corporation (CNPC) joined hands to collectively undertake hydrocarbon projects in other countries.
- In addition, Indian Oil Corporation (IOC) and Korea Gas Corporation (KOGAS) signed a pact for jointly undertaking global E&P projects and developing natural gas projects, including sourcing of LNG.
- As part of an asset rationalization strategy, Reliance Exploration and Production DMCC, a wholly owned subsidiary of Reliance Industries Limited (RIL), has divested its working interest and operatorship in two blocks in Iraq's Kurdistan region to subsidiaries of Chevron Corporation.
- Reliance Exploration and Production DMCC also divested its 25% working interest in Yemen Block-9 to Medco Yemen Malik Ltd., a wholly owned subsidiary of PT Medco Energi Internasional Tbk of Indonesia.
- Meanwhile, Indian companies continue to increase their exposure to the US unconventional segment. In 2012, Oil India Limited (OIL) and Indian Oil Corporation jointly acquired a stake in Carrizo's liquid-rich shale assets in Colorado.

Midstream

The development of India's natural gas infrastructure is a key priority area given the country's rising demand for natural gas. Key focus areas continue to be investments in the natural gas pipeline transmission segment and in the LNG industry, and augmentation of LNG supplies. Many LNG terminals have been proposed along the southern coast of India, given the rising demand from power and fertilizer units and underutilization of pipeline infrastructure in the region:

- Gaz de France entered into an agreement with Indian players to set up an LNG import terminal along the Andhra Pradesh coast, involving an investment of about US$600m.
- In addition, Petronet LNG and IOC have signed agreements with local port and state authorities to set up new terminals along the eastern and southern coasts of India.

To support the new LNG import terminals and increase the availability of gas, Indian companies are actively looking to secure long-term LNG supplies.

Downstream

- BG Group decided to sell its 65.1% stake in GGCL to GSPC Distribution Networks Limited, a subsidiary of GSPC, for about US$470m. The acquisition will make GSPC the largest city gas distribution company in India.
- Trafigura Pte, a commodities trader, entered India's oil and gas industry by acquiring a 24% stake in the Nagarjuna Oil Corporation Limited (NOCL) refinery for US$130m. Trafigura will invest an additional US$120m in the construction of storage facilities and allied infrastructure at the refinery.
- In an important deal in the petrochemical segment, RIL and SIBUR formed a JV to manufacture of 100,000 ton of butyl rubber per year in Jamnagar, involving an investment of US$450m. The JV will be India's first manufacturer and the world's fourth-largest supplier of butyl rubber.
- Reliance Global Holdings Pte. Ltd, an associate of Reliance Ports and Terminals Limited acquired BP Chemicals (Malaysia) unit in the country, Recron (Malaysia) Sdn Bhd, for US$230m.

Outlook

Over the next few quarters, deal activities are likely to increase given the various initiatives to augment energy security in the country. India provides significant investment opportunities, especially in the upstream and LNG segments. State-owned companies are likely to forge partnerships with foreign companies to carry out E&P activities, especially in deepwater blocks, and to increase production from maturing domestic fields. At the same time, outbound deals are likely to increase as Indian companies step up plans to acquire oil and gas assets abroad.

Middle East

Despite large oil and gas reserves and a considerable oil and gas industry in the Middle East, global transactions in the region were limited. The focus in 2012 remained on Kurdistan, with four of the five biggest deals concerning assets or operations on the oil-rich region of Iraq. The largest deals in the region were in the upstream and oilfield services sector, with limited activity in the midstream and downstream sectors. Overall, there were 45 transactions in the MENA region, an increase of almost 14% over 2011. Reported transaction value declined however in 2012, from US$3.6b in 2011 to US$2.8b in 2012.

Yet, you can find good news and better prospects amid the gloom. In the upstream sector, there is a discernible trend toward larger transactions. Although deal values for the region represented only 0.74% of global values, this was a considerable increase from 0.35% in 2010. Compared with 2011, when the MENA region accounted for 1.9% of global value and 2.4% of global deals, 2012 saw 33 transactions, representing 2.9% of global deals. Upstream activity was dominated by Genel Energy plc, which now holds a 44% working interest in the Bina Bawi exploration block.

In oilfield services, transactions have been driven by the desire of companies to diversify and moves by governments and NOCs to attract oilfield service companies to the region and to lengthen the oil and gas value chain. As OFSCs continue to move into the region, with higher levels of localization and indigenous participation, deals have increased in both numbers and value. From a low base of zero deals in 2010, the US$627m of deals in 2012 represented 2.8% of global value and 2.3% of the total number of deals.

Elsewhere, activity was limited. The downstream sector saw only two deals, totaling US$10m, after having four major deals in 2010 that represented 4.8% of global downstream transactions. This accurately represents limited opportunities in this space. In midstream, there was no activity. With an overwhelming level of state participation in this sector, there is little, if any, availability in the market. It may be some time before value chains in the industry lengthen to the point where we see more private sector involvement.

Overall, transaction types and value tended to be in line with expectations. Iraq continues to be the driver of many of the transactions, although investors have become more realistic about the size of the prize and the difficulties of doing business. We can expect more of the same scenario in 2013, with a number of regional upstream companies prepared to invest heavily in emerging markets. The aftershocks of the Arab Spring are likely to linger, making many assets less attractive to external investors but also pushing governments to find ways of translating oil reserves into jobs and economic growth for young and increasingly restive populations. We can expect to see efforts by a number of NOCs to promote growth both organically and non-organically, which is likely to affect the number and size of transactions. However, given the region's level of state participation in the oil and gas sector, there are only a limited number of prospective MENA targets, which increases prices and may affect long-term returns. While Iraq can be expected to continue to feature prominently in the region, other oil and gas markets in the MENA region are more mature and better established and, therefore, more likely to mimic trends in Europe and the United States.

United States

The dynamic US oil and gas transaction market experienced a slight softening in 2012 versus modest deal activity in 2011, but still remained over 10% above activity during the most recent oil and gas transaction cycle lows experienced in late 2008 and 2009. Overall, oil and gas transaction values decreased 10% in 2012 versus 2011, while deal volume decreased almost 15% over the same period. US transactions accounted for almost 40% of total global oil and gas transaction values and volumes during 2012, down from approximately 50% and 45%, respectively, in 2011. Overall, 2012 was characterized by a healthy US oil and gas M&A market in comparison to the past five-year average, but lower activity levels were driven by regulatory and economic uncertainty.

The main theme for US transaction activity in 2012 continued to be investment in the US unconventional oil and gas plays (shale gas and tight oil) and related infrastructure and service opportunities, driven in part by a shift toward plays with more oil and liquids exposure given the continuing disparate price environment between oil and natural gas. Similar to 2011, this environment resulted in a steady flow of multibillion-dollar deals, including announced or closed transactions involving the consolidation of names such as El Paso Corporation, Plains Exploration, McMoRan Exploration, Cordillera Energy Partners, and EP Energy. In addition, 2012 included major multibillion-dollar asset sales by BP, Chesapeake Energy, Encana, and SandRidge Energy, among others. These major consolidation transactions were mainly driven by a mix of company combinations as well as private equity buyers who increased their investment in US oil and gas assets. This allowed them to take advantage of continued capital needs of certain industry players given continued shale play and/or other domestic oil and liquid play build-outs, as well as financial stress caused by continued low domestic natural gas prices.

2012 oil and gas subsector M&A activity was very mixed. While upstream sector deal values increased 18%, deal volumes were actually down an opposite 18%, driven by fewer but larger deals. Likewise, downstream sector deal values increased 50% in 2012 versus 2011, while similar deal volumes were down almost 11%. Conversely, oilfield services sector deal values were down 21%, while deal volumes actually increased 13%, evidencing more, but smaller deals in 2012 versus 2011. Lastly, midstream sector deal volumes realized the largest reduction in activity, with deal values falling 50% and deal volumes declining almost 20%. The relative decline in midstream sector deal value in 2012 was distorted significantly by the two major corporate deals in 2011, the Kinder Morgan acquisition of El Paso and the Energy Transfer acquisition of Southern Union. Midstream transaction activity was fairly robust in 2012 versus recent years other than 2011, as midstream infrastructure capital needs continued to support the US shale play investment activity.

US upstream transactions accounted for over 65% of all US oil and gas transaction volumes in 2012, which is slightly lower than recent years. Despite the reduced transaction activity in 2012, the fairly steady deal activity in the upstream sector was an important element of the overall healthy US oil and gas transaction activity in 2012. On the midstream front, US Master Limited Partnerships (MLPs) continued to dominate the transaction scene, given the tax and capital markets' advantaged view of these structures, although an increase was also seen in 2012 in private equity backed management teams focused on green field and/or acquisition-oriented growth capital strategies.

The US downstream sector continued to experience a difficult buyer's market with more assets on the market in comparison to a smaller number of willing buyers with lower pricing expectations, particularly with a bias to geographic locations that were more favorable given current market dislocation dynamics. The increasing environmental requirements, shifting supply trends from the US shale plays and Canadian Oil Sands, and impact of shuttered capacity in certain geographies continue to provide an interesting influence on downstream oil and gas investment trends in North America.

From a 2013 outlook perspective, uncertainty as it relates to the global economy as well as additional potential regulation from the environmental, taxation, and/or various financial sector developments remain wildcards for the US oil and gas industry. We believe these factors and the related uncertainty will continue to temper the pace of the US oil and gas transaction recovery/expansion for 2013, particularly in the first half of the year or until further aspects of the fiscal cliff and US debt limits are clarified. Conversely, improved corporate balance sheets and the stockpile of corporate and energy private equity funds targeted toward oil and gas investment activity continue to remain available to potentially provide a fuel for continued increased oil and gas deal flow. Likewise, the continued interest from foreign investors in Asia and Europe remains very robust. With that said, given these balancing factors, all signs continue to point to an uncertain investment and transaction environment for the overall oil and gas industry in the US for 2013.

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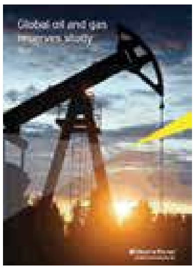

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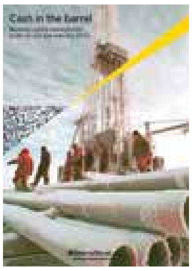

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