

Energy & Natural Resources

Increased M&A activity will result from continuing volatility in the mining sector, concurs 57 percent of respondents. I am not surprised. For a while, we've seen vertical integration within the sector as commodity traders attempt to hedge against spikes or falls in prices by taking stakes in mining assets.

At the same time, however, there are significant efforts to block M&A deals that could lead to monopolies. Governments, notably in high-growth economies like China, where copper and iron ore are essential for industrial expansion, actively petition against M&A deals to ensure security of commodity supply.

Respondents are divided on the likelihood that geopolitical issues, such as the unrest in the Middle East and the oil spill in the Gulf of Mexico, will dramatically alter short-term investment plans. The fact is that oil and gas companies are accustomed to operating in extremely difficult political circumstances. So, for instance, Libya continues to produce and ship oil despite the country's rift with the rest of the world, yet there have been no major shifts in the investment plans of companies that operate in the region. The same is true of Iraq. Meanwhile, in the Gulf of Mexico, a moratorium on drilling permits has seen investment postponed, but not cancelled.

Short-term, as agreed by 63 percent of respondents, there will be a hiccup in investment but there is no evidence of companies withdrawing and putting their stakes elsewhere. Armed conflict may create a hiatus, but with investment taking years to execute and to realize, I believe any long-term impact on the sector will be minimal. With more than US\$22 trillion needed by the global power and utility industry alone over the next five years, money has to come from somewhere. Governments, faced with austerity measures, are unable to foot the bill and so infrastructure funds are likely to fill the void. This is a view shared by 65 percent of respondents, undoubtedly conscious of the costs associated with updating and renewing existing infrastructure and driving energy efficiency.

Funding is an issue for the renewable energy industry too. If it is to become integral to the energy mix, three-quarters (74 percent) of respondents say government backing is

essential. However, the industry is suffering from a severe misalignment between investment needs and investment terms. Typically, government decision-making is restricted to four years – a term in office – whereas energy companies need funding over much longer horizons of up to 30 years. The overwhelming response to our survey is that governments need to do much more if we are to meet emission targets and find alternatives to fossil fuels.

That said, the disaster in Japan has cast doubt on the future of nuclear as a low-cost, low-carbon energy alternative for half of our respondents. Globally we have seen mixed reactions from governments too. Germany, most notably, closed six of its nuclear plants yet is experiencing a 10 percent increase in its carbon emissions as it compensates for reduced supply by buying electricity from Eastern Europe. It is a contentious issue and one on which our respondents are most divided. Nonetheless, 33 percent vouch for nuclear. Recognizing that renewable energy is not currently sustainable from a cost perspective and needs to be heavily subsidized, they find nuclear a viable and safe alternative with more than 600 years of available supply.

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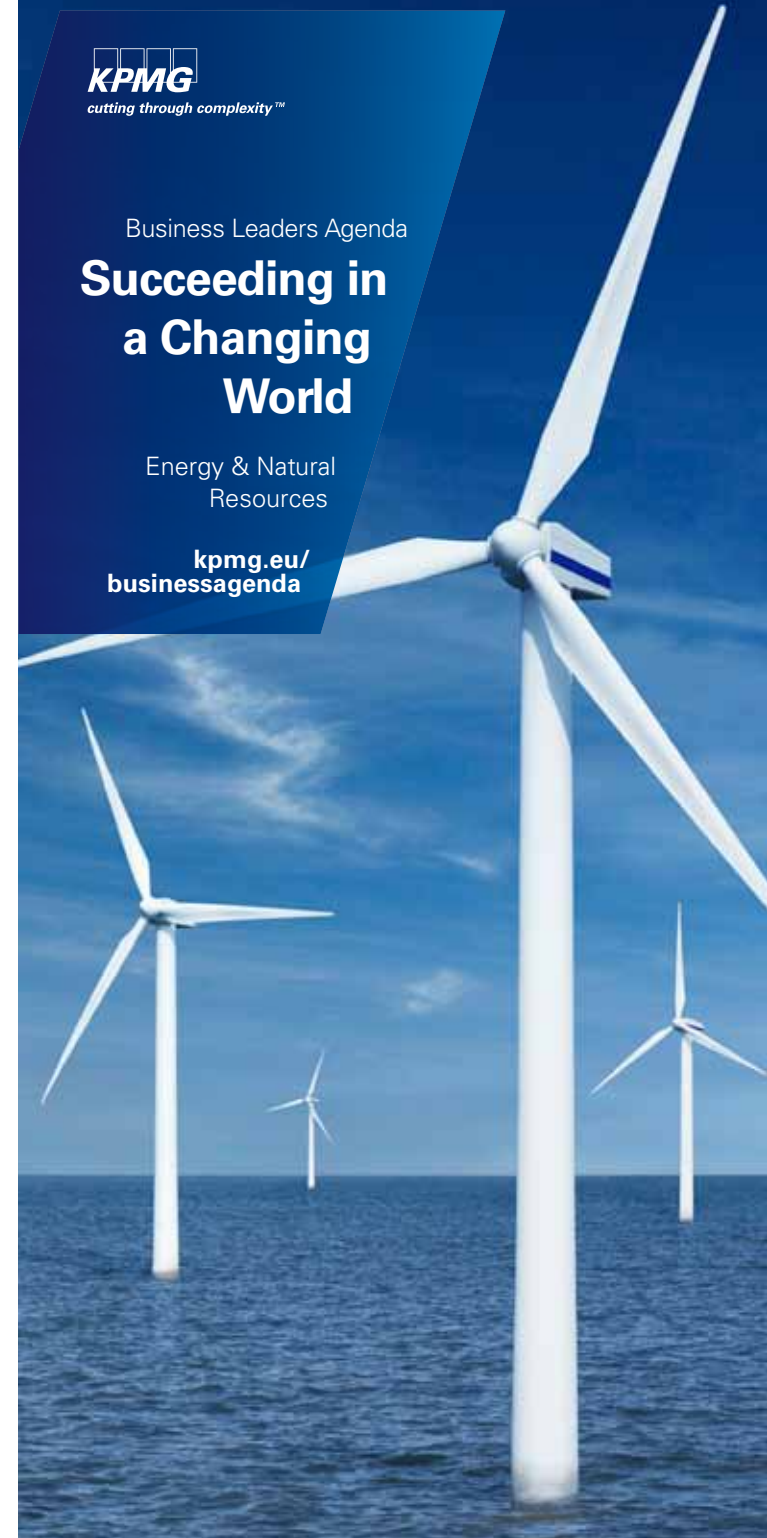
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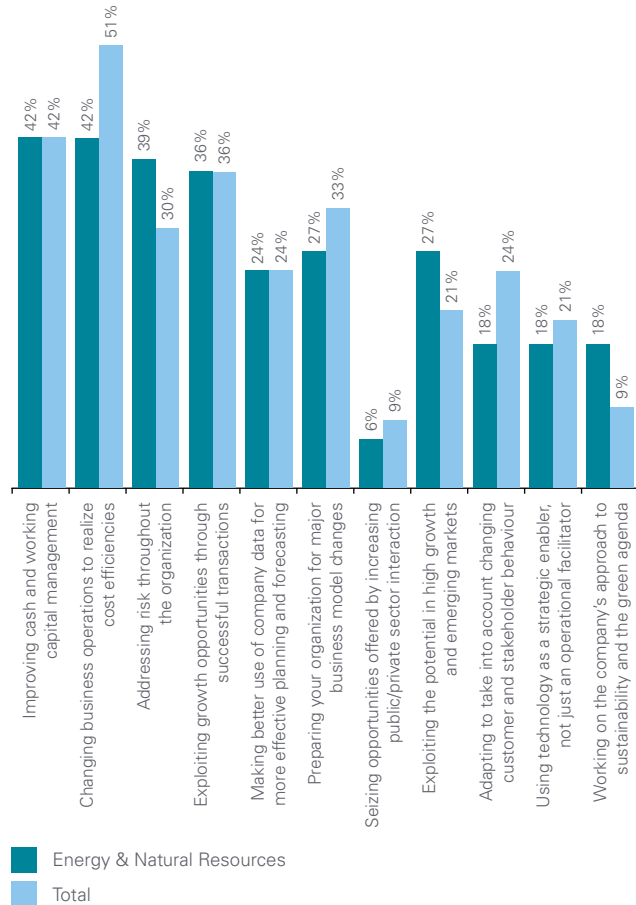
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Energy & Natural Resources – Sector Results

Comparison of top business issues for Energy & Natural Resources with total results



Percentage add up to 300 percent as all respondents had three votes.

Hypothesis 1:

Faced with continued volatility in commodity prices, we shall see a sharp increase in M&A activity across the mining sector

Hypothesis 2:

Geopolitical issues such as continued unrest in the Middle East and the fall-out from the Gulf of Mexico spill will force oil and gas firms to dramatically alter their short-term investment plans

Hypothesis 3:

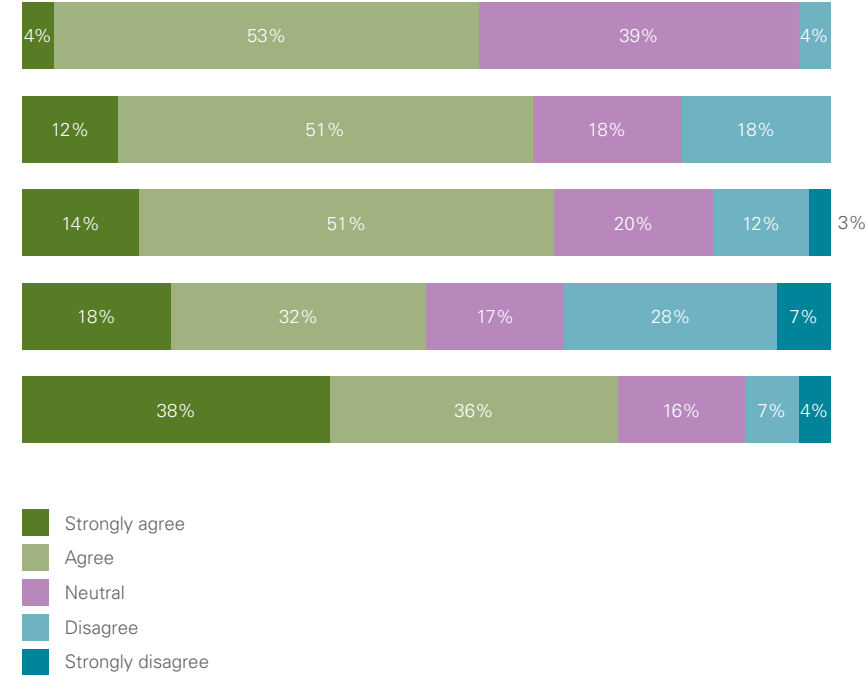
In the future, infrastructure funds and other investment funds will have a far greater role to play in financing across all energy industries

Hypothesis 4:

In light of recent events in Japan, nuclear energy is now a less viable source of energy for the future

Hypothesis 5:

Governments need to more strongly support renewable energy to make it a more viable source of energy



“Respondents are divided on the likelihood that geopolitical issues, such as the unrest in the Middle East and the oil spill in the Gulf of Mexico, will dramatically alter short-term investment plans. The fact is that oil and gas companies are accustomed to operating in extremely difficult political circumstances.”

Michiel Soeting

Further info

The SiCW Business Leaders survey Exec Summary is available at: www.kpmg.eu/businessagenda

A suite of videos and kitcards, on the top themes is available online. This includes Jeremy Kay outlining what the Board is thinking about in terms of changing their business operations to realise cost efficiencies; and Andrew Ashby on how companies can improve cash and working capital management. To view the information please go to: www.kpmg.eu/businessagenda