

MKE, KEEI, IBRE International Symposium

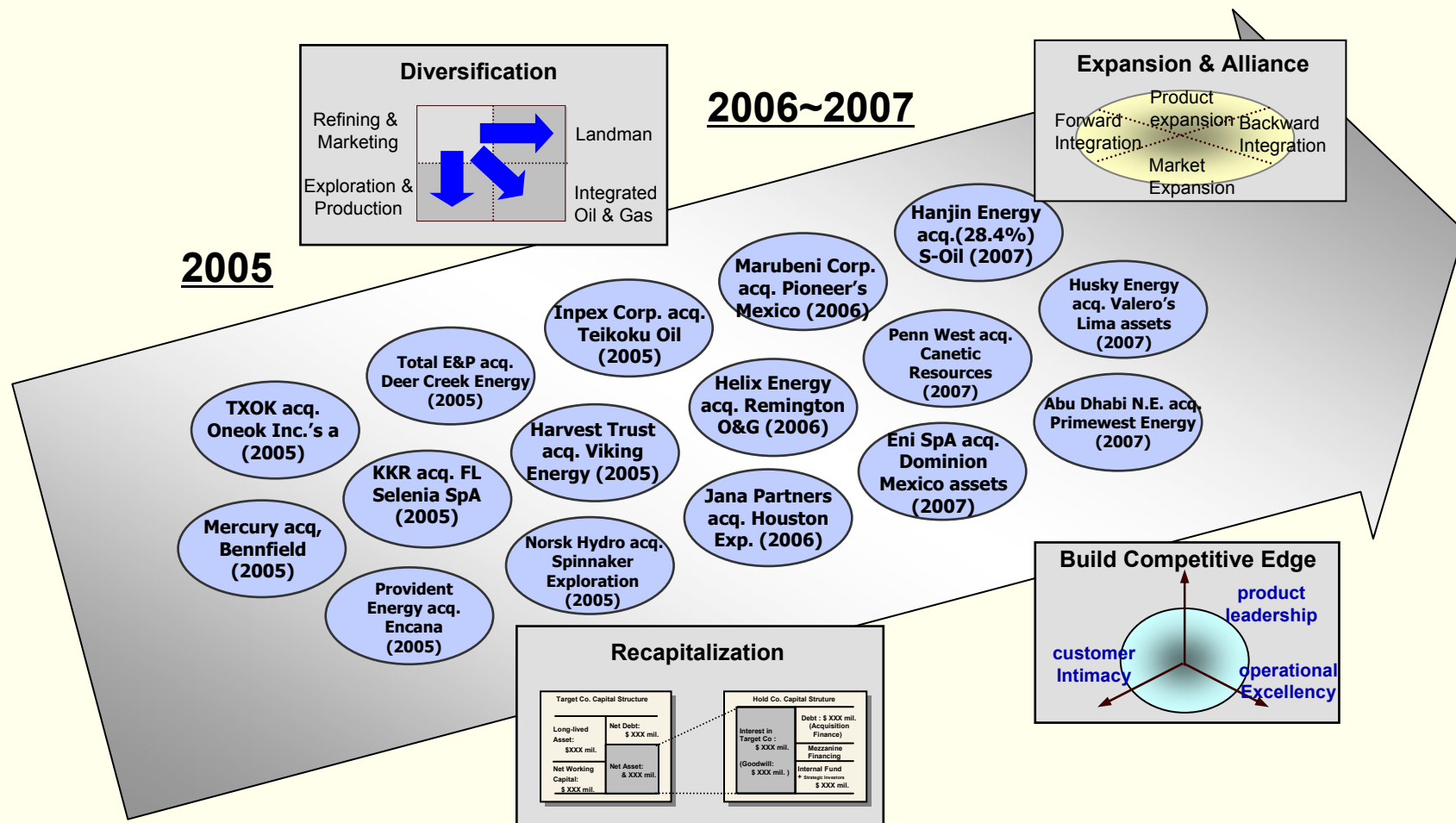
M&A and Financing Strategy

– Global Energy and Resources Sector –

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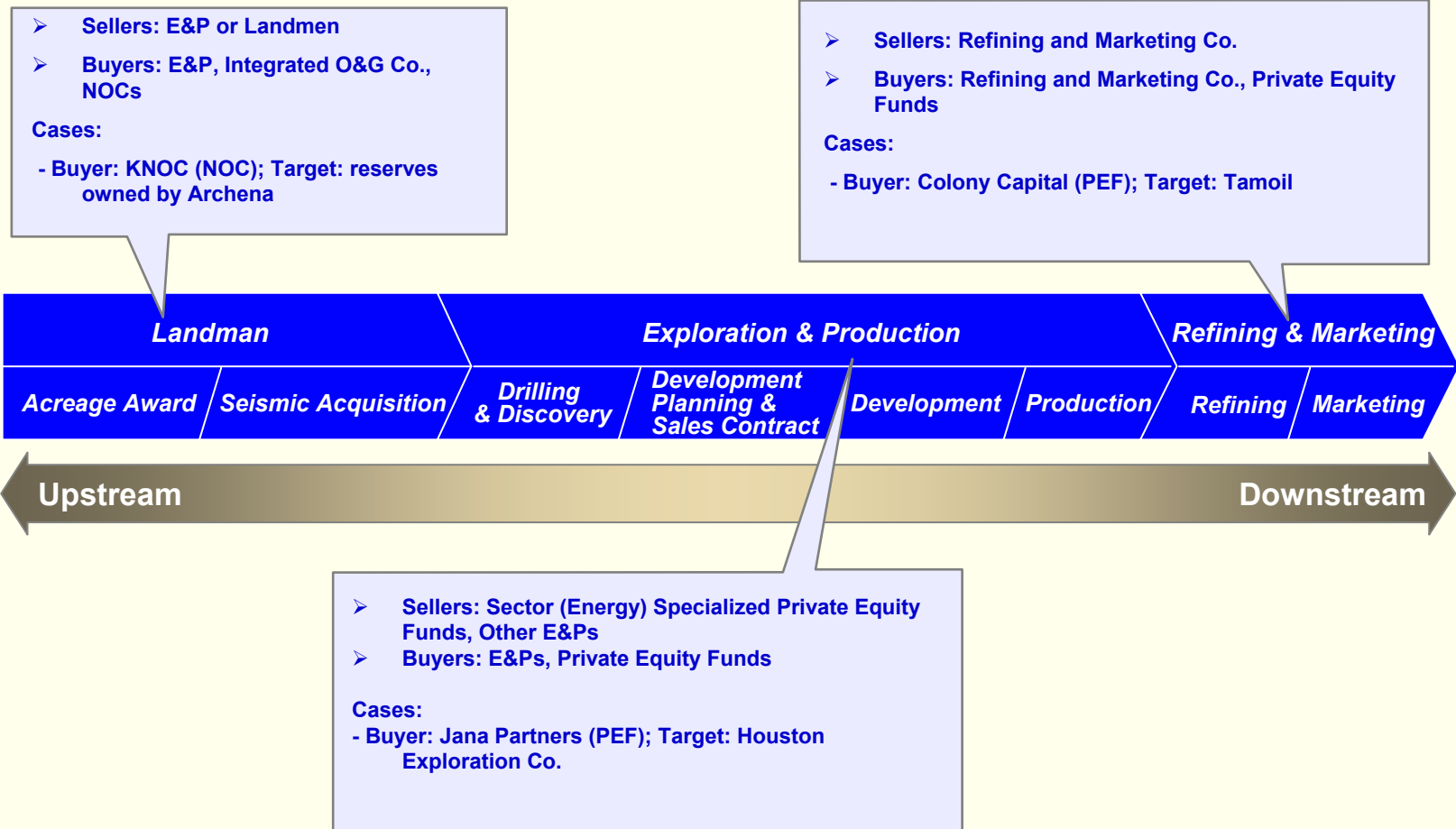
3 July 2008

M&A stories in energy & resources sector (year 2005 – year 2007)



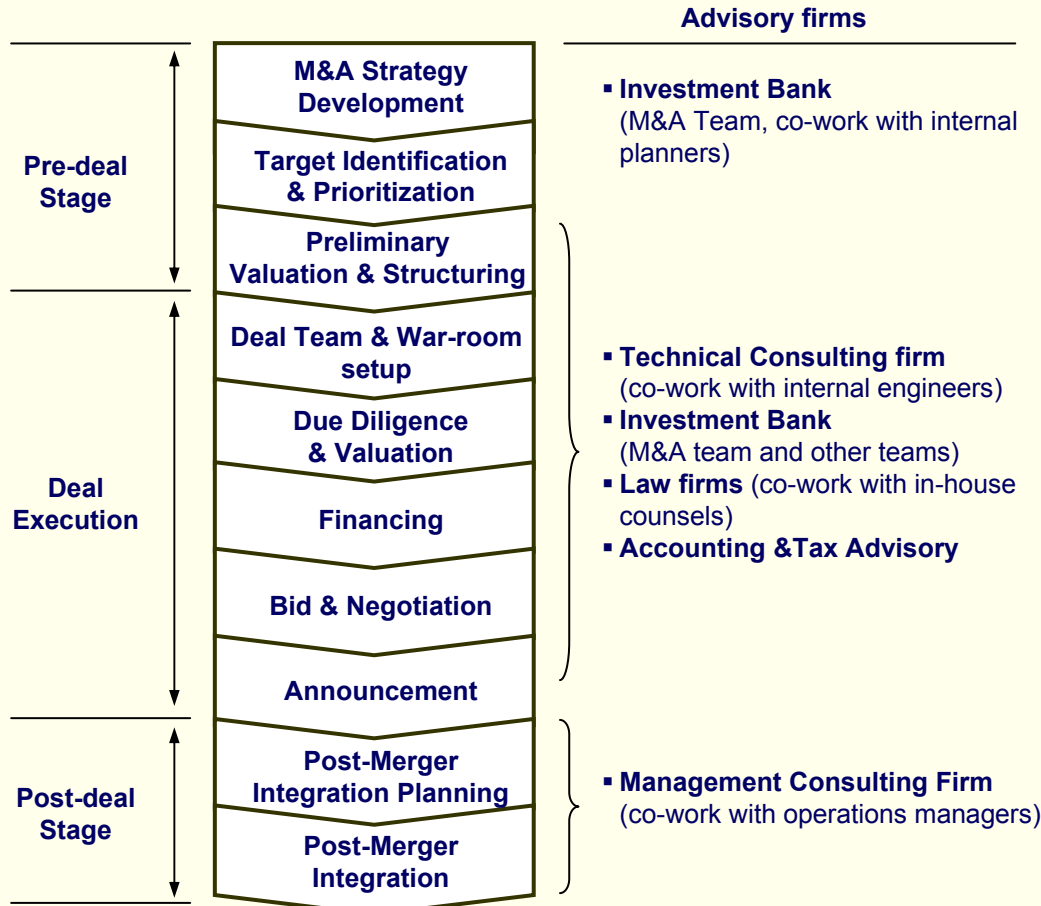
Source: Hana IB Analysis, Worldwide Energy Mergers and Acquisition (Bloomberg)

M&A access: i) purchase of assets; or ii) acquisition of companies through landmen or sector-focused funds



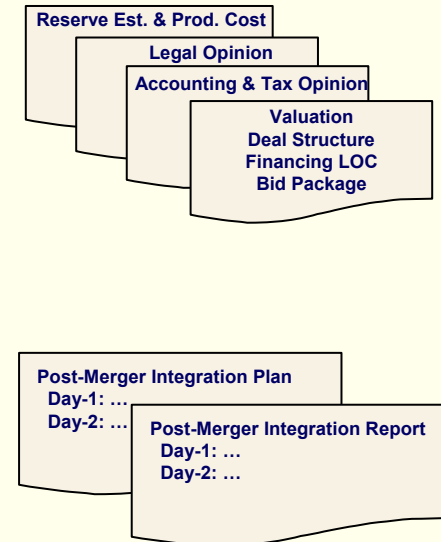
※ NOC: national oil company

Stages of a M&A transaction and roles of advisors



Fund Portfolio companies in divestiture stage

Fund	Company	Sector	Region
DLA Mezzanine Fund	G** T****, S.A.	Energy	Latin America
DLA Mezzanine Fund	P*** de C**** S.A.	Energy	Latin America
DLA Mezzanine Fund	T*** S.A. de S*** p***	Energy	Latin America
DA Mezzanine Fund	M**** Holdings	Energy	Asia
DA Mezzanine Fund	M**** Power	Energy	Asia
DA Mezzanine Fund	P**** Energy	Energy	Asia
DBBVA LA Private Equity Fund	A****	Energy	Latin America



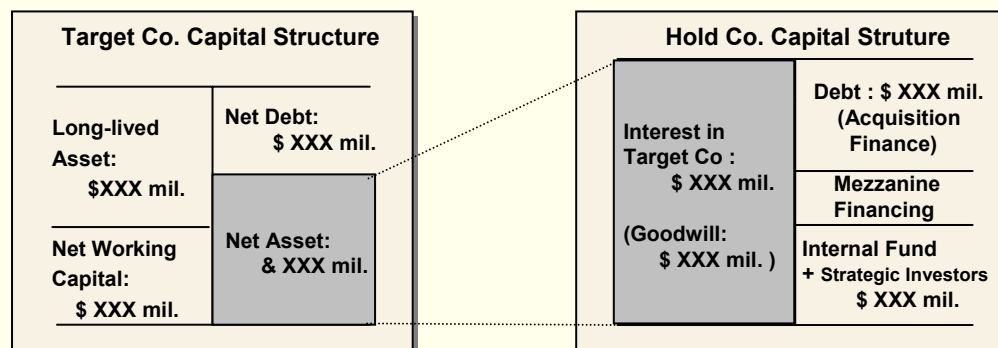
Pre-deal stage: a critical juncture for a successful M&A transaction

▪ Preliminary Valuation

- Macro Assumptions (Price, etc.)
- Reserve estimation
- Capital Expenditures
- Operating Expenditures
- Tax, subsidies, incentives
- Site Re-habilitation costs and other Abandonment Costs (HR-related)

▪ Preliminary Structuring

determination of the value and sources of financing for the deal



Execution stage: where value and risks are clearly identified and determined

▪ Due Diligence and Valuation

The step you check and verify each assumption you have developed, then quantify risks and returns, mitigating risks and maximizing returns

- Macro Assumptions (Price, etc.)
- Reserve estimation
- Capital Expenditures
- Operating Expenditures (New technology to improve recovery rate, strategy to create synergies, etc.)
- Tax, subsidies, incentives
- Site Re-habilitation costs and other Abandonment Costs (HR-related)

▪ Financing

The Step you identify the right financing mix to create financial synergy, then locate right investors

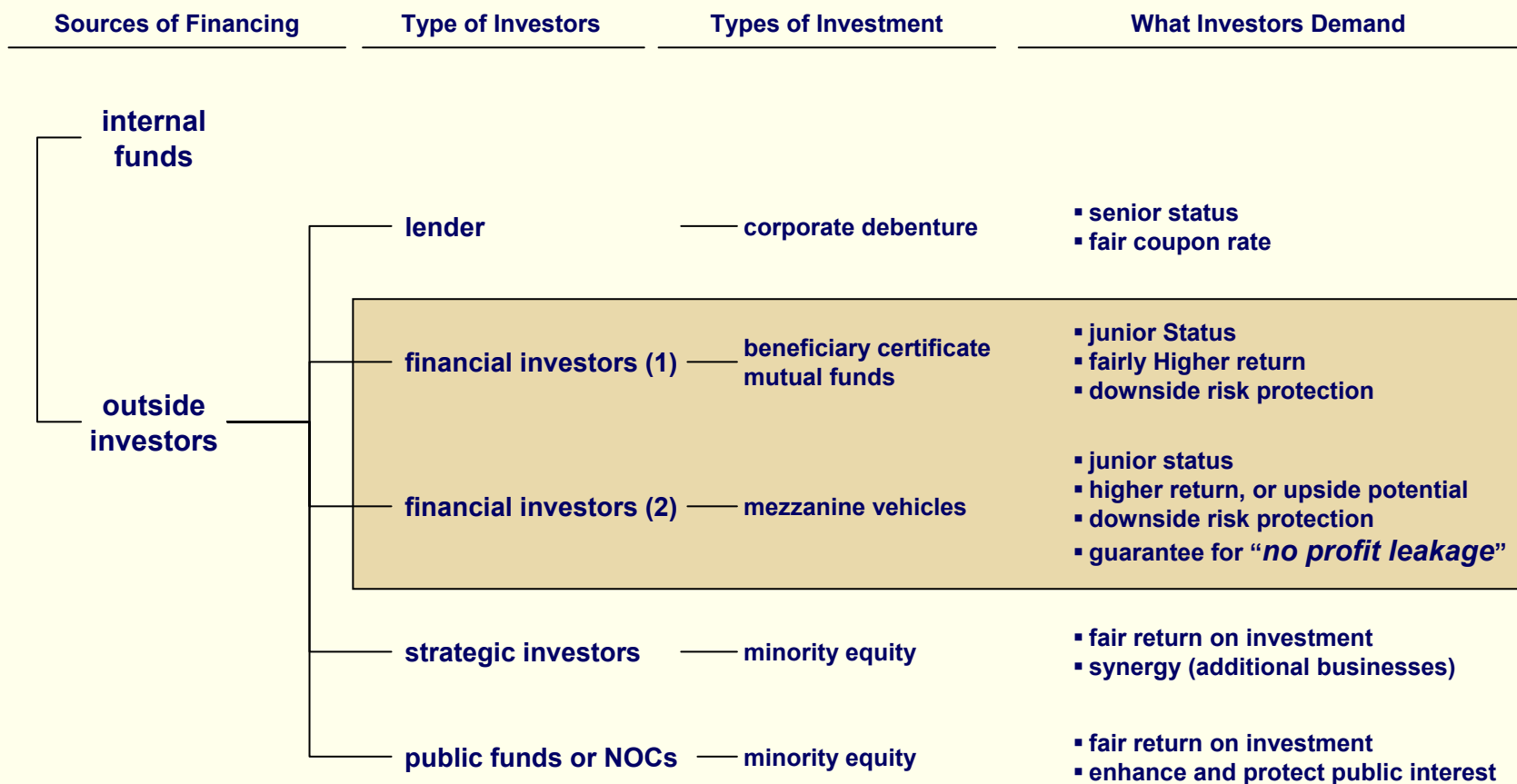
▪ Bid and Negotiation

Spending too much time to close a gap between the parties may not save you much money, but cost you much money in other ways

Tips for M&A success in energy & resources sector

- **Potential buyers should check regulatory issues during due diligence, such as taxes, subsidies, investment incentives, and price control by governmental authorities**
- **Potential buyers should itemize and quantify operational synergies, contingent liabilities**
- **Timely execution does matter in negotiation stage, especially when energy & resources prices are going up**
- **Earn-out clauses may mitigate certain risks, such as price risk and production risk**

Sources of financing and investments in M&A transactions



Various financing options for different E&P phases

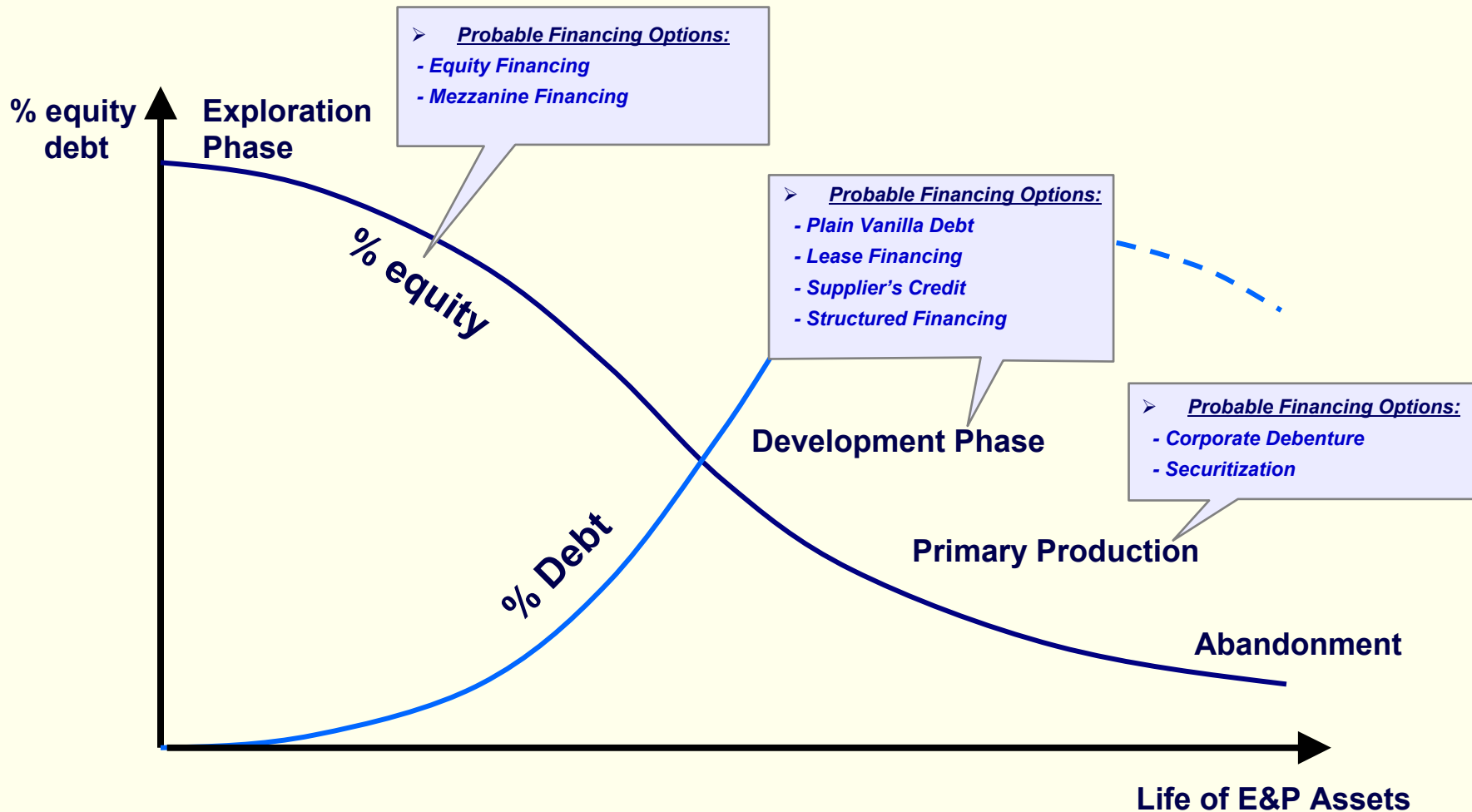
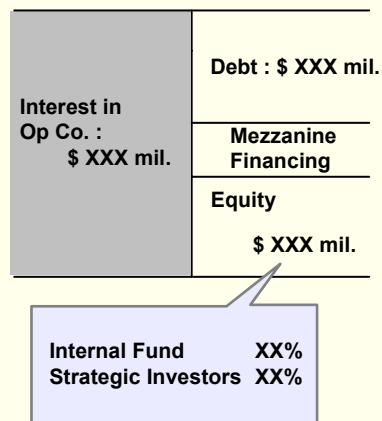
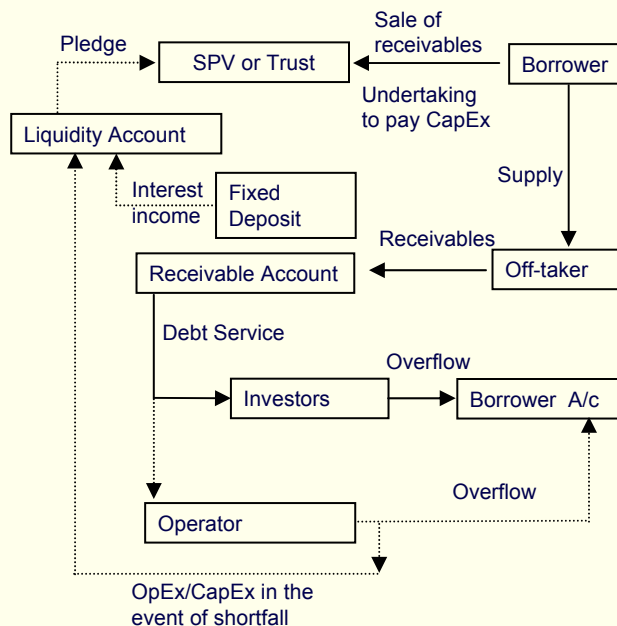


Illustration of sample deal structures

Illustrative Financing Structure

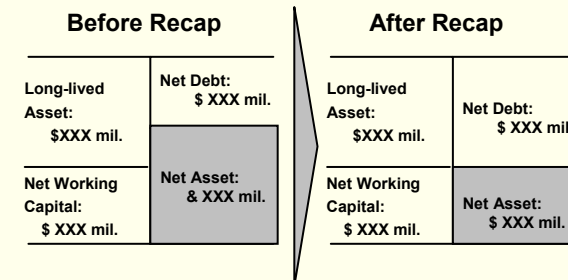


Illustrative Securitization Structure



Recapitalization

Recap is an appropriate option for a company in a mature-stage, where steady cash-flow is foreseeable



Risks that financial investors must review and mitigate

Risks	How to mitigate
Reserve Risk	Estimates by reputable independent valuer
Production Risk	Operation by experienced E&P company
Market Risk	Off-taking contract
Price Risk	Off-taking contract
Political Risk	Insurance policy, government commitment
Environmental Risk	Deduction in valuation

General suggestions for energy & resources sector M&A financing

- **Develop an M&A strategy first; targets are coming and going, and you cannot get one unless you are ready to execute a transaction**
- **Do not find financial investors in a last minute; there are few, if any, financial investors ready and available for your last minute request**
- **Potential Buyers should be aware of financial investors' expected risk and return in specific phases of energy & resources sector financing**
- **There are certain financing mixes for specific phases of Energy Sector financing; certain financing strategies for specific phases of Energy Sector Financing, such as straight equity investment, mezzanine financing, and asset-backed securities financing**



Thank You