

Macquarie Korea Infrastructure Fund

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MACQUARIE KOREA INFRASTRUCTURE FUND **MKIF TO INVEST IN HAEYANG ENERGY CO., LTD. AND SORABOL CITY GAS CO., LTD.**

Macquarie Korea Infrastructure Fund (“MKIF”), through Youngsan Clean Energy Ltd. (“YCE”) and Bomun Clean Energy Ltd. (“BCE”) as its investment vehicles, signed the share purchase agreement today with Korea Energy Holdings (the “Seller”) to acquire 100% of equity stake in each Haeyang Energy Co., Ltd. (“HY”) and Sorabol City Gas Co., Ltd. (“SRB”) respectively from the Seller (the “Transaction”). The purchase price of the equity stake stipulated in the share purchase agreement (the “Purchase Price”) is KRW 798.0 billion, and the total Transaction cost including the Purchase Price and expenses incurred in relation to the Transaction (the “Ancillary Cost”) is expected¹ to be KRW 821.9 billion. YCE and BCE plan¹ to source the capital of KRW 358.8 billion from MKIF and KRW 463.1 billion from their external lenders.

Established in 1983, HY is the exclusive city gas retail distributor in Gwangju City and eight other regions in Jeollanam-do, Korea. In 2020, HY distributed 33,398 million MJ² of gas to 738,593 users across the nine regions through its 2,383km of pipelines, and recorded the total asset of KRW 483.6 billion and the annual revenue of KRW 520.0 billion³. At the end of 2020, HY achieved the penetration rate of ~100% in Gwangju City and ~33% in the eight regions in Jeollanam-do, and the compounded annual volume growth rate from 2016 to 2020 was 1.2% in Gwangju City and 6.5% in the eight regions in Jeollanam-do³.

Established in 2000, SRB is the exclusive city gas retail distributor in two regions in Gyeongsangbuk-do in Korea. In 2020, SRB distributed 8,100 million MJ² of gas to 128,549 users across the two regions through its 495km of pipelines and recorded the total asset of KRW 104.6 billion and the annual revenue of KRW 122.4 billion³. At the end of 2020, SRB achieved the penetration rate of ~71% and the compounded annual volume growth rate from 2016 to 2020 of 1.4% in the two regions in Gyeongsangbuk-do³.

The city gas distribution business in Korea is comprised of (i) the import & wholesale distribution of natural gas by Korea Gas Corporation (“KOGAS”) to local city gas retail distributors and (ii) the retail distribution of natural gas by local city gas retail distributors to residential, industrial and other end-users. As city gas retail distributors are required to make large-scale capital investments for entry into the business, local governments grant an exclusive distribution permit to a single distributor for each region to prevent unnecessary competition caused by overlapping of capital investments, so that it could result in lower tariffs and more reliable gas distribution. Pursuant to the City Gas Business Act in Korea and the guidelines on gas distribution tariffs promulgated by the Korean government, retail tariff charged to end-users is calculated as the sum of wholesale tariff and distribution tariff. Wholesale tariff consists of fuel (natural gas) cost and wholesale distribution cost incurred by KOGAS, while distribution tariff is calculated as the sum of fair cost and fair return.

1. Actual may be different from expectation / plan / target

2. Megajoule; unit of energy used to measure gas usage

3. Source: Korea City Gas Association and audit reports of HY and SRB

Korean government announced its plan to decarbonize across all parts of the Korean economy through 2050 Decarbonization Strategy⁴. If decarbonization efforts in various industries including transportation sector, power generation and buildings are accelerated, the demand for natural gas, which is considered relatively low-carbon fuel, is expected to increase steadily. Some industries are already moving to replace their main energy source from petroleum gas, kerosine and bunker c oil with natural gas because it emits much less pollutants than other sources. Moreover, the roadmap⁴ established by the Korean government to increase the capacity of emission-free fuel cell for the use in power generation, residences and buildings from 0.3GW in 2018 to 17.1GW in 2040 is anticipated to bring a positive impact on the demand for natural gas since the main energy source for fuel cell is natural gas. Lastly, in the 14th Long-Term Supply and Demand of Natural Gas⁴, the Korean government set its goal of installing additional pipelines in regions with low penetration rates. Therefore, city gas distributors operating in such regions are expected to increase their penetration rates and secure new customers more promptly.

Transaction Summary

In order to consummate the Transaction, YCE targets to secure capital of KRW 282.7 billion from MKIF and KRW 364.5 billion from its external lenders, and BCE targets to secure capital of KRW 76.1 billion from MKIF and KRW 98.6 billion from its external lenders⁵. Using the aggregate capital of KRW 647.2 billion and KRW 174.7 billion, YCE and BCE will respectively acquire 100% of equity stake in HY and SRB and pay the Ancillary Cost. The financial closing of the Transaction is expected⁵ during July 2021.

MKIF will utilize its available cash & revolving credit facility of KRW 191.6 billion and the proceed of KRW 167.2 billion received from the issuance of a short-term bond to provide the total funding of KRW 358.8 billion to the two SPCs. MKIF is expected⁵ to remain with KRW 143.4 billion of deployable capital post the financial closing of the Transaction.

Transaction Structure

(Unit: KRW bn)

	YCE	BCE	Total
MKIF Investment (MKIF 100%)	282.7 - Equity 28.3 - Shareholder loan 254.4	76.1 - Equity 7.6 - Shareholder loan 68.5	358.8 - Equity 35.9 - Shareholder loan 322.9
External Debt (External Lenders 100%)	364.5 - Long-term debt 318.0 - Short-term debt 42.5 - Revolving credit facility 4.0	98.6(*) - Long-term debt 86.1 - Short-term debt 11.4 - Revolving credit facility 1.0	463.1 - Long-term debt 404.2(*) - Short-term debt 53.9 - Revolving credit facility 5.0
Total	647.2	174.7	821.9

(*) Rounded up from the sum of the relevant debt facilities

The Transaction is anticipated⁵ to bring the following impacts to MKIF:

- Addition of two resilient, long-term cashflow generating assets
- More diversified investment portfolio

4. Public releases by the Ministry of Trade, Industry and Energy: 2050 Decarbonization Strategy (7 Dec 2020); Roadmap for the Development of Hydrogen Economy (16 Jan 2019); the 14th Long-Term Supply and Demand of Natural Gas (27 Apr 2021)

5. Actual may be different from expectation / plan / target

- MKIF's transformation into a going concern investment company following the acquisition of two non-concession assets

MKIF Portfolio⁶

(Unit: KRW bn)

Asset Type (no. of assets)	Pre-Transaction (Investment Amount (% of total))	Post-Transaction (Investment Amount (% of total))
Toll Road (12)	1,469.0 (81.1%)	1,469.0 (67.7%)
Port (1)	259.4 (14.3%)	259.4 (12.0%)
Rail (1)	82.7 (4.6%)	82.7 (3.8%)
City Gas (2)	-	358.8 (16.5%)
Total (14 → 16)	1,811.1 (100%)	2,169.9 (100%)

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6. On an investment commitment basis on 31 Mar 2021; assumes full deployment of MKIF's commitment for the Transaction

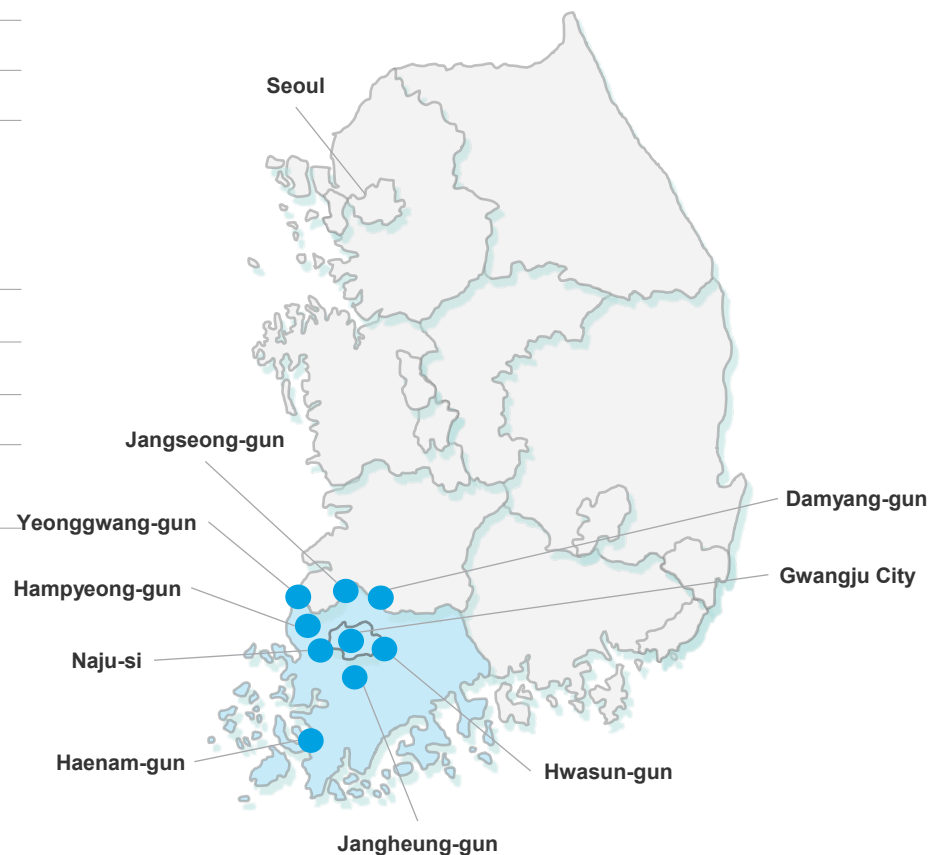
Haeyang Energy Co., Ltd.



Business Overview¹

Asset Company	Haeyang Energy Co., Ltd.
Establishment	1982
Business	Distribution & sale of city gas and associated products
Distribution Area (Penetration Rate)	Gwangju City (100%) 8 regions in Jeollanam-do (33%): Naju-si, Hwasun-gun, Jangseong-gun, Damyang-gun, Yeonggwang-gun, Haenam-gun, Hampyeong-gun, Jangheung-gun
Total Asset / Revenue	KRW 483.6 bn / KRW 520.0 bn
Pipeline Length	Total 2,383km
No. of Users	738,593
Amount of Gas Distributed	33,398 million MJ ²
Gas Distribution by User Type	Gwangju City: - Residential: 59% - General/Commercial: 15% - Industrial: 20% - Others: 6% 8 regions in Jeollanam-do: - Residential: 26% - General/Commercial: 8% - Industrial: 52% - Others: 14%

Distribution Area



1. Source: Korea City Gas Association and the audit report of Haeyang Energy Co., Ltd.; all figures are as at 31 Dec 2020 or for FY2020
2. Megajoule; unit of energy used to measure gas usage

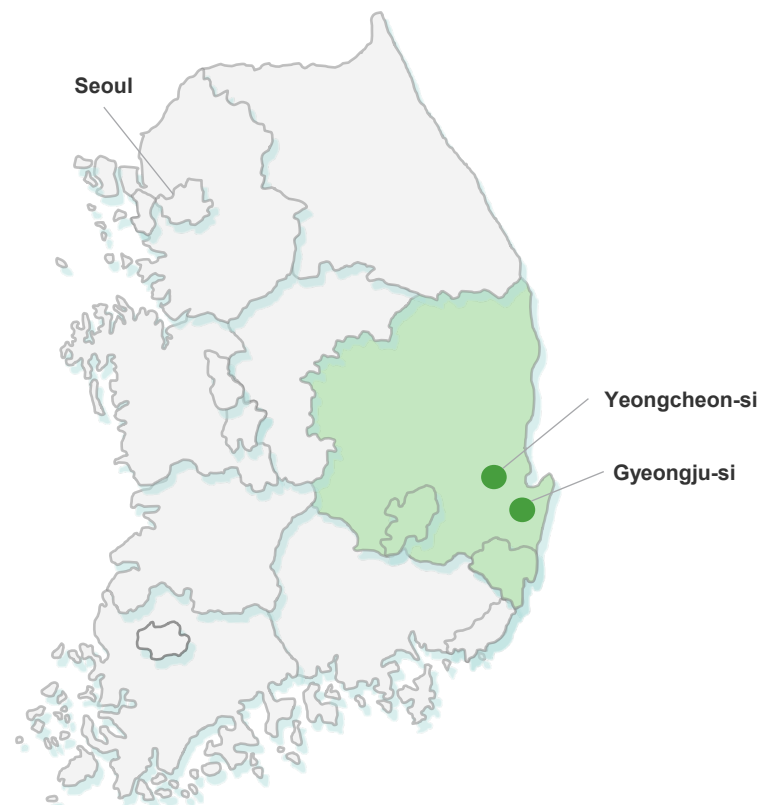
Sorabol City Gas Co., Ltd.



Business Overview¹

Asset Company	Sorabol City Gas Co., Ltd.
Establishment	2000
Business	Distribution & sale of city gas and associated products
Distribution Area (Penetration Rate)	2 regions in Gyeongsangbuk-do (71%): Gyeongju-si and Yeongcheon-si
Total Asset / Revenue	KRW 104.6 bn / KRW 122.4 bn
Pipeline Length	Total 495km
No. of Users	128,549
Amount of Gas Distributed	8,100 million MJ ²
Gas Distribution by User Type	2 regions in Gyeongsangbuk-do: <ul style="list-style-type: none">- Residential: 36%- General/Commercial: 11%- Industrial: 51%- Others: 2%

Distribution Area

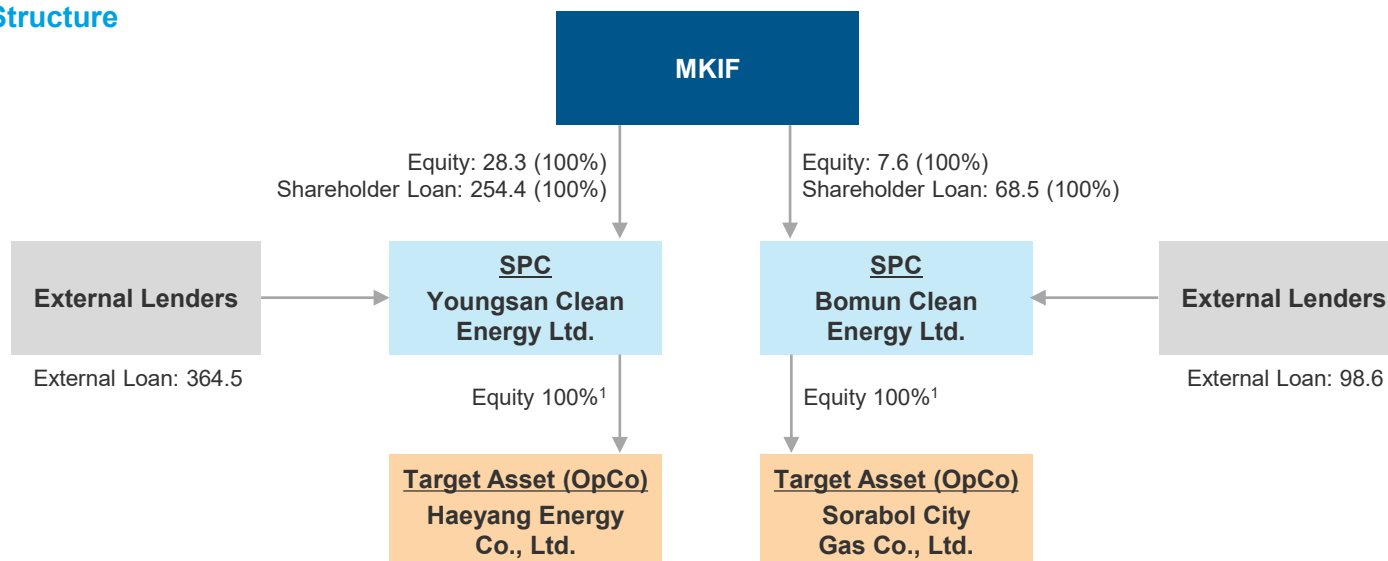


1. Source: Korea City Gas Association and the audit report of Sorabol City Gas Co., Ltd.; all figures are as at 31 Dec 2020 or for FY2020
2. Megajoule; unit of energy used to measure gas usage

Transaction Structure

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(Unit: KRW bn)



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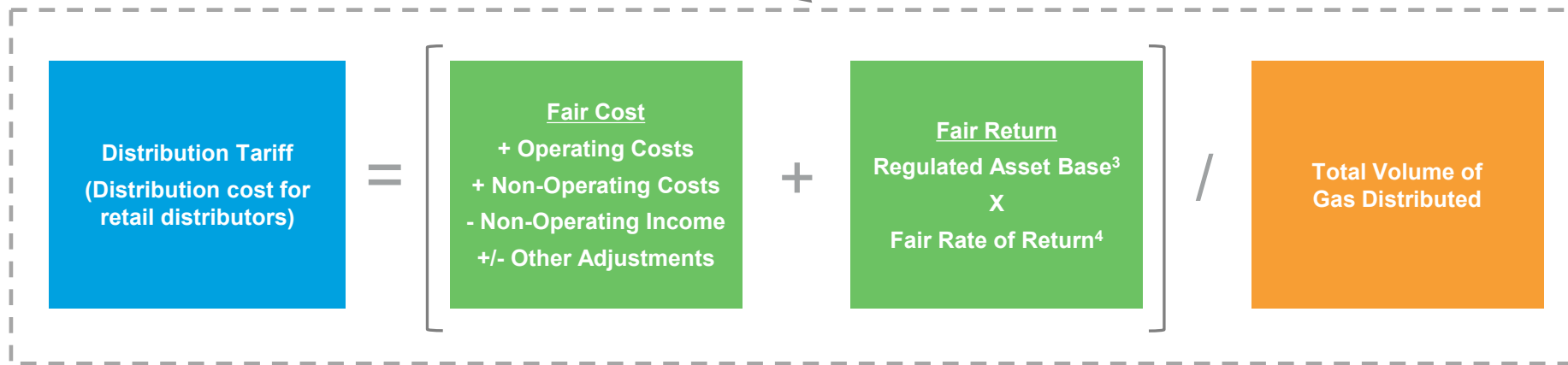
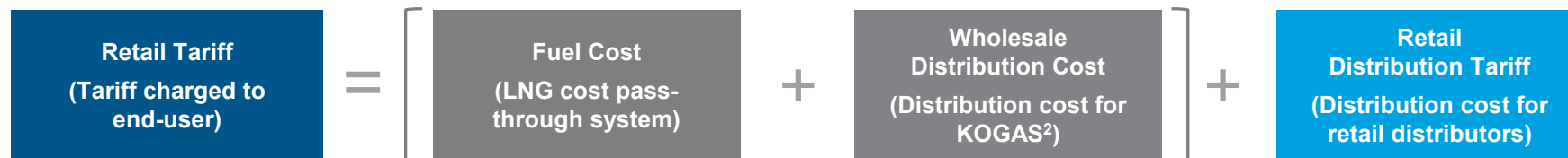
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2. Rounded up from the sum of the relevant debt facilities

Gas Distribution Tariffs in Korea¹

Gas Distribution Tariffs in Korea¹

Wholesale Tariff



1. Source: Guidelines on Gas Distribution Tariffs promulgated by the Ministry of Trade, Industry and Energy
2. Korea Gas Corporation
3. Sum of tangible & intangible assets, assets under construction and certain amount of working capital that are related to the city gas distribution business
4. Calculated based on the weighted average cost of capital of the business entity