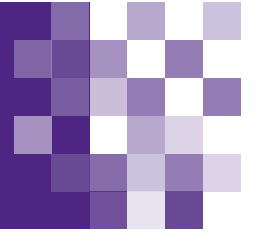


OFFSHORE-i

THIRD QUARTER 2012



**/EXPERT INSIGHT INTO
THE WORLD OF OFFSHORE
TRANSACTIONS/**

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INTRODUCTION

Welcome to this third edition of Appleby's Offshore-i, our quarterly report and insight on the merger and acquisition activity going on in the world's major offshore jurisdictions.

In this report we look at transactions data for the third quarter of 2012, and find that deal levels remain depressed with little sign of an uptick. The third three-month period is traditionally the quietest for M&A activity each year, so in many ways the depressed numbers are no surprise. In our search for a positive angle, however, it is interesting to observe that while the number of deals is down 10% on the previous quarter, and the value down 17%, these drops are smaller in comparison to those witnessed last year, when volume dropped 26% and value 45% between the second and the third quarters.

Furthermore, when it comes to looking at the value of offshore transactions, we can see the numbers this quarter up 11% on the same period of 2011, and indeed without two disproportionately large transactions in the previous quarter of 2012 – the two Alibaba deals which had a combined value of \$9.5bn – value would actually have increased quarter-on-quarter.

“In Q3, offshore was one of the few world regions to show growth in the cumulative value of transactions compared to the same period last year.”

While we remain quietly confident of the early signs of activity returning to our markets, it is still impossible to overlook the macroeconomic situation and the continuing gloom on our doorstep. The uncertainty in the Eurozone, which we hoped might reach some kind of resolution back in Q1, remains far from entering an end game, while the close race for the White House will, we suspect, have a profound effect on US transactions through to year end.

As we enter the fourth quarter, the inability of dealmakers to predict even how 2012 will round out, let alone beyond, has an obvious impact on their willingness to make investments that might ordinarily involve at least a five-year time horizon. But against this backdrop some of the fundamentals remain strong, not least the insatiable appetite for natural resources around the globe, the continuing advances and efficiencies being realised in high tech electronics, and the rapidly developing consumer demand in many emerging markets.

We are not expecting a particularly strong Q4, in our regions or generally across the globe. We believe that 2012 will probably close lower than 2011, in part because of the general condition of the global economy and the reductions in expected global GDP forecast by the International Monetary Fund, but also because of the so-called Fiscal Cliff – the potential expiry of certain U.S. tax provisions and implementation of stringent tax cuts. All of these factors are depressing current activity and further investment.

However, companies offshore continue to do transactions across a wide range of sectors and involving a wide range of geographies. It will come as little surprise that financial services remains the buoyant sector across our region, nor that Hong Kong is growing fast both as a source and a target for offshore deals.

Perhaps our greatest reason to be cheerful, though, comes from the fact that in Q3 offshore was one of the few world regions to show growth in the cumulative value of transactions compared to the same period last year, and it is the only mature market to do so. The business of M&A may not be booming, but our markets are front and centre of what deal activity there is.

We hope that you find our analysis on the following pages useful. Please don't hesitate to get in touch with your usual Appleby contact should you have any questions.



Peter Bubenzer
Group Chairman, Appleby

EXECUTIVE SUMMARY

There are a number of key themes that emerge from the statistics outlined on these pages. In particular:

- There was a **10% drop in the volume**, and a **17% drop in the value** of transactions that took place offshore in Q3 2012 compared to Q2. This fall is typical of the third quarter, but it is not as significant as the drop between Q2 and Q3 last year. Indeed, values in Q3 2012 are 11% higher than they were in the same period last year.
- The full year 2012 does not look likely to be a good one for offshore M&A, however, with year-to-date numbers showing both **volumes and values lower than at this point last year**.
- In the last 10 quarters, only three periods have seen a larger average deal size than we saw in Q3 2012 – at \$78m – suggesting some **robustness returning to deal sizes**.
- **Financial services** once again dominated activity in our region, accounting for over a third of all deals. The second highest value sector was telecommunications, and then the manufacture of computer, electronic and optical products, showing that despite the pressures on consumer spending, the high-tech revolution continues to gather pace.
- Meanwhile the heat appeared to come off the **energy and natural resources sector**, with just six of the top 20 anticipated deals in that space and very little happening in Q3.
- **Acquisitions of minority stakes** remained the most popular deal types, making up more than half of all deals, with outright acquisitions falling in both volume and value in Q3.
- There was a **big drop-off in IPOs** and planned IPOs in the third quarter, with 35 deals across the two categories in Q2 and just 17 in Q3. None of the top 20 rumoured upcoming deals is a stock market debut.
- **Cayman** remains the most attractive offshore destination for investors, with **Hong Kong** witnessing a huge increase in the value of deals involving its companies as the targets.
- Where offshore companies are acquirers there has been a sizeable increase in both the volume and value of deals, with a number of large transactions coming out of **Hong Kong** and the **BVI**.
- The **offshore region** ranks ninth amongst world markets by deal volume and fifth for value, some way ahead of supposedly “hot” markets like the Middle East and Oceania.
- In value terms, offshore is one of the few world markets to have seen **growth in Q3** compared to the same period last year, up 11%. Of the mature world regions, offshore is the only one to show growth, with the Middle East and the Baltic states the only two emerging markets seeing expansion in deal values.

Q3, 2012: SNAPSHOT

428

Total number of deals

33.5

US\$
bn

Total value of deals

Financial Services

No. 1 sector

%

Minority Stake

Favoured type of deal

Cayman Islands

Top destinations

LOOKING FOR OFFSHORE TRANSACTIONS ADVICE?

The Corporate & Commercial group at Appleby is among the largest and most widely recognised in the offshore world. Our multi-disciplinary teams advise a large number of FTSE 100 and Fortune 500 companies on all aspects of corporate and commercial law, focusing on mergers and acquisitions, corporate restructurings, joint ventures, capital markets and investment funds.

Our lawyers are part of a truly international practice operating from our offices in Bermuda, the British Virgin Islands, the Cayman Islands, Guernsey, Hong Kong, Isle of Man, Jersey, London, Mauritius, the Seychelles and Zurich. Our network enables us to service our clients all over the world, including the key developing regions and, in particular, the BRIC economies.

Appleby's cross-border Corporate & Commercial team works closely with our global Fiduciary & Administration group, which provides offshore company incorporation, management and administration services to our domestic and international clients in all locations, including Shanghai.

ABOUT APPLEBY

Appleby is the world's largest provider of offshore legal, fiduciary and administration services. We have around 800 people, including 80 partners, operating from 12 offices around the globe. This includes the key offshore jurisdictions of Bermuda, the British Virgin Islands, the Cayman Islands, Guernsey, Isle of Man, Jersey, Mauritius and the Seychelles, as well as the international financial centres of London, Hong Kong, Shanghai and Zurich. Together, our teams service clients based all over the world.

We advise global public and private companies, financial institutions, and high net worth individuals, working with them and their advisers to achieve practical solutions, whether in a single location or across multiple jurisdictions.

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RESEARCH METHODOLOGY

This report details mergers and acquisitions activity in offshore jurisdictions in Q3 2012 using data from the Zephyr database, published by BvD. The offshore region covers target companies in Bermuda, British Virgin Islands, Cayman Islands, Hong Kong, Guernsey, Jersey, Isle of Man, Mauritius and Seychelles.

The date range is 01/07/2012 – 30/09/2012 inclusive. Deal status is as announced within the time period covered. Where necessary, deal values have been converted to USD at a rate set by Zephyr. Not all deals are reported immediately, so the figures are subject to change as new information becomes available.