Chemical compounds*

Global Chemicals mergers and acquisitions analysis
Second quarter 2008

*connectedthinking

PRICEWATERHOUSECOOPERS

Saverio Fato
Global Chemicals
Industry Leader

Bruce Chalmers
Director, Transaction
Services

Perspective: Our thoughts on the chemicals industry deal activity

In our last Chemical Compounds report, we discussed the emergence of large deal activity based on the news of companies such as Chemtura and Evonik. As these deals did not materialize, second-quarter deal activity was similar to what we have seen in the past during periods of economic uncertainty: a relatively large number of small bolt-on deals driven by companies taking incremental steps to shift their position in the industry through acquisitions and no major movements driving fundamental change.

One significant second-quarter event was the announcement that Hexion does not intend to go through with the previously announced merger with Huntsman. Valued at more than $10 billion, this was a high-profile deal that the industry was watching to see how financing would be secured, given the economic environment. The further delay and doubt concerning the consummation of the deal raised questions regarding chemical M&A activity for the remainder of 2008.

However, weeks into the third quarter, we have already seen two large deals announced that create fundamental shifts for two major US-headquartered chemical companies. The first announcement on July 10 was The Dow Chemical Company's intention to acquire Rohm and Haas for $18.8 billion, and the second on July 11 was that Ashland intends to acquire Hercules for $3.3 billion.

Another deal that caught our attention is Cristal's $289 million announced acquisition of Bemax Resources Limited, an Australian based mining company. This acquisition is expected to be used to provide feedstock for the company's Western Australia operations (source: Business Spectator 26 May 2008). As companies remain under significant pressure from rising raw material costs, we expect to see additional backward integration acquisitions.

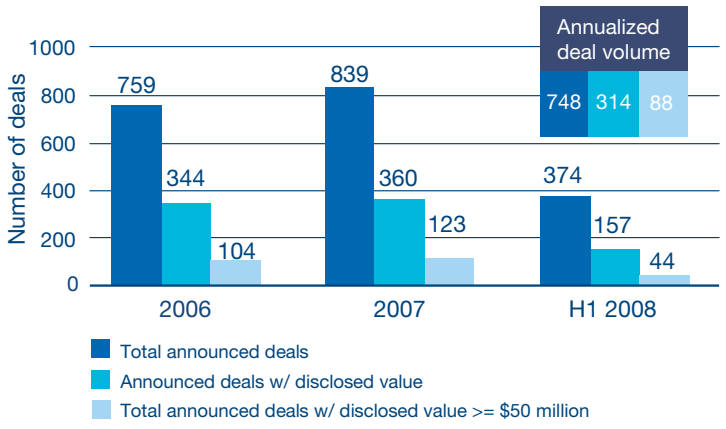
Looking at these announcements in light of the economy and industry conditions, we surmise that companies are continuing to look at M&A as a step-change tool to drive fundamental change in their market position, which is essential as the volatility in raw material prices and end-market demand continues to impact their financial results. Additionally, we take comfort that companies have enough confidence in the global economy and financing markets to pursue large deals with strategic rationale in the current market, which continues to appear difficult for financial investors. Looking ahead, with no expected short-term relief in market volatility or competitive conditions, companies will need to continually reposition themselves to remain competitive, be it through acquisition of small niche players or large, step-change acquisitions.

Although financial investor activity is down compared with 2007, we noted in "The Deal" on July 8 that: "Private Capital funds raised $132.7 billion in the first six months of 2008, just 3 percent shy of 2007's record-setting $137.2 billion in the same period, according to statistics released Tuesday by Dow Jones Private Equity Analyst.". Given the amount of cash that appears available to fund major acquisitions, we believe that private equity will become active again in the bidding process for chemical companies. However, for now this period of lower private equity bidding continues to be a good opportunity for corporate acquirers that are financially sound and willing to proactively pursue opportunities during this period of economic uncertainty.

Saverio Fato
Partner

Bruce Chalmers
Director

Deal activity by number of deals[1]



Q2 '08 deal value continues to be impacted by debt market turmoil

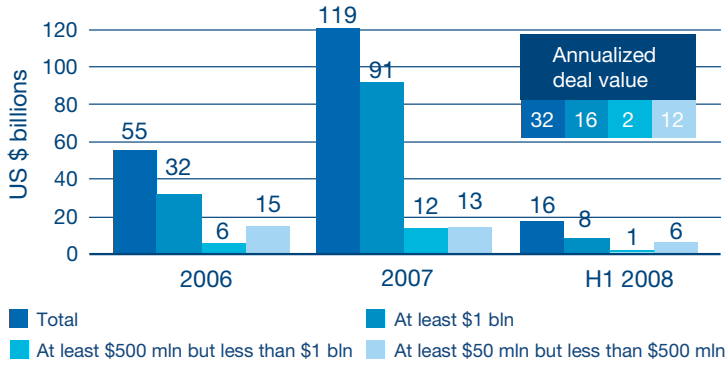
Growth exhibited in total number of deals

Q2 2008 exhibited growth in the total number of deals, increasing almost 1.5 times from the level in Q1 2008, and on an annualized basis H1 2008 is approaching the levels experienced in 2006.

On a run rate basis, 2008 continues to lag behind the deal volume in 2007, which reached 839 deals, the highest level achieved since 2000. Given the debt-market turmoil, this is not unexpected.

The remainder of our analysis focuses on announced deals with transaction values greater than $50 million. Because there were many deals with transaction values less than $50 million, the average deal size was relatively small: the 240 deals in 2006 were worth approximately $2.5 billion ($10.4 million on average); the 237 deals in 2007 were worth approximately $2.5 billion ($10.5 million on average); and the 113 deals in H1 2008 were worth approximately $1.3 billion ($11.5 million on average).

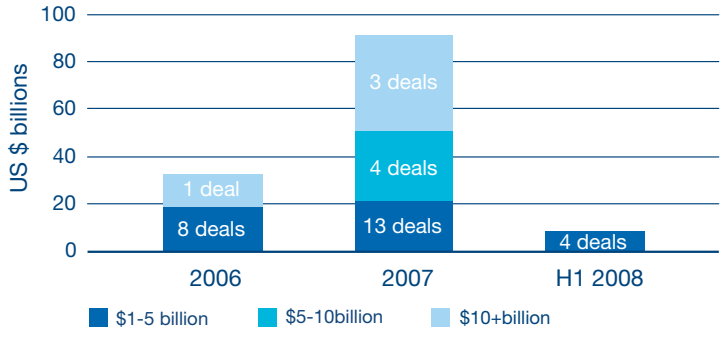
Deal activity by total deal value



Deal value has not kept pace with average deal value

Despite the aforementioned growth in deal volume in Q2 2008, deal value has not kept pace, with the average deal value (greater than $50 million) for Q2 2008 being approximately $340 million, compared with approximately $545 million for Q1 2008. This is primarily due to the absence of new large deals in Q2 2008. Deal value remains significantly behind 2007 and 2006 levels, but with the announcement of the $18.8 billion Rohm and Haas/Dow and $3.3 billion Hercules/Ashland deals announced in July 2008, deal value could be on track with 2006 levels.

Large deals ($1+ billion)
Value (and number of deals in category)



No large deals announced in Q2

As there were no large deals announced in Q2 2008, the four deals discussed in the Q1 2008 report are the only ones shown for H1 2008. These four deals had a total deal value of approximately $8 billion.

The debt-market turmoil continues to impact the chemical industry M&A market with lower financial investor activity. However, Q2 2008 did show additional activity with year-to-date financial investor activity increasing to 20 percent compared with approximately 10 percent in Q1 2008. This continues to lag behind 2006 and 2007 levels of 26 percent and 21 percent respectively.

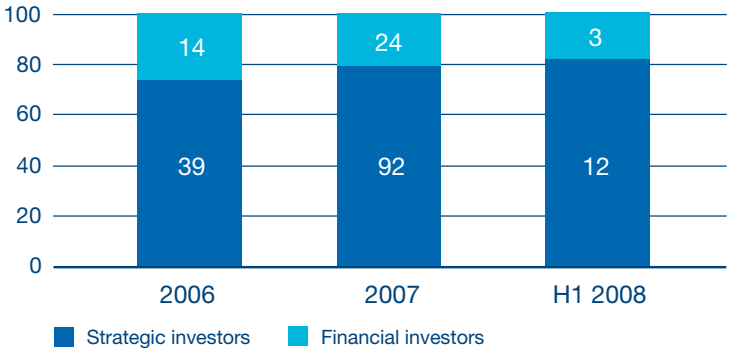
[1]Note: 2006 and 2007 deal activity in this report exceeds the deal activity as enumerated in the Q4 2007 M&A report because the source continually updates deal activity in prior periods as deals are discovered.

Deal activity by investor type—financial investors 'gain ground' on prior periods from Q1 2008

Financial investors have been much less active in large deals (those greater than $1 billion) in H1 2008, which was dominated by strategic investors. This represents a shift from 2007, in which seven of the 20 large deals were made by financial investors. The average size of financial investor deals (of those greater than $50 million) was approximately $260 million in H1 2008, compared with approximately $790 million in 2007 and approximately $415 million in 2006.

In contrast, 2007 had many large deals: three worth more than $10 billion and three worth more than $5 billion. In 2006, only one deal was greater than $10 billion and none was between $5 billion and $10 billion. The three large deals in excess of $10 billion in 2007 were ICI, Lyondell Chemical and GE Plastics.

Deal activity by investor type (for deal value > $50M)
Measured by percentage of deal value (actual deal value shown in chart)



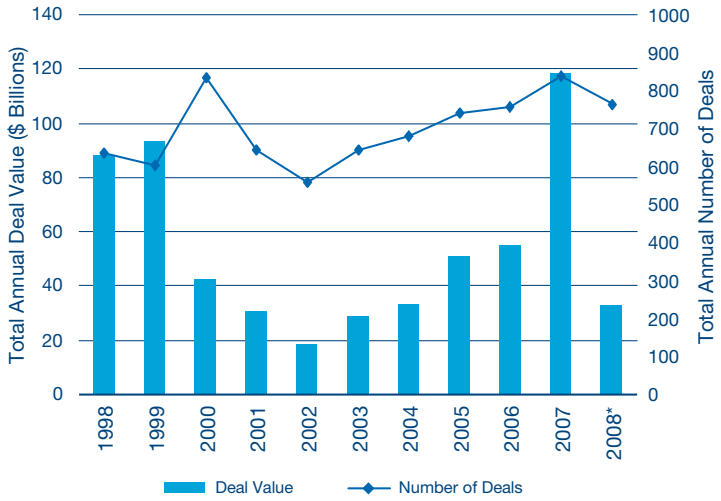
The total 2008 large deal value will increase significantly in Q3 with the Rohm and Haas/Dow and Hercules/Ashland deals recently announced, for the amount of $18.8 billion and $3.3 billion, respectively. Refer to pages 6-7 for further details.

Regional distribution of 2008 large deals

See the Large deal section on pages 4–9 for additional information

Historical analysis of chemical deals

10 year comparison of annualized H1 deal activity



*Annualized H1 2008 deal activity.

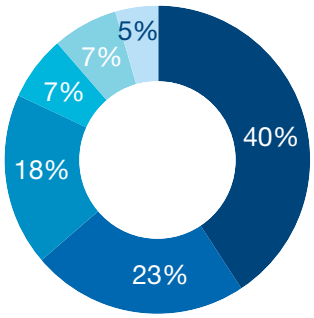
Regional distribution of deals continues to be weighted toward Asia-Pacific and Middle East regions

The regional distribution of deals displays Asia-Pacific and Middle East regions continuing to displace the historical core hotbeds of deal activity being in North America and Western Europe. Such a shift is being driven by one large deal each in Egypt, China, Australia, and North America, compared with no large deals in Western Europe in H1 2008. These were the four largest transactions in H1 2008. These were the three largest transactions in H1 2008 (see the large-deal section on pages 4-5 for additional information), and are all intra-regional deals. The majority of the announced transactions (64 percent by number and 77 percent by value) were intra-regional deals.

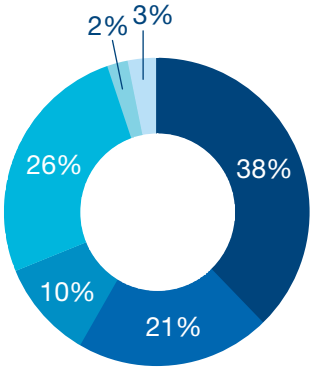
It should be noted that we expect the regional distribution deals in the third quarter to shift significantly, given the two large North American deals already announced in July 2008.

Regional distribution of H1 2008 deals

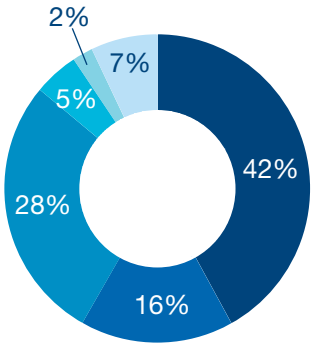
Number of deals by target region
for 44 deals



Number of deals by acquirer region
for 44 deals



By value of deals by target region
$14.9 billion total value



By value of deals by acquirer region
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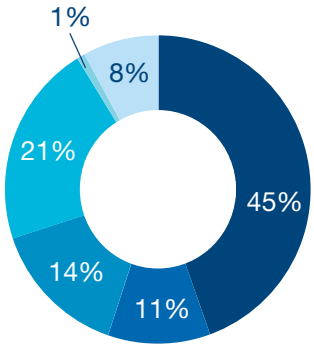

Asia Pacific | North America | Western Europe | Middle East | South America | Africa | Eastern Europe

Large deals in H1 2008

Month announced	Target name	Target nation	Acquirer	Acquirer nation	Status	Value of transaction in US$ bln	Category
Feb	Abraaj Capital Ltd-Fertilizer	Egypt	Orascom Constr Ind SAE	Egypt	Pending	2.75	Fertilizers & Agricultural Chemicals
Jan	Qinghai Salt Lake Ind(Grp)Co	China	Qinghai Digital Net Invest	China	Pending	1.98	Specialty Chemicals
Mar	Dyno Nobel Ltd	Australia	Incitec Pivot Ltd	Australia	Completed	1.85	Commodity Chemicals
Jan	General Chemical Industrial	United States	Tata Chemicals Ltd	India	Completed	1.01	Specialty Chemicals

Large-deal summary for H1 2008

The following outlines the large deals announced in H1 2008.

Abraaj Capital/Orascom Construction

Orascom Construction Industries (OCI) announced that it has signed an agreement with United Arab Emirates-based Abraaj Capital (Abraaj), which has agreed to merge its fertilizer production operations under OCI for a combined cash and shares equity consideration of approximately US$1.59 billion (US$874.5 million in cash and the issuance of approximately 12.77 million new OCI shares through a capital increase to Abraaj, subject to approval by OCI shareholders in an extraordinary general meeting),[1] with OCI also assuming US$1.1 billion in net debt.

The capital increase shares are to be issued at the price of EGP 607.93 per share (US$221.1 per global depository receipt). The agreed share price reflects a 14 percent premium to the average close since OCI announced its divestment of the cement group. Following the capital increase, Abraaj shall be a 5.95 percent shareholder in OCI.

The fertilizer operations of Abraaj include: 100 percent ownership of Egyptian Fertilizers Company (ammonia/urea); a 20 percent stake in Notore Chemical Industries Ltd (ammonia/urea); and a strategic alliance with Dana Gas (the Middle East's largest privately owned natural gas operations).

OCI is a construction contractor based in Cairo that employs more than 40,000 people in more than 20 countries. OCI's investments in fertilizers include a 30 percent stake in Egyptian Basic Industries Corporation (ammonia) and a 51 percent stake in Sorfert Algeria (ammonia).

With the completion of the merger, the fertilizer group would be well on its way to being ranked among the world's top five producers of nitrogen-based fertilizers and ammonia, with a combined annual capacity of 4.2 million tonnes by 2010. *(*OCI press release, February 21, 2008*)*

Qinghai Salt Lake Ind/Qinghai Digital Net Invest

Qinghai Digital Net Investment Share Holding Group Co Ltd (QD) agreed to merge with Qinghai Salt Lake Industry (Group) Co Ltd, a chemicals manufacturer, in exchange for 2.976 billion new QD ordinary shares, valued at 14.284 billion Chinese yuan (USD $1.98 billion), in a reverse-takeover transaction. The shares were valued based on QD's closing stock price of 4.8 yuan (USD $0.666) on January 24, 2008, the last full trading day prior to the announcement. Upon completion, QD is to become the surviving entity. The transaction was subject to the shareholders' and regulatory approval. (Thomson).

Dyno Nobel Ltd/Incitec Pivot Ltd

Australia-based Incitec Pivot Limited (IPL) received regulatory and board approval on the share and option scheme on May 30, 2008. IPL successfully entered into a Mix & Match Share Scheme agreement with Dyno Nobel Ltd (Dyno Nobel) on June 16, 2008, under which IPL acquired all of the shares in Dyno Nobel.

The transaction valued Dyno Nobel at $3.3 billion at the offer price of A$2.80 per share.

Under the Mix & Match Share Scheme, Dyno Nobel shareholders received 0.0142547 New Incitec Pivot Shares (IPLN) and A$0.70 in cash per share, representing a mix of 75 percent scrip and 25 percent cash. IPLN shares commenced trading on June 3, 2008.

[1] Press release is based on an assumed ex-div share price, which reduces the purchase price by US$0.7 billion from the agreed stock price at date of announcement.

Large deals in 2007

Month announced	Target name	Target nation	Acquirer	Acquirer Nation	Status	Value of transaction in US$ bln	Category
Jun	ICI PLC	United Kingdom	Akzo Nobel NV	Netherlands	Completed	16.26	Specialty Chemicals
Jul	Lyondell Chemical Co	United States	Basell NV	Netherlands	Completed	12.36	Specialty Chemicals
May	GE Plastics	United States	SABIC	Saudi Arabia	Completed	11.60	Commodity Chemicals
Dec	Dow Chemical Co-Petrochemicals	United States	Petrochemical Inds Co KSC	Kuwait	Pending	9.50	Commodity Chemicals
Apr	Orica Ltd	Australia	Investor Group	United States	Withdrawn	8.34	Commodity Chemicals
Jul	Huntsman Corp	United States	Hexion Specialty Chemicals Inc	United States	Pending	6.24	Specialty Chemicals
Jul	Natl Starch & Chem Co-Adhesive	United States	Henkel AG & Co KGaA	Germany	Completed	5.51	Specialty Chemicals
Jul	SigmaKalon Group BV	Netherlands	PPG Industries Inc	United States	Completed	3.04	Specialty Chemicals
Nov	Nufarm Ltd	Australia	Investor Group	China	Withdrawn	2.77	Fertilizers & Agricultural Chemicals
Dec	UAP Holding Corp	United States	Agrium Inc	Canada	Completed	2.62	Fertilizers & Agricultural Chemicals
Oct	Arysta LifeScience Corp	Japan	Industrial Equity Invest Ltd	Ireland-Rep	Completed	2.19	Fertilizers & Agricultural Chemicals
Jun	PQ Corp	United States	Carlyle Group LLC	United States	Completed	1.50	Specialty Chemicals
Jun	Egyptian Fertilizers Co SAE	Egypt	Abraaj Capital Ltd	Utd Arab Em	Completed	1.41	Fertilizers & Agricultural Chemicals
Jul	LG Petrochemical Co Ltd	South Korea	LG Chem Ltd	South Korea	Completed	1.20	Specialty Chemicals
Jul	Taminco NV	Belgium	Investor Group	United Kingdom	Pending	1.09	Industrial Gases
Jul	Aromatics(Thailand)PCL	Thailand	PTT PCL	Thailand	Intended	1.08	Specialty Chemicals
Feb	Lyondell Chemical Co-Inorganic	United States	Cristal	Saudi Arabia	Completed	1.05	Specialty Chemicals
Sep	Chandra Asri Petrochemical Ctr	Indonesia	Barito Pacific Timber Tbk PT	Indonesia	Completed	1.05	Specialty Chemicals
Aug	HT Luxembourg Sarl	Luxembourg	Arcapita Bank BSC	Bahrain	Completed	1.04	Commodity Chemicals
Oct	Foseco PLC	United Kingdom	Cookson Group PLC	United Kingdom	Completed	1.00	Specialty Chemicals

IPL utilized a A$2.4 billion facility from a consortium of leading commercial banks to fund the cash component of the IPL scheme and to refinance existing IPL and Dyno Nobel debt.

Concerning the transaction, Julian Segal, IPL's managing director and chief executive officer (CEO), said: "The combination of IPL and Dyno Nobel will create a leading global chemicals company favorably positioned to benefit from the hard and soft commodity super cycle. There is a natural fit as both businesses have nitrogen-based manufacturing at their core."

Segal further commented that, "The combined group will have revenue in excess of A$3.5 billion, a market capitalization of more than A$9 billion and be among the top 30 companies on the Australian Securities Exchange." He also said, "The acquisition is anticipated to be earnings accretive in the first full year, increasing to low double-digit accretion in year two, and meets IPL's 15 percent internal rate of return investment criterion."

IPL, an ASX top 50 company, is a chemical manufacturer supplying agricultural fertilizers and industrial chemicals for Australian and international markets. IPL has a market capitalization of approximately A $7.5 billion. Dyno Nobel, also listed on the ASX, is a leading supplier of industrial explosives and blasting services to the mining, quarrying, seismic and construction industries. Dyno Nobel is the market leader in North America and the second-largest supplier in Australia. It employs more than 3,500 people and has 36 manufacturing facilities in Australia, Canada, the United States, Indonesia, Mexico, and Papua New Guinea. (Incitec Pivot Ltd press release, June 16, 2008, March 11, 2008, & Dyno Nobel Ltd. press release, June 12, 2008)

General Chemical Industrial/Tata Chemicals Ltd

Tata Chemicals, part of the Tata Group, announced on March 27, 2008, the successful completion of the acquisition of US-based General Chemical Industrial Products Inc. (General Chemical) for a total consideration of $1.01 billion, making Tata Chemicals the world's second-largest soda ash company.

General Chemical's subsidiary, General Chemical (soda ash) Partners, is one of the largest soda ash producers in the United States with a capacity of 2.5 million tonnes per annum (tpa) of natural soda ash.

Tata Chemicals had previously acquired the Brunner Mond Group of companies in 2005/06, a leading producer of soda ash with a presence in the UK, Netherlands and Kenya, and after this acquisition, Tata Chemicals' total global capacity is approximately 5.5 million tonnes of soda ash per annum.

The acquisition also gives Tata Chemicals access to two of the lowest cost natural soda ash reserves in the world (Wyoming, US, and Magadi, Kenya).

Funding for the acquisition was arranged through a mixture of term financing of $500 million and bridge financing of $350 million, raising a total of $850 million.

Homi Khusrokhan, managing director of Tata Chemicals, said: "The company's global scale, spread and presence in natural soda ash will be of great strategic advantage to us in the years ahead. General Chemical is a company we have admired for many years, and the significant presence we will now have in the Green Valley Basin in Wyoming is going to be hugely advantageous for us going forward. While size is important, the ability to be able to construct the world's premier soda ash business is even more exciting." (Tata Chemicals press release, March 27, 2008)

Looking towards Q3

Although the following two transactions were announced after H1 2008, we draw attention to them in this report due to their proximity to H1 2008 and large magnitude.

Rohm and Haas/The Dow Chemical Company

On July 10, 2008, Dow Chemical (DOW) agreed to buy Rohm and Haas (R&H) for $78/share in cash, valuing the deal at $18.8 billion (including $3.5 billion debt). The offer is at a 73.99 percent premium to R&H's closing share price on July 9, 2008, of $44.83. Financing for the acquisition comprised of $4 billion convertible preferred securities by Berkshire Hathaway and Kuwait Investment Authority. Debt financing has been committed by Citi, Merrill Lynch and Morgan Stanley.

Raj L. Gupta, R&H chairman and CEO, commented, "When the transaction is completed, R&H will: have a broader and more global leadership position in a range of specialty chemicals and materials business segments; have full integration opportunity through the chemical value chain, which will allow for reliable and cost-competitive raw materials; be a critical component of the new Dow, the world's preeminent chemical company, which has a stated vision to expand its performance businesses; retain the culture, practices, and stewardship of stakeholder interests that have long been a hallmark of the company's reputation; and be allied with a vigorous and forward-looking US-based enterprise, committed to investing in research for new technology solutions to many of the most pressing societal needs." Under the definitive merger agreement, R&H will retain its business and operate under the R&H name.

Andrew N. Liveris, chairman and CEO of Dow, responded, "R&H will bring to Dow its recognized world-class core strengths in coatings and electronic materials, and a strong market-facing culture. This acquisition is the definitive step in our company's strategy to shape The Dow of Tomorrow." Under the definitive merger agreement, Dow will contribute complementary businesses to R&H in areas such as coatings, biocides, and personal care products. Initially, Dow expressed interest in R&H's coatings and electronics division in January 2008. (MergerMarket January 26, 2008)

Dow expects the transaction to be meaningfully accretive to earnings in the second year following completion, with pre-tax annual cost synergies expected to be at least $800 million per year. Post-transaction, Dow expects R&H to have annual revenue of approximately $13 billion, compared with sales of $8.9 billion in FY07.

The transaction has been unanimously approved by the boards of directors of both companies and remains subject to approval by the shareholders of R&H and regulatory authorities.

R&H, a US based company headquartered in Philadelphia, Pennsylvania, is a specialty materials company. The Dow, a US based company headquartered in Midland, Michigan, is a diversified chemical company that offers a range of chemical, plastic and agricultural products and services. (MergerMarket July 10, 2008, Dow Press release July 10, 2008)

Hercules/Ashland Group

On July 11, 2008, Ashland announced the acquisition of all the outstanding shares of Hercules for $18.6 in cash and 0.093 of a share of Ashland common stock for each one share of Hercules common stock, valuing the transaction at $3.3 billion.

For the 12 months ended March 2008, Ashland generated $365 million EBITDA, while Hercules generated $392 million EBITDA for the same period. Post-close, Ashland is expected to have pro forma combined revenue of more than $10 billion for the 12 months ended March 2008. Ashland expects to realize annualized run-rate cost savings of at least $50 million by the third year post-close, by eliminating redundancies and capturing operational efficiencies.

Ashland Chairman and Chief Executive Officer James J. O'Brien said, "The acquisition of Hercules fulfills our objective to become a leading specialty chemicals company. It creates a defined core for Ashland composed of three specialty chemical businesses with strong market positions and promising global growth potential: specialty additives and ingredients, paper and water technologies, and specialty resins. In addition, we expect our financial profile to be enhanced significantly through reduced earnings volatility, improved profitability and stronger cash flow generation."

Hercules President and Chief Executive Officer Craig A. Rogerson said, "We are enthusiastic about the opportunity to combine Hercules with Ashland. Our companies share proud and similar histories of nearly 100 years of innovation, dedication and service. Hercules shareholders will receive a significant premium over the current trading price for their shares and, through their ownership of Ashland shares, the opportunity to participate in the upside potential of the combined company. We look forward to working with Ashland to bring these two great companies together."

Ashland is a diversified chemicals fortune 500 Company that operates in four divisions: performance materials, distribution, valvoline and water technologies. While Hercules manufactures and markets chemical specialties globally, operating in aqueous systems (Aqualon group) and paper technologies markets. (Factiva, July 11, 2008)

Large chemical deals otherwise classified by Thomson

Standard Industrial Classification (SIC) codes drive the data set used for the purposes of this report. Due to the broad definition of chemical companies and associated SIC codes, there are two additional large deals that we draw attention to that were not included within the Thomson data set.

Neochimiki/Carlyle Group

On May 9, 2008, the Carlyle Group announced its acquisition of the Greek-based chemicals distribution company, Neochimiki.

Through several block trades over the Athens Stock Exchange, Carlyle acquired 73.54 percent of the shares of Neochimiki for $19 per share, and will subsequently launch a mandatory tender offer for the remaining outstanding shares. The transaction implies an enterprise value of $749 million.

Dr. Kostas Moutsos, Neochimiki CEO, commented, "Neochimiki is pleased to welcome Carlyle as a shareholder in this rapidly expanding business. Carlyle offers a deep understanding of the chemicals sector both in Europe and globally, and their insights and support will help Neochimiki to realize its ambitious growth strategy, particularly as we aim to extend our distribution, storage and production network across the Balkans."

Dr. Robert Eastman, Carlyle managing director, said, "Neochimiki's steady development into a major player in Greece is a testament to the hard work and vision of its strong and committed management team. Carlyle is delighted to have the opportunity to help Neochimiki reach the next stage of its development by supporting its international expansion plans and providing access to Carlyle's global network in order to deepen the company's multinational customer base."

Neochimiki was established in 1974 and is focused on both the distribution of chemical raw materials and the production and distribution of fertilizers and raw materials for the coatings industry. (Carlyle press release, May 9, 2008)

Sibur/MBO

On April 30, 2008, it was announced that Gazprombank (an affiliate of Gazprom), agreed to sell its controlling stake in Sibur to a management buyout team for $5.4 billion.

The deal comprises 50 percent plus one share of the outstanding stock of Sibur, plus 25 percent of Sibur's 2007 net profits to be paid in cash, plus assumption of existing debt.

The MBO team is headed by Dmitry Konov and includes five members of the Sibur board.

The deal is currently subject to approval by Gazprombank's board and would represent the largest MBO deal in Russia's history.

Sibur is Russia's leading petrochemicals company, with 34 plants and subsidiaries producing more than 100 petrochemical products. (Factiva news article dated April 30, 2008, InvestExp article dated April 30, 2008 and Sibur website)

Updates impacting prior quarterly releases

The following provides details of any changes and updates in the status of 2007 deals that were included in the Q4 2007 and Q1 2008 edition of Chemical compounds. Please refer to the Q4 2007 and Q1 2008 edition for detailed background behind each of the large deals listed on pages 4-5.

Akzo Nobel/Henkel—adhesives and electronic materials

This transaction was announced during 2007 and completed in H1 2008, but it was not fully reflected within the Thomson data at that time. During 1H 2008, Thomson added this transaction, and consistent with its previous practices, it has been added to 2007 data. Attention was drawn to this deal during our Q1 2008 Chemical Compound report.

On April 3, 2008, it was announced that Henkel had taken over Akzo Nobel's adhesives and electronic materials businesses that were previously owned by National Starch. "This acquisition represents a milestone in our 130-plus-year corporate history and points Henkel clearly in the direction of further profitable growth," said Ulrich Lehner, chairman of the management board of Henkel KGaA. The acquisition was preceded by the carve-out of the businesses to be acquired by Henkel and the requisite antitrust and anticompetitive investigations by the relevant authorities. In 2007, these two business segments of National Starch generated sales of 1.25 billion GBP (about 1.83 billion euros). The purchase price was 2.7 billion GBP (about 3.7 billion euros). Following the integration, annualized sales of Henkel's adhesives technologies business sector will increase to about 7.5 billion euros. Henkel expects synergies from the acquisition of 240 million to 260 million euros per year and anticipates it will realize full synergy potential by 2011. "We will do everything in our power to integrate this excellent company with its outstanding employees and products quickly and smoothly," added Lehner.

By acquiring the adhesives and electronic materials businesses of National Starch, Henkel substantially strengthens its leading position in the global adhesives markets, particularly in the industrial segment. The businesses of National Starch and the existing Henkel adhesives technologies portfolio complement each other well.

Within Henkel's adhesives technologies business sector, the acquisition will have a particular impact on the packaging and wood adhesives businesses, as well as on the electronics business. The combination of the two businesses enables customers to source both solutions from a single supplier.

Henkel also sees a significant strengthening of its regional market positions. The share of sales accounted for by the Asia-Pacific region will, with the acquisition of the National Starch businesses, increase from 8 percent to around 12 percent, and the share of sales of the adhesives business in this region actually will double due to the already strong position of both companies. At the same time, the strong market position enjoyed by Henkel in Europe, particularly in the growth region of Eastern Europe, can be leveraged to accelerate expansion by enabling brands and technologies from National Starch to be marketed via the Henkel sales and distribution network already established in this region. (Henkel press release, April 3, 2008)

Huntsman Corporation/Hexion Specialty Chemicals

On June 18, 2008, Hexion filed a suit in reference to its contractual rights with respect to its merger agreement with Huntsman to end the agreement, due to recent increased leverage and lower-than-expected earnings of Huntsman, according to a MergerMarket article dated June 18, 2008. As per Hexion's press release, consummation of the merger on the basis of the capital structure agreed to with Huntsman would render the combined company insolvent. In a press release on July 2, 2008, Hexion requested information to demonstrate that the financing available under the commitment letter is sufficient to close the transaction and that the combined company will be solvent at closing.

However, on July 9, 2008, Peter Huntsman, president and CEO of Huntsman, responded via letter that the merger agreement had no financing contingency nor any capital structure constraints from additional Hexion obligations. Peter Huntsman further commented that Huntsman is committed to closing the transaction.

On June 23, 2008, Huntsman filled a countersuit of $3 billion against Apollo for fraud and tortuous interference in connection with inducing Huntsman to terminate its merger agreement with Basell and to enter into a merger agreement with Hexion, affiliate of Apollo, instead. Peter Huntsman stated, "We are grateful that the court has agreed to hear our case in an expedited fashion. We look forward to a swift repudiation of Hexion's misguided allegations and apparently disingenuous rhetoric about their intentions to comply with our merger agreement, all the while continuing to breach the same."

Huntsman announced on July 10, 2008, that the Delaware Court of Chancery has granted its request to expedite the court's review of "Hexion's wrongful and ongoing efforts to scuttle Hexion's pending merger with Huntsman". The trial scheduled to begin September 8, 2008 will address Hexion's "false allegations that the combined Hexion and Huntsman entity would be insolvent and that there has been a material adverse effect under the merger agreement, neither of which is supported by the facts or the terms of the merger agreement". The court agreed with Huntsman that it is necessary and appropriate to have a trial that will conclude on or about the end of the second week of September in order to provide sufficient time to consummate the merger if Huntsman prevails at trial. (MergerMarket July 9, 2008)

Additionally, Hexion acknowledged Huntsman's right to extend the termination date beyond July 4, 2008. (MergerMarket June 30 & July 7, 8, 2008, Hexion Press release July 2, 2008)

UAP Holding Corporation/Agrium Inc.

Agrium Inc. (Agrium) announced on May 7, 2008, the successful completion of the acquisition of US-based UAP Holding Corp. (UAP) for a total consideration of $2.62 billion, making Agrium the largest North American retailer of crop inputs and services. Agrium optimistically expects to achieve $115m of annual synergies from the transaction by expanding its geographic base and capitalizing on agricultural markets. (MergerMarket Deal Details)

UAP is a Colorado-based developer and distributor of agricultural and non-crop inputs in the United States and Canada with revenue and EBITDA of $3.4 billion and $206 million (UAP 10-K SEC filling April 16).

Agrium committed a mixture of term and bridge financing of $0.6 billion, with the remaining $2 billion in equity, total of $2.62 billion. Equity financing constituted 52.5 million UAP shares at $39. (Agrium press release, March 7, 2008)

PricewaterhouseCoopers Corporate Advisory & Restructuring LLC[2]

PricewaterhouseCoopers Corporate Advisory & Restructuring LLC[1] ("PwC CAR") offers the focus of an investment banking boutique with access to the resources, integrated advisory services and industry expertise of the PricewaterhouseCoopers global network.

With the U.S. economy in a state of flux, some businesses may be experiencing financial performance issues, including violation of financial covenants, constrained operating liquidity, or a distressed/ underperforming business or business unit.

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Advisory	Financial Restructuring	Capital Sourcing	Mergers & Acquisitions

• Strategic and financial alternatives analysis
• Capital structure advisory
• Core/non-core business analysis
• Non-performing loan advisory
	• Restructuring strategy
	• Capital structure design and sourcing
	• Negotiation with creditors
	• Exchange offers
	• Out-of-court restructurings
	• Chapter 11
	  • Planning and implementation
	  • Pre-packaged bankruptcy
		• Capital structure design
		• Identification and solicitation of, and negotiations with capital sources
		• Leveraged recapitalizations
		  • Senior debt
		  • Second lien
		  • Mezzanine debt
		  • Private equity
		• Chapter 11
		  • DIP financing
		  • Exit financing
			• Distressed business/business unit divestitures
			• Cross-border transactions
			• Design M&A strategy
			• Identification and solicitation of potential buyers
			• Negotiation of transaction terms
			• Transactions through Chapter 11
			• Buy-side advisory

[3]PricewaterhouseCoopers Corporate Advisory & Restructuring LLC is owned by PricewaterhouseCoopers LLP, a member firm of the PricewaterhouseCoopers Network, and is a member of FINRA and SIPC. PricewaterhouseCoopers Corporate Advisory & Restructuring LLC is not engaged in the practice of public accountancy.

Speciality Chemicals case study

Issue	The vertically integrated producer of ethylene, ethyl benzene and styrene, and PVC and polyethylene, was highly leveraged and underperforming.
Approach	PwC CAR advised the company in restructuring $420 million of senior debt and $215 million of bonds.
Impact	The company recovered from its debt crisis, and now has more than $3 billion in sales.

Methodology

Chemical Compounds is a quarterly analysis of deals in the global chemicals industry. Deal information was sourced from Thomson Reuters using the Thomson-defined industry sector of chemicals and allied products. This analysis includes all mergers and acquisitions for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases and acquisitions of remaining interest announced between January 1, 2008, and June 30, 2008, with a deal status of completed, intended, partially completed, pending, pending regulatory approval, seeking buyer, seeking buyer withdrawn, unconditional (i.e., initial conditions set forth by the acquirer have been met but deal has not been completed) or withdrawn. Geographic categories generally correspond to continents with exceptions for Australia (included in the Asia-Pacific category), Europe (divided into Western Europe and Eastern Europe categories based on UN definitions) and the Middle East (defined as a separate category based on US CIA World Factbook). Where the number of deals is referenced in this analysis, it means the number of all deals with disclosed or undisclosed values unless otherwise noted.

2006 and 2007 deal activity in this report exceeds the 2006 deal activity as enumerated in the Q4 2007 M&A report because the source continually updates deal activity in prior periods as deals are discovered.

Quality deal specialists

PwC's Transaction Services practice, with more than 3,800 dedicated deal specialists worldwide, has the right industry and functional experience to advise you on all factors that could affect the transaction, including market, financial accounting, tax, human resources, operating, IT and supply chain considerations. Teamed with our Chemicals industry practice—more than 4,000 partners and client service advisors worldwide—our deal specialists can bring a unique perspective to your deal, addressing it from a technical aspect as well as from a chemicals industry point of view.

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PwC provides audit, tax and advisory services to 84% of all chemicals companies in the United States with revenue greater than $500 million and 74% of all US-based industrial products companies. Our Chemicals team encourages dialogue on emerging trends and issues by sponsoring conferences for industry executives. One such conference is the annual Chemical Week Senior Financial Officers Conference, where industry leaders discuss challenges and opportunities facing the chemicals industry and finance professionals. Our specialists are concentrated in areas where the chemicals industry operates today and in the emerging markets where the industry will operate in the future.

Contacts

PricewaterhouseCoopers global Transaction Services (TS) practice

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Global Leader
Colin McKay—New York, NY, US, +1 (646) 471 5200

US Leader
John McCaffrey—San Francisco, CA, US, +1 (415) 498 6150

Europe Leader
Phillippe Degonzague—Paris, France, +33 (01) 5657 1293

Asia-Pacific Leader
Todson Page—Tokyo, Japan, +81 (03) 6266 5767

PricewaterhouseCoopers Research and Analytics group

Senior Manager, Industrial Products Analytics
Michael Portnoy

Senior Manager, Mergers and Acquisitions Research
Ernest Fierro

PricewaterhouseCoopers global Chemicals practice

PricewaterhouseCoopers' Chemicals practice is a global network of professionals who provide industry-focused assurance, tax and advisory services to more than 200 public and private chemical companies. Our leadership team consists of:

Global Leader
Saverio Fato—Cleveland, OH, US, +1 (216) 875 3030

Global Tax Leader
Michael Burak—Florham Park, NJ, US, +1 (973) 236 4459

Global Advisory Leader
Volker Fitzner—Frankfurt, Germany, +49 (69) 9585 5602

US Leader
Tracey Stover—Philadelphia, PA, US, +1 (267) 330 2425

Germany Leader
Volker Booten—Berlin, Germany, +49 (30) 2636 5217

Central and Eastern Europe Leader
Pawel Peplinski—Warsaw, Poland, +48 (22) 523 4433

United Kingdom Leader
Richard Bunter—London, UK, +44 (0) 191 269 4375

Greater China Leader
Angel Dou—Beijing, China, +86 (10) 6505 3333, Ext. 515

Transaction Services Director
Bruce Chalmers—Philadelphia, PA, US, +1 (267) 330 1477

Transaction Services Manager
Simon Bradford—New York, NY, US, +1 (646) 471 8290

Global Client Service Advisor
Gideon Miller—Houston, TX, US, +1 (713) 356 4165

Marketing
Amanda Feeman—Florham Park, NJ, US, +1 (917) 628 4091

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