

Chemicals

# Chemical compounds\*

## Large deals drive 2007 Chemical M&A activity

An analysis of global chemical transactions

January 2006 through September 2007



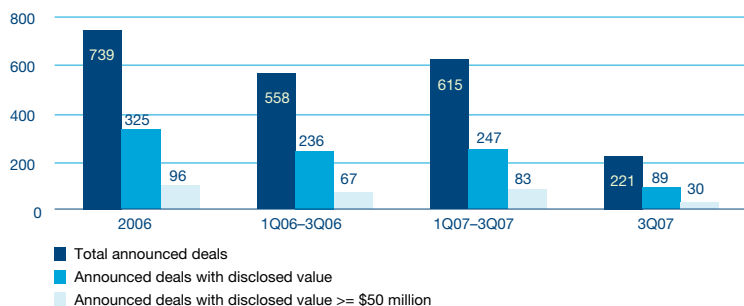
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## FY2007 deal volume likely to surpass FY2006

Deal value by number of announced deals



Deal volume (by number of announced deals > \$50 million) has been consistently high through the first three quarters of 2007. At the current year-to-date pace, 2007 deal volume is likely to surpass 2006.

The strength of the first half of the year was no surprise given the momentum carried through from 2006. There was, however, some uncertainty for the remainder of the year created by the debt market turmoil in the second quarter. But even during this period of uncertainty, M&A activity has proven to be resilient, based on the third quarter volume as compared to 2006 and the first half of 2007.

Although the current market dynamics have not impacted the level of deal activity as much as some had anticipated, the deal processes may have been affected. It is reasonable to believe that relative bidding leverage has increased for strategic bidders as the debt market turmoil has altered the financing landscape that fueled private equity activity over the past several years. This dynamic may be compounded for foreign strategic bidders because of the continued weakening of the US dollar, which recently hit an all-time low against the Euro at the end of the third quarter.

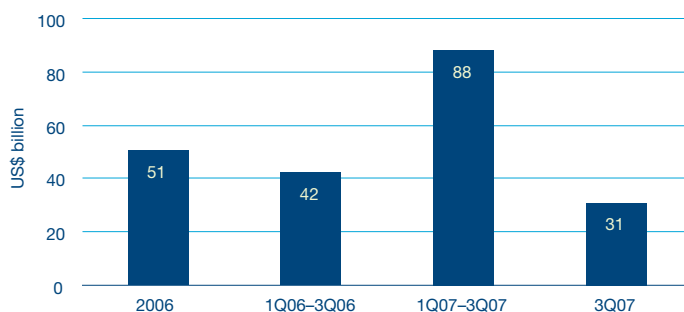
## Large deals in 2007 driving total deal value higher than 2006

Total deal value for the first three quarters of 2007 exceeded total deal value for all of 2006 (\$88 billion versus \$51 billion, respectively). This was driven partially by an increase in the number of deals announced in the comparable period as well as an increase in the average deal size. Average 2007 deal value doubled as compared to 2006 to over \$1 billion per deal. This high level of activity remained strong into the third quarter of 2007 with \$31 billion of deal value and an average of over \$1 billion per deal.

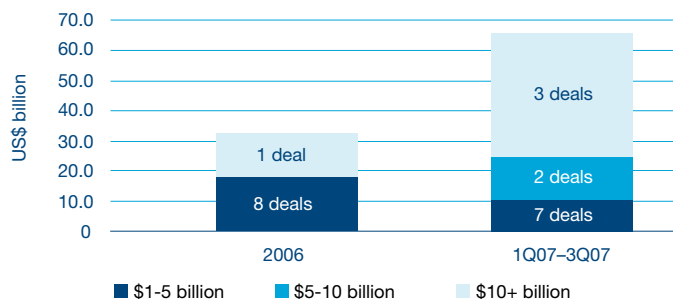
This increase in deal value during 2007 reflects the increase in both the number and size of announced large deals. (Deals with disclosed values at or above \$1 billion, see charts at right) There were 12 large deals during the first three quarters of 2007, as compared to nine large deals during all of 2006. During the first three quarters of 2007, three large deals were announced with deal values in excess of \$10 billion (ICI, Lyondell Chemical & GE Plastics, being the acquirees). Only one large deal with a value of greater than \$10 billion was announced during 2006. (BOC Group PLC)

In both 2006 and 2007 several deals made by large strategic buyers resulted in some fundamental shifts in their positions within the chemical industry. (See the Large deal section on pages 4-8 for additional information)

Deal activity by total deal value



Large deals



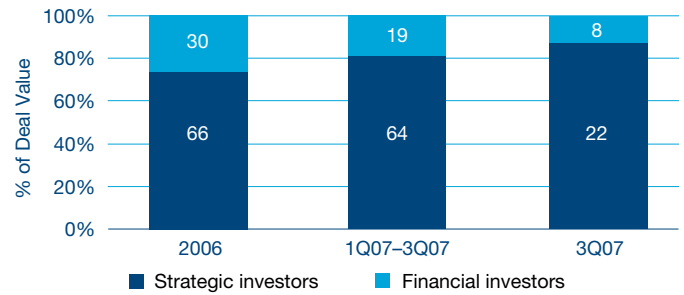
## Deals by investor type

During FY2006 and YTD Q307, the proportion of deals (by value) completed by strategic investors has outpaced deals completed by financial investors. This proportion has increased throughout the year to a high of 87% in the third quarter of 2007.

Although this data reveals the strength that strategic bidders have relative to financial bidders, it does not accurately reflect the true level of financial bidder activity and the impact that they have had on the bidding process. Some of the bidding processes had financial bidders that influenced the prices such that strategic bidders were required to pay more to win the bids. Additionally, some of the winning bidders were portfolio companies of private equity firms.

In these cases, although the acquiring legal entity was a strategic bidder, the deal process was likely influenced by the ultimate shareholders (i.e., financial investors). An example of a recently active strategic bidder that is a portfolio company of private equity firm is Hexion, which is owned by Apollo, and is currently in the acquisition process for Huntsman. (see the Large deal section on pages 4–8 for additional information)

Deals by investor type



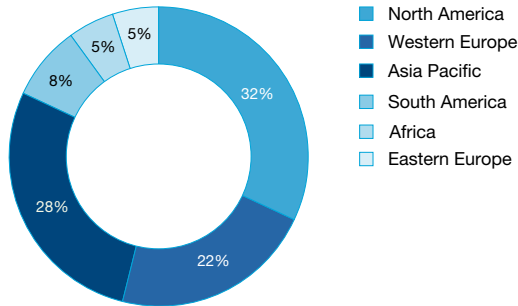
## Regional distribution of 2007 large deals



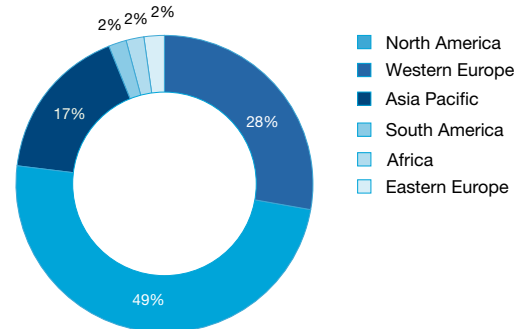
## Regional distribution of deals worth > \$50 million, measured by value and number of deals

The regional distribution of deals with values of \$50 million or more indicates that North America firms have been the leading acquisition targets on both a volume and value basis. The disproportionate value of these North American deals (49% of the total deal value vs. 32% of total volume) has been driven by three large deals: Lyondell Chemical Co. (\$12.4b), GE Plastics (\$11.6b) and Huntsman Corp. (\$6.2b).

Regional Distribution of Deals worth \$50 million or more  
Measured by number of Deals (1Q07-3Q07)



Regional Distribution of Deals worth \$50 million or more  
Measured by Value (1Q07-3Q07)



Not shown in these graphs (as they are defined by target company location), but it was also noted that several Middle Eastern companies were active bidders in 2007, accounting for 3 of the 12 winning bids in the 2007 large deals. (See the Large deal section on pages 4–8 for additional information)

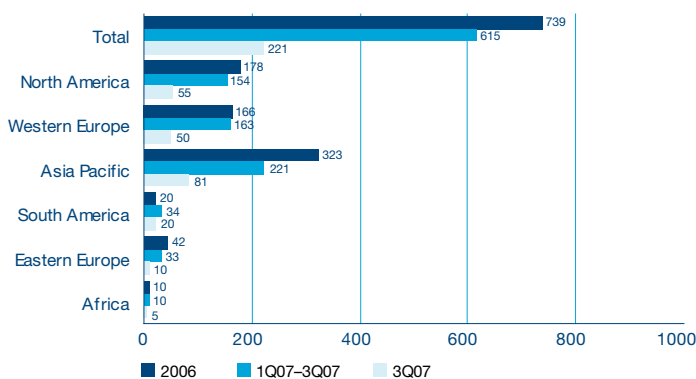
## Regional distribution of deals, measured by number of deals

When compared with previous charts, the regional distribution of all deals in 2006 and through the first half of 2007 indicates that the Asia-Pacific region has been an attractive region for smaller deals. However, through the third quarter of 2007, deals in this region are not on pace to exceed the number of deals in 2006. The slowdown in M&A activity related to Asia-Pacific companies during 2007 has been offset by an increase in deals for firms in North America and Western Europe.

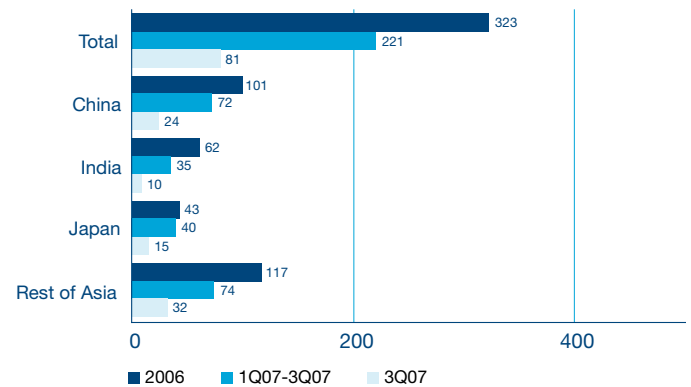
The number of deals in Asia has declined during the first three quarters of 2007, driven by less deal activity in China, India, Japan and the other Asian countries. In 2007, M&A activity in India may be less than 50% of the prior year.

We have noted that, although the actual deal activity in Asia has dropped off from its previous pace, some of the North American and European deals have come with manufacturing capacity and market positions in Asia that were likely attractive attributes that supported the business case and valuation of the acquisition.

Regional distribution of all deals, measured by number of deals



Number of deals in Asia-Pacific by country



## Large deals in 2006 and 2007

The following tables list deals with transaction values greater than \$1 billion:

Large deals in 2006				
Date announced	Target name	Acquiror	Status	Value of transaction in US\$ billion
25 Jan 2006	BOC Group PLC	Linde AG	Completed	14.05
3 Jan 2006	Engelhard Corp	BASF AG	Completed	4.86
14 Sept 2006	GE Advanced Materials	Apollo Management LP	Completed	3.80
1 Mar 2006	Degussa AG-Construction Chem	BASF AG	Completed	3.34
23 Nov 2006	HC Starck GmbH und Co KG	Investor Group	Completed	1.49
17 Dec 2006	Bunge Fertilizantes SA	Fosfertil	Pending	1.37
20 Feb 2006	Groupe Materis	Wendel Investissement SA	Completed	1.21
31 Aug 2006	MacDermid Inc	Investor Group	Completed	1.14
11 May 2006	Hawkeye Holdings Inc	Thomas H Lee Partners LP	Completed	1.08

A notable difference between 2006 to YTD 2007 is the increase in the number, magnitude and average transaction values of large deals. Large deals totaled \$65 billion for the year to date 2007, more than double the full year total in 2006 (\$32 billion). This increase is the result of three deals announced in excess of \$10 billion, compared to only one in 2006. Additionally, there were two deals in 2007 valued over \$5 billion (but less than \$10 billion) as compared to none in 2006.

Another notable point is the shift in geographical location of the acquirers, from a US and European focus in 2006 to the emergence of Middle Eastern acquirers: SABIC (Saudi Arabia), Abraaj Capital Ltd. (United Arab Emirates) and Cristal (Saudi Arabia). Such a trend is not wholly unexpected, and it is consistent with relatively lower cost of raw materials and recent economic growth in these regions.

## Large 2007 deal summary

### ICI/Akzo

The acquisition provides the opportunity to create a global leader in coatings and one of the largest specialty chemicals companies in the world with complementary brands, assets and skills, and leading positions in attractive specialty chemicals markets. The enlarged Akzo Nobel group will benefit from a diversified and broad geographic presence, a significantly strengthened Decorative Coatings business and highly attractive platforms for growth in emerging markets. Akzo Nobel intends to find a new owner for ICI's Specialty Starches activities and plans to retain ICI's Specialty Polymers business. (Akzo Nobel Press Release October 1, 2007)

### Lyondell/Basell

The transaction will create one of the sector's largest companies. Lyondell's three business segments—ethylene, co-products and derivatives; propylene oxide and related products; and refining—will complement and significantly strengthen Basell's polyolefins business. Basell and Lyondell together would have had combined 2006 revenues of approximately \$34 billion and 15,000 employees around the world. (Joint Press Release July 17, 2007)

Lyondell Chemical says that Basell's planned acquisition of Lyondell may close some time in the fourth quarter. "While the closing date of the merger has yet to be determined, we are working toward a completion date in the fourth quarter of 2007, although there can be no assurance regarding the exact timing," Lyondell says. A special meeting of Lyondell shareholders has been called for November 20, 2007 to vote on the proposal. The board of Lyondell declared a conditional quarterly dividend of 22.5 cts/share to stockholders as of November 26. The dividend will be payable on December 17, only if the merger has not closed on or prior to November 26. (5 October 2007, Chemweek's Business Daily, © 2007 Access Intelligence, LLC. All Rights Reserved)

### GE Plastics/SABIC

GE, the listed Connecticut company, said it sold GE Plastics to Saudi Basic Industries, a petrochemicals manufacturer for \$11.6 billion in cash plus assumption of liabilities. GE Plastics is a \$6.66 billion supplier of plastic resins widely used in automotive, healthcare, consumer electronics, transportation, performance packaging, building and construction, telecommunications, and optical media. It is headquartered in Massachusetts and employs 10,300 people in 60 locations worldwide, with outstanding records of quality and environmental performance. (Mergermarket, May 21, 2007)

## Large deals in 2007

Date announced	Target name	Acquiror	Status	Value of transaction in US\$ billion
18 June 2007	ICI PLC	Akzo Nobel NV	Pending	16.26
17 July 2007	Lyondell Chemical Co	Basell NV	Pending	12.36
21 May 2007	GE Plastics	SABIC	Completed	11.60
18 April 2007	Orica Ltd	Investor Group	Pending	8.34
3 July 2007	Huntsman Corp	Hexion Specialty Chemicals Inc	Pending	6.24
19 July 2007	SigmaKalon Group BV	PPG Industries Inc	Pending	3.04
1 June 2007	PQ Corp	The Carlyle Group	Completed	1.50
3 June 2007	Egyptian Fertilizers Co SAE	Abraaj Capital Ltd	Completed	1.41
5 July 2007	LG Petrochemical Co Ltd	LG Chem Ltd	Pending	1.20
4 July 2007	Taminco NV	Investor Group	Pending	1.09
20 July 2007	Aromatics(Thailand)PCL	PTT PCL	Intended	1.07
22 February 2007	Lyondell Chemical Co-Inorganic	Cristal	Completed	1.05

The acquired business complements to SABIC's existing business without any overlaps. SABIC's intention is to grow the business globally, and add high-performance plastics to the product range.

GE selected SABIC as the winner of the auction based on price and SABIC's premier position as one of the world's fastest growing, innovative companies. (Sabic Press Release, May 21, 2007)

### Orica Ltd/Investor Group

On April 18, 2007, Orica announced that it rejected a nonbinding and indicative proposal from a consortium (comprising Bain Capital Partners, Blackstone Capital Partners, Pacific Equity Partners and Morgan Stanley Principal Investments) offering to acquire Orica for a cash consideration of \$32.00 per share by way of a scheme of arrangement. (Orica Press Release, April 18, 2007)

There has been no further public announcement concerning this transaction. However, Orica has continued its acquisitive track, most notably acquiring Excel Mining Systems on September 24, 2007, for \$670 million. (Orica Press Release, September 24, 2007)

### Huntsman Corporation/Hexion Specialty Chemicals

Hexion Specialty Chemicals, Inc., an Apollo Management L.P. portfolio company, announced the signing of a definitive agreement to acquire Huntsman Corporation (NYSE:HUN). Huntsman has terminated its previous merger agreement with Basell.

"This transaction provides Hexion and Huntsman with a great opportunity to create a world-class company with leading-edge products and technologies, a greatly expanded global reach, particularly in the high-growth Asia-Pacific region, and an outstanding team of people," said Craig O. Morrison, Chairman and CEO of Hexion. "Our combined company will be one of the world's largest chemical companies and a leader in our ability to serve customers with an expanded portfolio of specialty materials and a significantly enhanced global presence."

Joshua J. Harris, founding partner with Apollo Management L.P., said: "This acquisition will build Hexion into one of the world's largest specialty chemical companies. The combined enterprise will have annual sales of more than \$14 billion and more than 21,000 associates and 180 facilities around the world. We are pleased to welcome the Huntsman team and look forward to building on their many accomplishments in the industry." (Hexion Press Release, July 12, 2007)

At a special meeting held on October 16, 2007, the stockholders of Huntsman voted to approve the merger agreement with Hexion Specialty Chemicals. (Huntsman Press Release, October 16, 2007)

Huntsman and Hexion Specialty Chemicals have received a request from the Federal Trade Commission (FTC) for additional information in connection with Hexion's previously announced \$10.6 billion acquisition of Huntsman. "Both parties intend to continue to cooperate fully with the FTC," Hexion said in recent regulatory filings. "The effect of the second request is to extend the waiting

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period imposed [by antitrust law] until 30 days after both companies have substantially complied with the request.” Hexion has a leading 34% global market share in epoxy resins, and has some overlap with the epoxy business of Huntsman, which ranks third worldwide, analysts say. (Chemical Week, October 17, 2007)

### SigmaKalon Group/PPG Industries

PPG announced an offer to purchase SigmaKalon Group from global private investment firm Bain Capital. SigmaKalon is a global producer of architectural, protective, marine and industrial coatings, and a leading coatings supplier in many parts of Europe and other key national markets across the globe, with an increasing presence in Africa and Asia. SigmaKalon sells architectural coatings directly to professional painters via a network of service centers, and it maintains a network of approximately 500 company-owned stores and approximately 3,000 independent wholesalers that give it direct access to customers.

SigmaKalon was created in 1999 from the merger of Total's Kalon Group and PetroFina's Sigma Coatings, and it was acquired in 2003 by Bain Capital. Sales have increased from approximately \$1.7 billion in 2003 to approximately \$2 billion in 2006.

“The SigmaKalon business has performed well financially and would be a strong complement to our existing coatings businesses,” said Charles E. Bunch, Chairman and Chief Executive Officer of PPG. “It would give us an excellent footprint in the European architectural coatings segment, where today we have very nominal participation. This acquisition would give us a more balanced coatings business in Europe, approximately doubling our European sales, and expand our global coatings portfolio by more than 40 percent.”

Bunch added that the acquisition would also strengthen PPG's participation in higher growth markets, such as Southern and Central Europe, Africa and Asia, and fits well with PPG's growing presence in protective and marine coatings, spurred by several other recent acquisitions. (PPG Press Release, July 19, 2007)

The offer was accepted on October 4, 2007. The acquisition continues to be subject to receipt of regulatory approvals. (PPG Press Release, October 4, 2007)

### PQ Corporation/Carlyle Group

CCMP Capital Advisors, LLC (CCMP Capital), on behalf of J.P. Morgan Partners, LLC (JPMP), has reached an agreement for The Carlyle Group (Carlyle) to acquire Niagara Holdings, Inc., parent company of PQ Corporation (PQ). PQ is a leading producer of specialty inorganic chemicals, catalysts and engineered glass products. The transaction value is approximately \$1.5 billion.

Andrew Marino, Principal of Carlyle, said, “We are excited about becoming PQ's new major shareholder. We look forward to supporting Mike Boyce and his team in continuing PQ's growth plan.” Carlyle's intention is to continue the implementation of PQ's growth strategy.

The transaction is expected to close in the third quarter, subject to regulatory review and customary closing conditions. (Carlyle Press Release, June 1, 2007)

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### Egyptian Fertilizers/Abraaj Capital

The Middle East and North Africa (MENA) region is witnessing growth in both foreign and domestic investment. The acquisition of Egyptian Fertilizers Company (EFC) exemplifies confidence in Egypt's increased attractiveness as an investment destination.

The size and scope of this transaction represents a landmark for the region and the private equity industry in MENA. EFC is one of the most efficient firms in the high-growth global fertilizer industry. EFC will continue to lead the sector in Egypt, while also increasing its international reach.

This announcement signals Abraaj Capital's ongoing commitment to the economic development of Egypt, following the landmark investment in Cairo-headquartered EFG-Hermes last year. (Abraaj Press Release, June 3, 2007)

### LG Petrochemical/LG Chem

LG Chem plans to acquire LG Petrochemical Co. and merge the two Company's operations. The acquisition involves shareholders receiving 0.48 LG Chem shares for every LG Petrochemical share they currently own.

The combined company will have approximately 1.66 million t/y of ethylene capacity, and that the merger is expected to strengthen feedstock purchasing power and improve the financial structure of the group. (Regulatory filing—extract from [www.petrochemicalnews.com](http://www.petrochemicalnews.com))

### Taminco/Investor Group

The investor group includes CVC Capital Partners and Taminco management, which will own 75% and 25% of the company respectively. Before the transaction took place, Taminco bought the amines business of Air Products, which positioned them as the global market leader in methylamines, methylamine derivatives and higher amines. The investor group expects to further build Taminco through organic growth and acquisitions. The company was sold by the private equity firm, Alpinvest Partners. (Taminco Press Release, July 4, 2007)

### Aromatics/PTT PCL

The large Thai company PTT PCL successfully bid for two separate companies, Aromatics and Rayong Refinery, and combined them to form one larger company. The new company will operate PTT Group's integrated refinery and aromatics petrochemical business, as well as downstream product chain. After the completion of ongoing capacity expansions, the new company will be Thailand's largest integrated refinery in terms of total production capacity, refining capacity (280,000 barrels per day) and aromatics production (2.2 million tons per year). The amalgamation is expected to be complete at the end of 2007, with shares in the NewCo ready for trade at the beginning of 2008. (Aromatics Press Release, July 23, 2007)

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### Lyondell Chemical Inorganic (Millennium)/Cristal

Lyondell Chemical Company (NYSE: LYO) and the National Titanium Dioxide Company Ltd. (Cristal), announced that they have signed an agreement for a proposed sale by Lyondell of its worldwide inorganic chemicals business to Cristal in a transaction valued at approximately \$1.2 billion, including the assumption of certain liabilities directly related to the business. Cristal is a global producer of titanium dioxide exporting to more than 70 countries. Lyondell stated that the transaction would include a cash payment of \$1.05 billion, and estimated its after-tax proceeds at \$975 million.

“This transaction would allow us to accelerate our debt repayment and focus our resources on capturing the synergies between our refinery and our chemicals business to achieve the greatest value for our shareholders,” said Dan F. Smith, president and CEO of Lyondell.

Lyondell’s Millennium Inorganic Chemicals subsidiary is the world’s second-largest producer of titanium dioxide, with an annual capacity of 670,000 metric tons. Titanium dioxide is a white pigment commonly used in such consumer products as paint, toothpaste and sunblock.

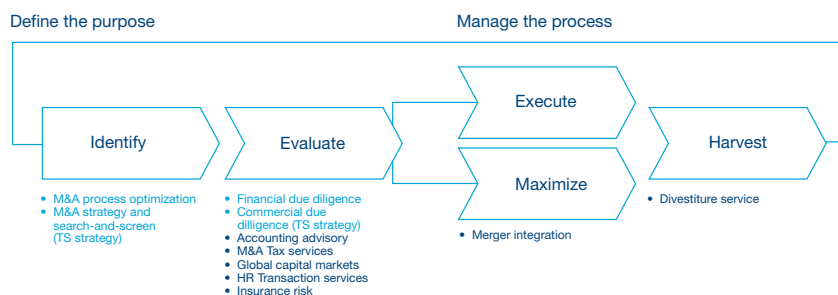
Privately held National Titanium Dioxide Company Ltd. noted that it intends to continue operating the assets it will acquire from Lyondell. “The acquisition of Millennium Inorganic Chemicals is an exciting component of our continued growth story and increases our global presence, as we’ll gain facilities in Europe and Australia as well as North and South America. We have been impressed with the high quality of the employees, products and R&D,” said Dr. Talal Al-Shair, Chairman and CEO of Cristal. Approximately 2,900 employees are affiliated with the inorganic chemicals business.

Closing of the transaction is subject to regulatory clearance, compliance with labor and employment regulations, and other conditions that are typical for transactions of this type. Closing is anticipated to occur in the first half of 2007. (Lyondell Chemical Company Press Release, Feb. 26, 2007) The sale was completed on May 15, 2007. (Lyondell Chemical Company Press Release, May 16, 2007)

## Transaction Services (TS) highlight: TS strategy

Growing through acquisitions can create tremendous value when companies focus only on the best opportunities. But when conducted in a reactive manner or without an in-depth review of the market dynamics underpinning the investment thesis, acquisitions can destroy value and ruin growth aspirations. Our services are distinctive, focused and effective at helping clients mitigate these risks and increase the chances of making successful, strategically sound deals. One of our key services is commercial due diligence.

### PwC Transaction Services deal continuum



## Commercial due diligence (CDD)

- Analyze the attractiveness of the target's market and the strength of its competitive positioning within that market.
- Assess the source and sustainability of revenues and margins.
- Challenge or validate management forecasts in the context of the business model and the company's commercial environment.

## Benefits of commercial due diligence

Our CDD services reduce the risk, increase the value and lower the costs associated with prospective transactions by probing a target's market and competitive positioning and by challenging the forecasts underpinning the opportunity.

### Reduced risk

Over the last year, 82% of our projects resulted in findings that had a material impact on either the bid price or the viability of the deal—revealing flaws in the investment thesis as well as potential deal-breakers.

### Increased value

CDD also helps clients confirm the value in deals where our work validates the investment thesis and uncovers potential upsides—giving clients the confidence to aggressively pursue the best opportunities.

### Lower costs

Our issues-driven process is tailored to focus on “go/no-go” topics—saving clients time and money. In addition, our ability to provide a fully integrated Financial due diligence (FDD) and CDD offering leads to considerable efficiencies for clients—who benefit from working with a single, high-quality “one-stop-shop” provider.

## Commercial due diligence case study: Validating a specific deal in the chemicals industry

### Issue

Our client, a leading global private equity firm, was considering the purchase of a major global plastics company. The client had significant concerns about the ability of the target company to achieve projected revenues, to turn around performance in markets that had been underperforming, and to achieve projections for promised innovative new polymers and applications. Information shared by the target in the competitive bid process was minimal, and the period covered by the business plan was very short for a high capital investment sector.

### Approach

- Compared projected growth rates for end markets, specific key customers and specific applications to company projections to evaluate achievability of projections and identify areas of risk in the business plan.
- Tested the key investment hypotheses asserted by management, including their perceived competitive advantage, areas of market and technological leadership, and alignment with key future market trends.

### Impact

The projections for much of the business plan were validated, though portions of the business plan were identified as aggressive. Several potential drivers of future business growth beyond the forecast window were debunked. The client expressed that commercial due diligence made them a much more confident bidder, more comfortable with company projections and on their view of a reasonable price for the deal, and more assured in their decision to withdraw from the bidding when a foreign bidder stepped in with a price significantly higher than what they considered reasonable.

## Deep chemicals industry experience

PwC provides audit, tax and advisory services to 84% of all chemicals companies in the US with revenue greater than \$500M 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.

## PricewaterhouseCoopers global Transaction Services practice

PricewaterhouseCoopers' Transaction Services practice offers a full range of tax, financial, business assurance, and advisory capabilities covering acquisitions, disposals, private equity, strategic M&A advice, advice on listed company transactions, financing, and public/private partnerships. The team consists of:

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

### US Leader

**Michael Burwell**—New York, NY, US, +1 (646) 471 9570  
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### Asia-Pacific Leader

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## PricewaterhouseCoopers TS Strategy practice

PricewaterhouseCoopers' TS Strategy practice consists of over 250 global professionals involved in strategy and M&A consulting. Our core skill is helping clients develop or appraise strategic business plans to insure that they are aligned with a business' industry environment, internal capabilities and strategic positioning. Our leadership team includes:

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**Mick Tuohy**—New York, NY, US, +1 (646) 471 2653

### UK Leader

**Alastair Rimmer**—London, UK, +44 (0) 20 721 32041

### China Leader

**Graham Matthews**—Shanghai, China, +86 (21) 6123 3616,

### US Industrial Products and Chemicals Director

**Paul McCarthy**—New York, NY, US, +1 (646) 471 4499

## Quality deal specialists with Chemicals industry experience

PwC's Transaction Services practice, with over 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—over 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.

## PricewaterhouseCoopers global Chemicals practice

PricewaterhouseCoopers' Chemicals practice is a global network of professionals who provide industry-focused assurance, tax and advisory services to over 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

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