

Assembling value

Fourth-quarter 2010 global industrial manufacturing mergers and acquisitions analysis

*Special report:
Repositioning for growth:
The tax implications
of expanding into a
VISTA country*

Welcome to the fourth-quarter 2010 edition of *Assembling value*, PwC's quarterly analysis of mergers and acquisitions (M&A) in the global industrial manufacturing industry. In addition to a detailed summary of M&A activity, we continue our series of special reports on making smarter deals in a changing environment with a look at the VISTA countries—Vietnam, Indonesia, South Africa, Turkey, and Argentina—and, in particular, how taxation can impact an investment there.

Special report: Repositioning for growth

The tax implications of expanding into a VISTA country

Many industrial manufacturing (IM) companies have already found opportunities for growth in the BRIC countries—Brazil, Russia, India, and China. As companies seek to reposition their business strategy to meet new demands, they are now looking for opportunities in a second wave of emerging markets such as the VISTA countries—Vietnam, Indonesia, South Africa, Turkey, and Argentina. When determining how and where to structure a transaction, companies should consider the role tax could play, as taxes could make or break their deals.

In addition to the VISTA countries' high gross domestic product (GDP) and rich natural resources, they have favorable foreign investment policies. For instance, Indonesia, Vietnam, and Turkey implemented tax breaks for capital investments, subsidies for new businesses, and low-cost financing to attract new foreign business. Free trade zones, which eliminate normal trade barriers such as tariffs and quotas and reduce bureaucratic requirements in hopes of attracting investors from around the globe, are also common in several VISTA countries.

Without exception, VISTA country governments view foreign investment as an important source of capital for their economies. By comparison, China and Russia give the advantage to local businesses over outsiders. Both countries enacted policies that restrict foreign companies from investing in “strategic” sectors, and both provide preferential loans to domestic players.

Although the areas and the populations are not nearly as great as in the BRIC countries, VISTA countries appear to be the next regions poised for tremendous growth. In addition to favorable foreign investment policies, most of these countries have a weak but stable currency, which affords them a competitive advantage and opportunities to supply developed countries with raw materials and products. Moreover, the total tax rate is typically lower in the VISTA countries as compared with BRIC.

Tax considerations companies face to invest in VISTA countries

A summary of the primary tax issues companies are likely to encounter investing in a VISTA country follows.

Vietnam

- The standard corporate income tax rate is 25%. Corporate income taxes are imposed at the national level. There are no local, state, or provincial taxes. Preferential corporate income tax rates of 10% and 20% are available where certain criteria are met.
- A value added tax (VAT) is applied to goods and services used for production, trading, and consumption in Vietnam (including goods and services purchased from abroad) with certain exemptions. The standard VAT rate is 10%, but reduced rates of zero and 5% may apply in certain situations.
- Tax incentives for inward investment in Vietnam are granted based on regulated, encouraged sectors and difficult socioeconomic locations. The two preferential corporate income tax rates of 10% and 20% are available for 15 years and 10 years, respectively, starting from the commencement of operating activities. When the preferential rate expires, the corporate income tax reverts to the standard rate.
- Vietnam imposes a broad definition of *permanent establishment*.
- Production royalties in the form of a natural resource tax are payable in industries exploiting natural resources, such as oil and gas, other minerals, forests, fisheries, and importantly, natural water. The tax rates vary depending on the natural resource being exploited, ranging from 1% to 40%, and are applied to the production output at a specified taxable value per unit (mining and manufacturing).

- A property tax is assessed on the rental of land use rights by foreign investors.
- A 10% withholding tax applies to interest payments to an overseas lender. It also applies in the case of royalty payments made to a foreign party for transfers of technology (which are defined very broadly), unless the transfers are capital contributions.
- Additional tax reductions may also be available for manufacturing, construction, and transportation activities that employ several female staff and/or ethnic minorities.

Indonesia

- The standard corporate income tax rate is 25%.
- With a few exceptions, a VAT applies to sales of goods and services within Indonesia at a standard rate of 10%. The VAT rate on exported goods is zero, while the VAT rate on imported goods is 10%.
- Branch profits are subject to the ordinary corporate tax rate of 25%. The after-tax profits are subject to a withholding tax at 20%, regardless of whether the profits are remitted to the home country. However, a concessional withholding tax rate may be applicable where a tax treaty is in force. For example, a 10% withholding tax rate applies to after-tax profits of US-owned branches.
- A withholding tax is applied to payments of royalties, interest, and service fees to foreign nonresident companies. For example, a 10% withholding tax applies to interest payments to a US lender, and a 10% withholding tax applies to royalty payments made to a US party.

South Africa

- The standard corporate income tax rate in South Africa is 28%.
- A VAT applies to sales of goods and services in South Africa at a standard rate of 14%. Goods and services exported from South Africa are usually subject to a zero VAT rate.
- A South African resident company is subject to tax on its worldwide income, irrespective of source. A company is resident in South Africa if it is incorporated, established, or formed in South Africa or has its place of effective management in South Africa. The place of effective management is the place where the operational management of the company is carried out.
- A secondary tax on companies is levied at a rate of 10% on the net dividends declared by South African resident companies. The net dividend amount is calculated by deducting dividends accrued from dividends declared during the dividend cycle. The company declaring the dividend, not the recipient, is liable for payment of the tax.
- The secondary tax is in the process of being replaced with a 10% withholding tax on dividends. In the case of foreign shareholders, the rate may be reduced by an applicable double taxation agreement.
- Only 50% of gains realized by companies are included in the taxable income, bringing the effective rate for gains from 28% down to 14%.
- Royalties and know-how payments made to nonresidents for the use of or right to use intellectual property rights in South Africa are deemed to be from a South African source. The payer of the royalty or know-how payment is obliged to deduct a withholding tax of 12% of this payment. The 12% withholding tax may be reduced by the terms of the relevant tax treaty. For example, royalty payments made to a US recipient are subject to zero withholding.

- Deductions may be claimed for royalties, managerial service fees, and interest charges paid to foreign affiliates, provided such amounts approximate those that would be paid to an unrelated entity in an arm's-length transaction.
- The thin capitalization rules may be applied by South African taxing authorities where financial assistance, such as a loan, advance, or debt, or the provision of any security is granted by a nonresident investor to a resident investee who is either a related party or a corporate entity in which the investor has a direct or indirect interest entitling it to participate in not less than 25% of the dividends, profits, capital, or votes. The thin capitalization rules, when applied, disallow the deductibility of interest paid by the South African resident to the foreign lender, to the extent that such interest is considered by the South African taxing authorities to be excessive, such as when the paying company is thinly capitalized.
- To encourage innovation, current costs related to certain research and development activities carried on in South Africa are 150% deductible. The cost of machinery and other capital assets acquired for the purposes of research and development may be depreciated 50% in the first year of use, 30% in the second, and 20% in the third year.
- Turkey's new corporate income tax law includes considerable amendments to its transfer pricing regulations using Organization for Economic Cooperation and Development (OECD) guidelines as a basis.
- According to Turkey's new thin capitalization regulation, if the ratio of the borrowings from shareholders or from parties related to the shareholders exceeds triple the shareholders' equity in the borrower company at any time in the relevant year, the exceeding portion of the borrowing will be considered thin capital. Accordingly, under the new regulation, the ratio of loans received from related parties to shareholders' equity must be no more than 3-to-1 to eliminate Turkish thin capitalization issues.
- Payments for royalties and interest made to foreign affiliates may be deductible for tax purposes, provided that transfer pricing and thin capitalization rules are followed.
- The Turkish government provides investment incentives (state aids) to facilitate a larger capital contribution by foreign investors to the country and to support activities that have a positive effect on employment. The import of machinery and equipment is exempt from customs duty and VAT. Additional incentives for new investment include the following:

Turkey

- The standard corporate income tax rate in Turkey is 20%.
- A VAT applies to sales of goods and services in Turkey at a standard rate of 18%.
- If both the legal and business headquarters of a company are located outside Turkey, the company is regarded as a nonresident entity. If one of these headquarters is located in Turkey, the company is regarded as a resident entity. Resident entities are subject to tax on their worldwide income, whereas nonresident entities are taxed solely on the income derived from activities in Turkey.
- Dividend distributions to nonresident corporate shareholders are subject to a standard withholding tax rate of 15%.
- Reduced corporate tax rate
- Exemption for social security premium (employer's portion)
- Interest support
- Allocation of land for investments
- Free trade zones are special sites that lie geographically in Turkey but are deemed to be outside the customs territory. In general, activities such as manufacturing, storage, packing, general trading, banking, insurance, and trade may be performed in Turkish free trade zones.

Argentina

- The standard corporate income tax rate in Argentina is 35%. Legal entities resident in Argentina are subject to tax on Argentine and foreign-source income. Legal resident entities are able to claim any similar taxes actually paid abroad on foreign-source income as a tax credit. The tax rate applies on net income determined on a worldwide basis.
- A national VAT is assessed on the sales of products (e.g., raw materials, produce, or finished or partly finished merchandise) with few exemptions; on most services (such as construction, utilities, professional and personal services not derived from employment, rental, etc.); and on the import of goods and services. The general tax rate is 21%, although certain specific items are subject to a reduced rate of 10.5% or an increased rate of 27%.
- The transfer pricing regulations governing intercompany transactions adopt principles similar to those of the OECD, pursuant to which companies must comply with the arm's-length principle to determine the value of goods and services in their transactions with foreign-related companies. This principle extends to transactions with companies located in low- or no-tax jurisdictions.
- Various Argentine provinces have investment promotion regimes. Although the regimes have certain differences, generally they include the following incentives:
 - Exemption from provincial taxes such as turnover tax, stamp duty, real estate tax, etc.
 - Reduced public utility rates
 - Support for infrastructure and equipment projects
 - Facilities for the purchase, rental, or lease of public property without charge
- Argentine free trade zones offer exporters the possibility to import free from customs duties and VAT all the necessary equipment for construction of a “turnkey” plant within the zones.
- Exporters manufacturing within the zones enjoy the benefit of buying supplies and raw materials from third countries without having to pay duties or taxes that lead to increased prices
- The customs authority regulating these goods considers them as stored in a third country; therefore, incoming products are subject to inspection with the sole purpose of classifying quantity and type
- In other words, goods enjoy a duty-free status until they enter the Argentine customs territory
- Goods may remain in the free zone for a maximum period of five years

VISTA or BRIC?

At this point, it's difficult to assess the growth potential in a VISTA country. While BRIC countries tend to offer a more developed infrastructure in selected areas and a relatively sophisticated market structure, this is not yet the case for many of the VISTA countries. Without a developed infrastructure, rapid growth is difficult. Additionally, each VISTA country offers a mix of opportunities and risks.

Economic and political stability, varying business regulations, possible inflation, and competition among countries are also factors to consider when assessing whether an investment in a VISTA country will bring disappointment or long-term success.

How BRIC and VISTA countries rank on taxes

Paying Taxes, a unique study from PwC, the World Bank, and the International Finance Corporation (IFC), measures the ease of paying taxes across 183 economies worldwide, covering both the cost of taxes and the administrative burden of tax compliance.

The study provides useful insights and identifies efficiencies, and it can benefit governments and businesses alike. With six years of data, the study includes interesting perspectives on how the world's tax regimes have changed during this time—and, more recently, over a period of unprecedented economic turmoil.

The data below provides two snapshots: the ranking for each VISTA and BRIC economy (out of 183 economies in the study) for ease of paying taxes and total tax rate (with 1 being the lowest rate).

Country	Ease of paying taxes	Total tax rate
V Vietnam	124	54
I Indonesia	130	77
S South Africa	24	43
T Turkey	75	112
A Argentina	143	177
B Brazil	152	168
R Russia	105	123
I India	164	157
C China	114	158
US	62	124
UK	16	76

Source: *Paying Taxes 2011*

Perspectives: Thoughts on deal activity in the fourth quarter of 2010

2010 concluded on a strong note, with striking increases in volume and value for both the fourth quarter and 2010 as a whole compared with the prior periods. Fourth-quarter activity comprised more than 40% of the year's volume and almost 45% of the year's value. Year-over-year improvement was impressive, as deal volume exceeded 2009 by 37% and deal value grew 125%. It is worth noting that the fourth quarter's deal volume and value tallied the highest quarterly totals of the past three years.

Despite large gains globally, transactions involving US targets and acquirers declined somewhat as a proportion of total deals in the fourth quarter compared with prior periods. During the fourth quarter, of the 52 transactions worth \$50 million or more taking place, 17 (33%) involved a US entity, compared with an average of 36% over the past two years (2009–2010). Similarly, only 40% of total deal value during the fourth quarter was attributable to US-affiliated activity, compared with 46% for the first three quarters of 2010 and an average of 42% over the past two years. These declines may signal a slowdown for US-based activity. Despite signs of recovery in the US economy, stubbornly high unemployment (9.1% at year end) and constrained consumer confidence are factors that may be negatively impacting the deal environment.

Small deals (up to \$50 million) and deals with undisclosed values continued to drive activity in the fourth quarter; deals in these categories comprised more than 90% of the quarter's activity. However, these deals are declining as a proportion of total deal activity. These deals comprised 93.7% of total activity for 2010 as a whole and 95.3% in 2009. This emerging trend of larger deal activity gaining ground may reflect a growing consolidation within the sector, as companies with significant cash balances look toward mergers and acquisitions to supplement tepid organic growth.

Strategic investor contributions increased relative to prior periods again. Moreover, based on both deal value to EBITDA and deal value to sales, valuations showed a slight increase in the fourth quarter. As strategic investors seek increased margins, organic growth in the current environment remains problematic, leaving mergers and acquisitions as one of the few viable alternatives. At the same time, growing valuations may make acquisitions less attractive to financial investors looking for an above-average return on investment. While it is too soon to be sure, it is possible that an improving economy combined with increased valuations will make bargain purchases less available than in the recent past.

Mega-deal activity continued to grow in the fourth quarter, as measured by both volume and value. The tally of four mega-deals, transactions of \$1 billion or more, compares favorably to the previous quarter, which had only three. Mega-deal value for the quarter was \$9.6 billion, and aggregate 2010 value for the 10 mega-deals exceeded \$24 billion, almost seven times greater than that of 2009. Of the four mega-deals announced in the fourth quarter, three involved North American targets and the fourth was a within-border Swedish deal.

During the fourth quarter, the UK and Eurozone region led as the driver of deal activity, as 42% of all transactions valued at \$50 million or more were announced in this region. In relative terms, North America remained a strong region for deal activity as well with 37%; and on an absolute basis, 19 transactions were announced in the region for the quarter versus 55 in all of 2010. Similarly, the Asia and Oceania region contributed substantially.

China was a strong driver of BRIC-related activity. Of the eight deals announced for BRIC targets, four were for targets in China. Of the eight deals announced by BRIC acquirers, five were by Chinese companies. Also, a considerable portion of the activity in Asia involved local-market deals, particularly in China, where we saw Chinese companies increasing their stakes in subsidiaries (four of the five acquisitions involved subsidiaries). Despite strong focus in China on local deal activity, global cross-border transactions grew significantly (to 50%) as a proportion of total deal activity. Fueled by an improving economy and more accessible credit market, acquirers saw opportunities for extending their geographic reach.

As we look at 2011, several indicators lead us to believe that the deal environment will improve further. Equity markets continue to advance; the S&P 500 index increased almost 13% in 2010. However, high levels of unemployment and low consumer confidence, particularly in the United States and other developed economies, highlight remaining weaknesses. Also, concerns about weak economic growth and European debt woes may continue to constrain investment. Nevertheless, we believe buyers remain optimistic in their near-term economic outlooks. Strong balance sheets, reduced costs, and margin growth remain relevant considerations. These factors lead us to conclude that activity will continue to increase in 2011.

Commentary: Fourth-quarter activity continues the advance of deal values, volume

For the fourth quarter of 2010, volume of transactions above \$50 million increased significantly on both a sequential and year-over-year basis. Fourth-quarter activity comprised more than 40% of the year's deals and almost 45% of the year's deal value. On a year-over-year basis, the fourth quarter exceeded the fourth quarter of 2009 in both volume (53% increase) and value (126% increase).

For 2010 as a whole, deal activity improved by 37% over 2009 (129 deals versus 94 deals), and deal value rose 125% (\$51.1 billion compared with \$22.7 billion).

A significant portion of the fourth quarter's value was attributable to four mega-deals with a combined value of \$9.6 billion. It should be noted that the fourth quarter's deal volume and value were the highest quarterly totals of the past three years.

Quarterly industrial manufacturing deal activity

Measured by number and value of deals worth \$50 million or more (1Q08-4Q10)

	2008				2009				2010			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	Q4
Number of deals	43	47	41	11	16	12	32	34	14	33	30	52
Total deal value (\$ bil)	8.0	20.1	8.3	2.3	2.0	3.2	7.5	10.0	2.3	9.9	16.3	22.6
Average deal value (\$ bil)	0.2	0.4	0.2	0.2	0.1	0.3	0.2	0.3	0.2	0.3	0.5	0.4

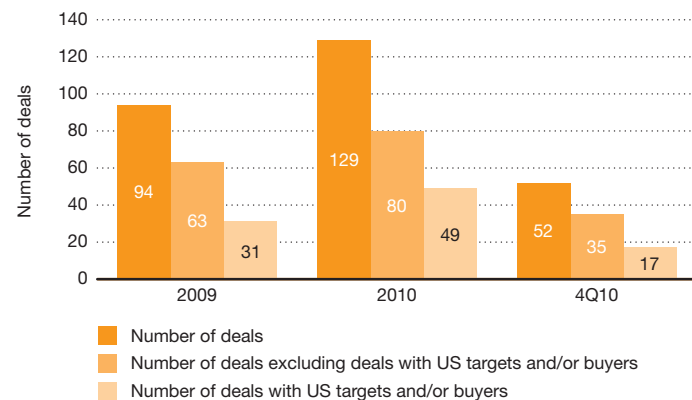
US-affiliated transactions decline

Transactions including US targets and/or buyers declined as a proportion of total deals in the fourth quarter. During the period, of the 52 transactions taking place, 17 (33%) involved a US entity. This compares with an average 36% over the past two years (2009–2010). Similarly, only 40% percent of total deal value during the fourth quarter was attributable to US-affiliated activity, compared with 46% for the first three quarters of 2010 and 42% average over the past two years, signaling a possible slowdown in US-based activity.

While the US economy appears to be making a recovery, high unemployment and lower consumer confidence may be holding back deal growth.

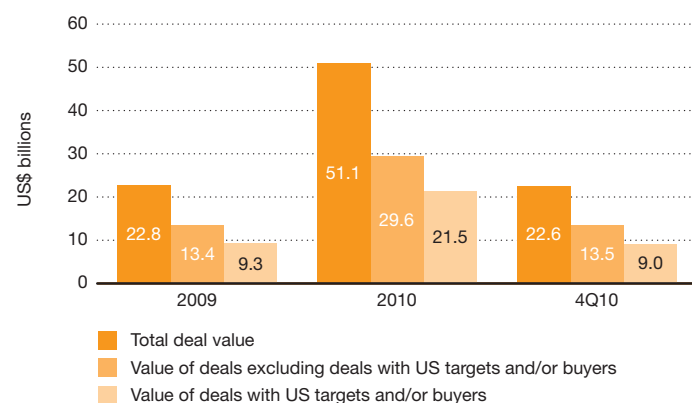
Deal activity by number of deals

Measured by number of announced deals worth \$50 million or more



Deal activity by total deal value

Measured by value of announced deals worth \$50 million or more



Note: Columns may not sum to total deal value due to rounding.

Larger deals are increasingly fueling deal environment

Small deals (up to \$50 million) and deals with undisclosed values continued to drive activity in the fourth quarter; deals in these categories comprised more than 90% of the quarter's activity. This compares with 93.7% for 2010 as a whole and 95.3% in 2009.

This continuing trend toward larger deal activity may reflect a growing consolidation within the sector as companies that have significant cash balances look toward mergers and acquisitions to supplement tepid organic growth.

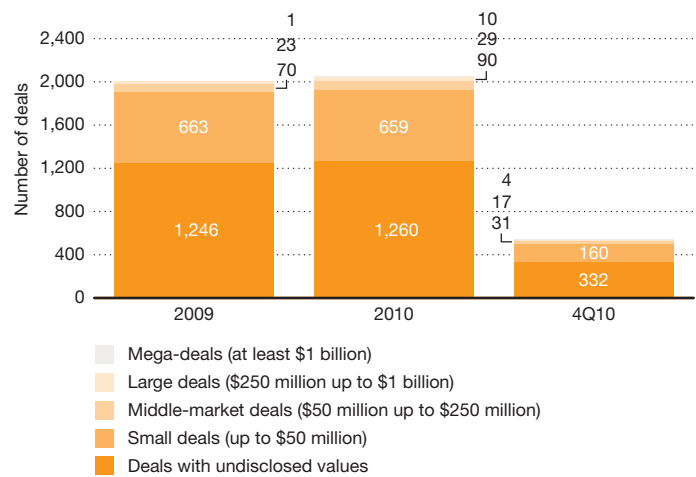
Fourth quarter sees another increase in strategic investments

In the fourth quarter of 2010, strategic investor contribution increased relative to prior periods. Based on deal value to EBITDA and deal value to sales, valuations showed a slight increase in the fourth quarter, also continuing a quarterly trend seen since 2009.

As strategic investors seek increased margins, organic growth in the current environment remains problematic, leaving mergers and acquisitions as one of the few viable alternatives. At the same time, growing valuations may make acquisitions less attractive to financial investors looking for an above-average return on investment.

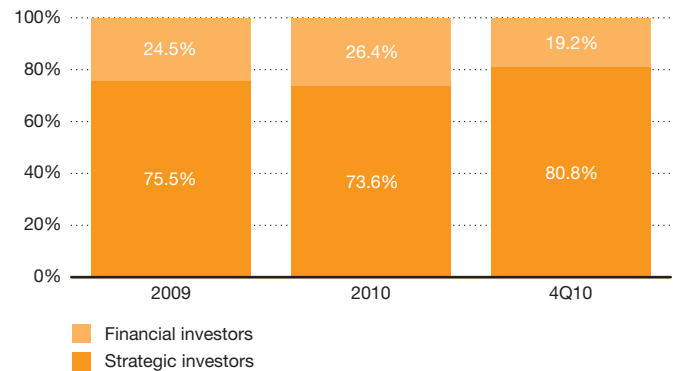
Of note, all four of the mega-deals in the fourth quarter were by strategic investors, reflecting the growing consolidation in the sector.

Deal activity by number and range of deal value
Measured by number of deals



Deal activity by investor group

Measured by number of deals worth \$50 million or more



Mega-deal activity continues to grow with year-closing boost

Four mega-deals, transactions of \$1 billion or more, were announced in the fourth quarter. This compares favorably with the previous quarter, which saw three mega-deals. Mega-deal value for the quarter was \$9.6 billion, and aggregate 2010 value for the 10 mega-deals exceeded \$24 billion, almost seven times greater than that of 2009, during which only one deal was announced.

Of the four mega-deals in the fourth quarter, three involved North American targets and the fourth was a within-border Swedish deal. Interestingly, although total deal activity involving US parties was not up significantly this past quarter, two mega-deals involved US targets. This may be a sign that although many investors are likely concerned about the relatively slow growth in the United States, there continues to be an interest in gaining access to this large market and the technologies held by US players.

In October, Lincoln Industrial Corporation, a US-based supplier of lubrication systems and tools, was acquired by Sweden-based SKF Group for \$1 billion. SKF is expected to achieve significant synergies from the acquisition through improved sales opportunities and greater efficiencies.

Also in October, RS Technologies, a Canada-based manufacturer and developer of composite products, completed with bondholders its debt restructuring, valued at \$3.35 billion. RS Technologies is currently seeking a strategic partner to allow the company to continue operations.

In November, Switzerland-based ABB announced the planned acquisition of US-based Baldor Electric Company, a leading supplier in the North American industrial motors business. The deal was valued at \$4.19 billion and establishes ABB as a leader in the multibillion-dollar North American industrial motor and mechanical power transmission business.

Finally, in December, Swedish lock maker Assa Abloy agreed to purchase Cardo AB, a Sweden-based manufacturer of industrial doors, from L.E. Lundbergforetagen AB for \$1.06 billion.

During the fourth quarter, General Electric (GE) announced that it had agreed to buy Dresser, a privately held energy infrastructure company, for \$3 billion. Although not included in our PwC report because Dresser does not technically fall within the industrial manufacturing sector, this is a noteworthy mega-deal involving GE, a significant company in the sector. The deal is the company's largest industrial acquisition since the start of the economic downturn.

Mega-deals in 2009

Month announced	Target name	Target nation	Buyer name	Buyer nation	Status	Value of transaction in US\$ bil.	Category
Nov	The Black & Decker Corp	United States	The Stanley Works	United States	Completed	3.47	Industrial Machinery

Mega-deals in 2010

Month Announced	Target name	Target nation	Buyer name	Buyer nation	Status	Value of transaction in US\$ bil.	Category
Aug	Pactiv Corp	United States	Reynolds Group Holding Ltd	United States	Completed	4.52	Rubber & Plastic Products
Jul	Tomkins PLC	United Kingdom	Pinafore Acquisitions Ltd	Canada	Completed	4.38	Industrial Machinery
Nov	Baldor Electric Co	United States	ABB Ltd	Switzerland	Pending	4.19	Electronic & Electrical Equipment
Oct	RS Technologies Inc	Canada	Creditors	Canada	Completed	3.35	Fabricated Metal Products
May	Expansion Transmissao Itumbiara Marimbondo SA	Brazil	State Grid Brazil Holding Ltda	Brazil	Completed	1.70	Electronic & Electrical Equipment
Apr	Chloride Group PLC	United Kingdom	Rutherford Acquisitions Ltd	United Kingdom	Completed	1.49	Electronic & Electrical Equipment
Sep	Associated Materials Inc	United States	Hellman & Friedman LLC	United States	Completed	1.30	Fabricated Metal Products
Jun	Chloride Group PLC	United Kingdom	ABB Ltd	Switzerland	Withdrawn	1.25	Electronic & Electrical Equipment
Dec	Cardo AB	Sweden	Assa Abloy AB	Sweden	Pending	1.06	Fabricated Metal Products
Oct	Lincoln Industrial Corp	United States	AB SKF	Sweden	Pending	1.00	Industrial Machinery

Industrial machinery manufacturing drives activity

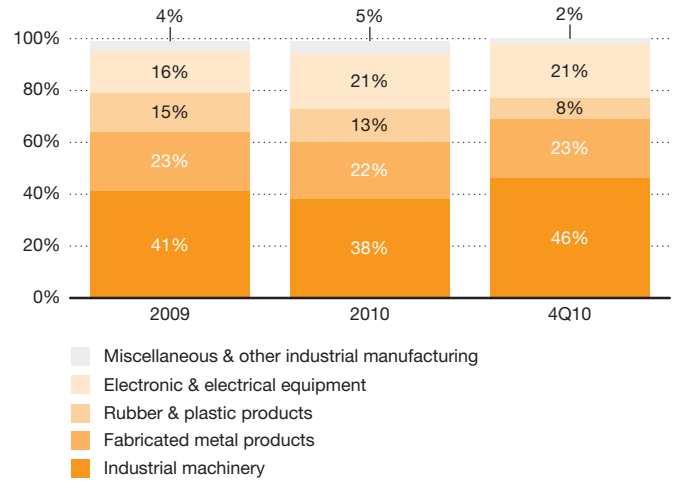
PwC segments the industrial manufacturing sector into five categories by comparing SIC codes to our internal classification system. Based on this process, we group deals (measured by number) into five product and service segments:

- Industrial machinery
- Fabricated metal products
- Rubber and plastic products
- Electronic and electrical equipment
- Miscellaneous and other industrial manufacturing

Based on this methodology, during the fourth quarter of 2010, targets classified as industrial machinery manufacturers were the primary drivers of activity, accounting for 46% of activity. Industrial machinery's contribution to deal activity increased in the fourth quarter relative to both 2009 and the first three quarters of 2010. Miscellaneous and other industrial manufacturing also saw significant growth compared with both 2009 and the first three quarters of 2010.

It should be noted that of the four mega-deals in the fourth quarter, one was for industrial machinery (the \$1 billion acquisition of Lincoln Industrial Corp.), and two were for fabricated metal products (the \$3.35 billion reorganization of RS Technologies and the \$1.06 billion takeover of Cardo AB). The fourth and largest mega-deal was for electronic and electrical equipment manufacturer Baldor Electric Company (valued at \$4.19 billion).

Deal volume by industrial manufacturing category
Measured by number of announced deals worth \$50 million or more



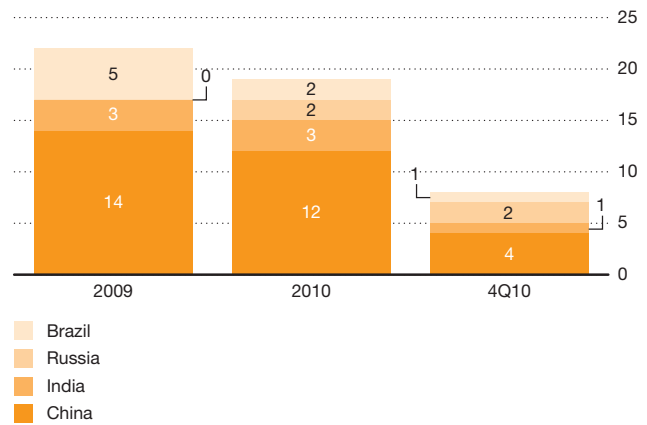
Note: Columns may not round to 100% due to rounding

BRIC-affiliated transactions continue to increase with overall surge in deal activity

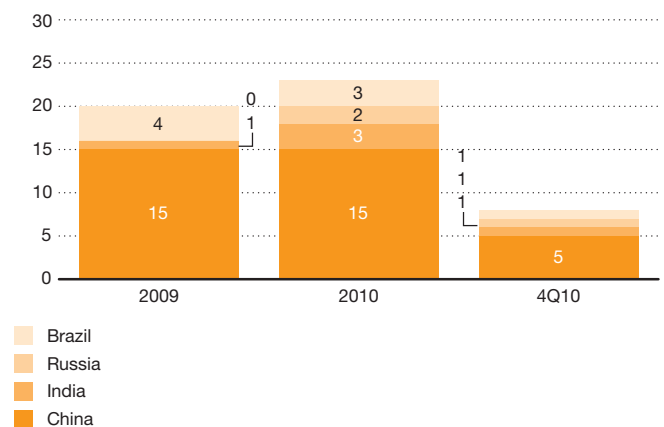
Just as deal activity overall improved during the fourth quarter, the activity affiliated with Brazil, Russia, India, and China also grew in comparison with the earlier part of the year. After the first three quarters, in which deals for 11 BRIC targets were announced, including four in the third quarter, the pace of transactions increased with eight fourth-quarter deals for BRIC targets. Similarly, eight deals with BRIC acquirers were announced in the fourth quarter, compared with 15 deals for the first three quarters, five of them in the third quarter).

China was a strong driver of BRIC-related activity. Of the eight deals announced for BRIC targets, four were for targets in China. Of the eight deals announced by BRIC acquirers, five were initiated by Chinese companies. The five Chinese acquisitions were predominantly local market (four deals), with two deals each in the industrial machinery and electronic and electrical equipment categories and one deal in the fabricated metal products category. The fifth deal by a China-based acquirer was cross-border and involved the purchase by a Hong Kong-based investor group, led by Unitas Capital Pte Ltd., of Netherlands-based industrial machinery manufacturer Hyva Group BA.

Distribution of BRIC deals by target nation
Measured by number of announced deals worth \$50 million or more



Distribution of BRIC deals by acquirer nation
Measured by value of announced deals worth \$50 million or more



Regional analysis

UK and Eurozone targets lead deal activity

During the fourth quarter, targets based in the UK and Eurozone region led as the drivers of deal activity, as 35% (18 deals) of all transactions valued at \$50 million or more were announced in the region. This share came despite the fact that a significant proportion of mega-deal targets were located in North America. In relative terms, North America remained a strong region for overall deal activity as well, and on an absolute basis, 13 transactions (25%) were announced for targets in the region for the quarter versus 41 in all of 2010.

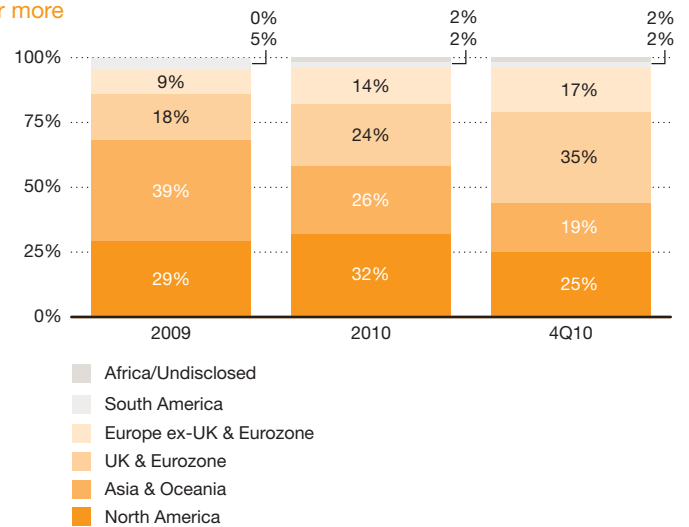
Similarly, the Asia and Oceania region contributed substantially to targets on a relative basis (although the relative level is down). And in absolute terms, 10 transactions were announced in the region, compared with 34 in all of 2010.

Among acquirers, geographic trends were more balanced across the UK and Eurozone (11 deals or 21%), Europe ex-UK and Eurozone (12 deals or 23%), North America (13 deals or 25%), and Asia and Oceania (14 deals or 27%) regions.

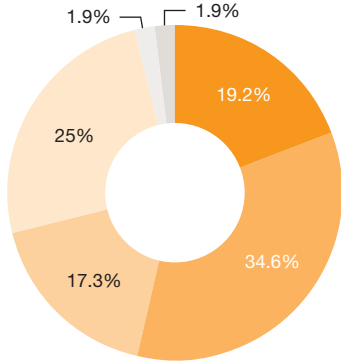
A considerable portion of the activity in Asia involved local-market deals, particularly in China. We saw Chinese companies increasing their stakes in subsidiaries, with four of five deals in the fourth quarter involving subsidiaries.

Regional distribution of deals by target region

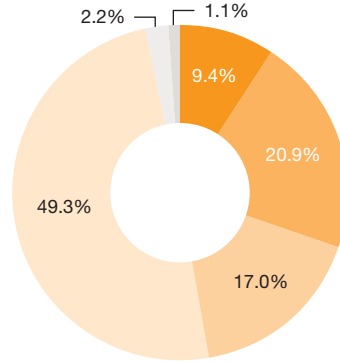
Measured by number of announced deals worth \$50 million or more



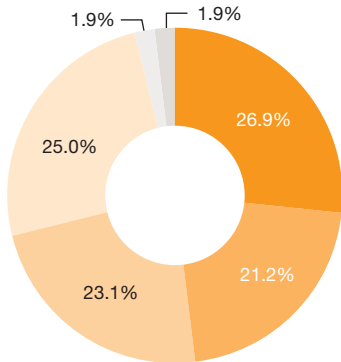
Regional distribution of deals by target region
 Measured by number of deals worth \$50 million or more (4Q10)



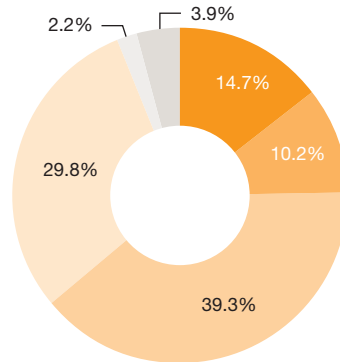
Regional distribution of deals by target region
 Measured by value of deals worth \$50 million or more (4Q10)



Regional distribution of deals by acquirer region
 Measured by number of deals worth \$50 million or more (4Q10)



Regional distribution of deals by acquirer region
 Measured by value of deals worth \$50 million or more (4Q10)



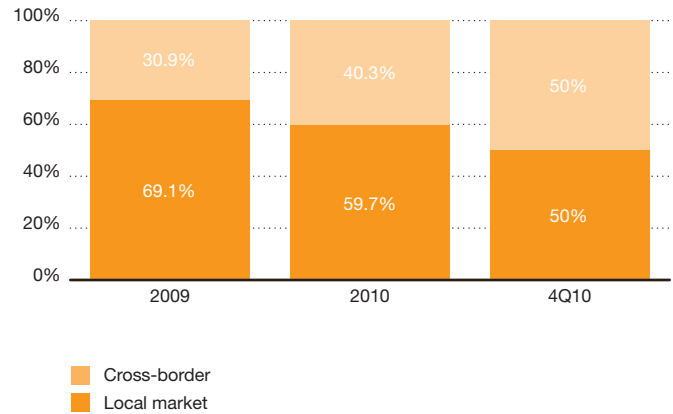
Asia & Oceania
 UK & Eurozone
 Europe ex-UK & Eurozone
 North America
 South America
 Africa/Undisclosed

Allocation of cross-border deals higher in fourth quarter

For fourth-quarter 2010, cross-border deals increased to 50%, up significantly from 2009. Historically, local-market transactions have been an integral part of the M&A story, although recent trends show a lower concentration of local-market transactions taking place versus historical levels. Cross-border transactions generally carry greater political, socioeconomic, and currency risks than local-market transactions. Despite these constraints, cross-border activity continues to increase.

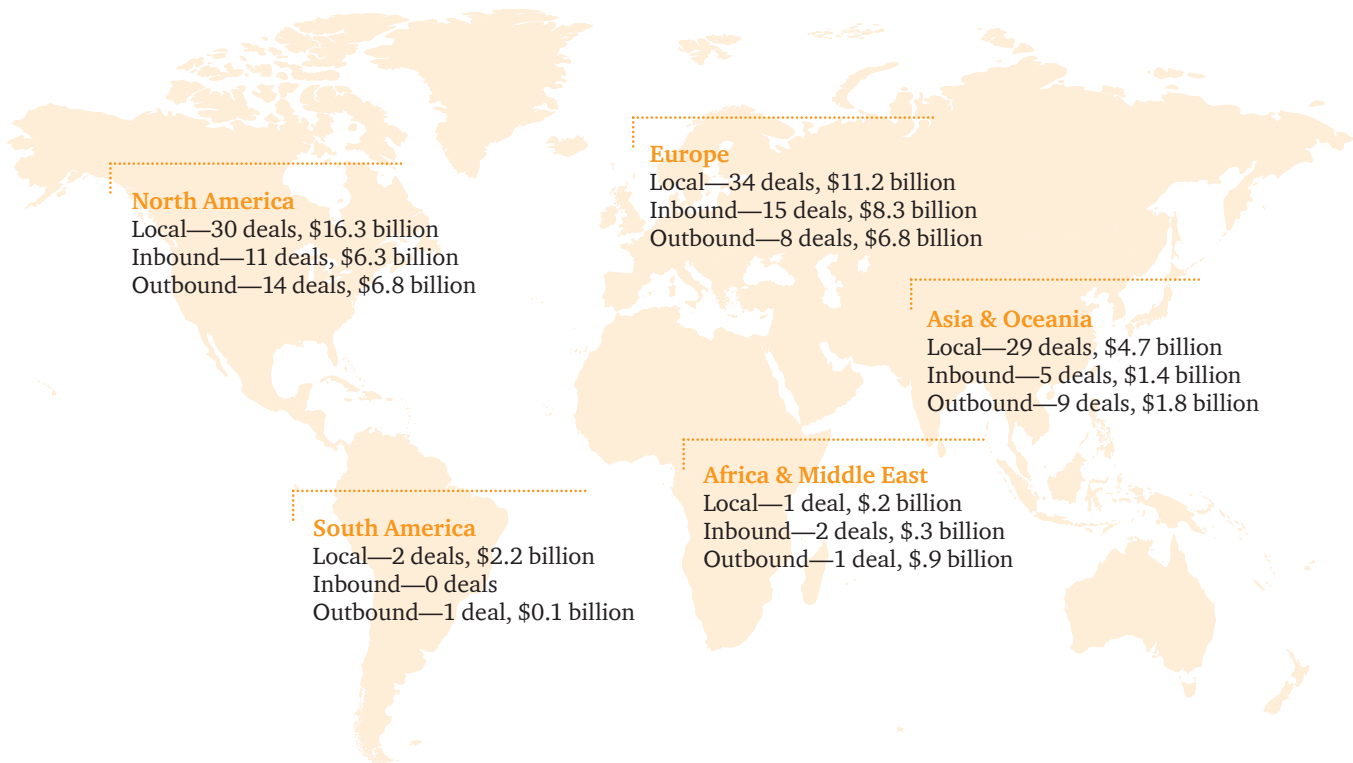
As economies improve, cross-border deal activity should continue to increase as perceived rewards begin to outweigh perceived risks. This increase in cross-border activity will also be aided by the need of corporations to augment slow organic growth by entering new, faster-growing geographies, repositioning product portfolios for greater growth, and taking other steps.

Local market vs. cross border deals (all nations)
Measured by number of announced deals worth \$50 million or more



Global industrial manufacturing M&A activity

Measured by number and value of deals worth \$50 million or more (2010)



PwC spotlight

With constant legislative, regulatory, and judicial changes, companies operating across borders face challenges in following and comprehending the developments. Similarly, globalization, economic realities, operational adjustments, and corporate mandates require tax departments to follow and comprehend internal initiatives.

The combination of these equally important streams calls for tax departments to be agile, well-versed in internal and external developments, and able to deal with competing goals and interests. Understanding the tax impact on business operations and transactions in multiple jurisdictions is vital for a company's success.

How PwC can help

PwC's International Tax Services (ITS) group has experience helping companies address their cross-border needs. We help multinational businesses achieve their goals in a tax-efficient manner, both locally and globally. Our professionals help companies:

- Stay abreast of developments within the international arena that may affect their business
- Formulate effective and tax-efficient strategies for both US and overseas investments
- Manage their global structural tax rate
- Respond to inquiries from regulatory authorities

We've also collaborated with the World Bank and the International Finance Corporation (IFC) *Doing Business* study to produce our *Paying Taxes* report.

The purpose of the *Paying Taxes* study is to provide quantitative data to stimulate and inform discussion on tax policy and tax administration—and to inspire tax reform. The *Paying Taxes* results enable governments and investors to compare tax systems on a like-for-like basis and to identify best practices. The report is free and can be accessed using this link: *Paying Taxes 2011*.[†]

[†] www.pwc.com/gx/en/paying-taxes

Specialty case study:

VISTA manufacturing

Issue

A global manufacturing company wanted to apply a contract model whereby material is shipped to a third-party manufacturer in a free trade zone in Turkey by vendors outside that country. Title to the material is transferred in the trade zone from the vendors to the manufacturer's subsidiary in Germany and then to the third-party manufacturer located in the trade zone.

After manufacture, 95% of the product is shipped to the company's sales offices outside Turkey and 5% to offices in Turkey. The company's European offices consolidate the financial flows from all its plant facilities, including Turkey, and one of its offices in Europe works as a re-billing and currency exchange entity.

The manufacturing company sought assistance regarding the Turkish tax and foreign trade implications of the contemplated physical and invoicing flow, within the scope of the contract production model. Its key goals were to avoid having a permanent establishment in Turkey and to not have to register in Turkey for corporate income tax purposes or value added tax (VAT).

Action

Our approach in assisting the client consisted of analyzing the company's operations with respect to:

- Free trade zone legislation
- Foreign trade legislation
- Customs legislation
- VAT legislation
- Special consumption tax legislation

Impact

The company was informed about the requirements so that its production model would not create a permanent establishment in Turkey and, therefore, the company would not have to register in Turkey for corporate income tax purposes or VAT.

It also gained insight to help establish that the anticipated tax consequences would flow from the contract production model.

Contacts

PwC Industrial Manufacturing practice

Our Industrial Manufacturing practice, strategically located in more than 30 countries around the world, comprises a global network of industry professionals serving manufacturing clients. We bring experience, international industry best practices, and a wealth of specialized resources to help solve business issues.

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Methodology

Assembling value is an analysis of deals in the global industrial manufacturing industry. Deal information was sourced from Thomson Financial and includes deals for which targets have primary SIC codes that fall into one of the following SIC industry groups: millwork, plywood and structure; wood buildings and mobile homes; partitions, shelving, and lockers; gaskets, packing, and sealing devices; fabricated rubber products; miscellaneous plastics products; heating equipment, except electric air; fabricated structural metal products; bolts, nuts, screws, and other machine products; metals forgings and stampings; coating, engraving, and allied services; miscellaneous fabricated metal products; engines, and turbines; farm and garden machinery; metalworking machinery; special industry machinery; general industrial machinery; refrigeration and service industry machinery; miscellaneous industrial and commercial machinery; electric transmission and distribution equipment; electrical industrial apparatus; electrical lighting and wiring equipment; miscellaneous electrical machinery and equipment; and miscellaneous manufacturing industries. Balance sheet data was sourced from public company reports.

This analysis includes all individual 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 December 31, 2010, with a deal status of completed, intended, partially completed, pending, pending regulatory approval, unconditional (i.e., initial conditions set forth by the buyer have been met but deal has not been completed), or withdrawn.

Regional categories used in this report approximate United Nations (UN) Regional Groups, as determined by the UN Statistics Division, with the exception of the North America region (includes Northern America and Latin and Caribbean UN groups), the Asia and Oceania region (includes Asia and Oceania UN groups) and Europe (divided into UK and Eurozone and Europe ex-UK and Eurozone regions). The Eurozone includes Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, and Spain. Oceania includes Australia, New Zealand, Melanesia, Micronesia, and Polynesia. Overseas territories were included in the region of the parent country, and China, when referenced separately, includes Hong Kong. The term “deals,” when referenced herein, refers to deals with a disclosed value of at least \$50 million unless otherwise noted.

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