

# ***Forging ahead***

## Fourth-quarter 2010 global metals industry mergers and acquisitions analysis

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

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Welcome to *Forging ahead*, PwC's analysis of mergers and acquisitions (M&A) in the global metals sector. Although deal volume and total deal value declined compared to the third quarter, activity remained relatively strong compared to both the earlier part of the year and most of 2009. Overall deal volume for the year exceeded 2009 as did the number of mega-deals—deals with a disclosed value of over \$1 billion—while total deal value was roughly comparable to the previous year.

# Special report:

## Repositioning for growth

### **The tax implications of expanding into a VISTA country**

Many metals companies have already found opportunities for growth through the establishment of operations 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.

Recent research shows that metals companies are continuing to explore emerging markets throughout the world, and a growing number of these companies view emerging markets as an opportunity to secure raw material supplies. Further, VISTA is an alternative for consideration by multinational corporations as the BRIC countries become saturated. Moreover, the total tax rate is typically lower in the VISTA countries as compared with BRIC.

In addition to 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. And foreign companies that establish a business in Turkey can hold mineral rights if they are regarded as Turkish companies.

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 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 competitive advantage and opportunities to supply developed countries with raw materials and products.

### **Tax considerations metals 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.
- 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.
- 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.
- 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 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 on companies 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

- 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%.
- 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:
  - 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 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 parts of the countries 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 the total tax rate (with 1 being the lowest rate).

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

Source: *Paying Taxes 2011*

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## ***Perspective:***

# Thoughts on metals deal activity in the fourth quarter of 2010

Deals by mining acquirers flush with cash garnered from the recent, sustained period of high commodity prices continue to attract much of the attention. These deals, including bids for targets outside the metals sector, have led many observers to focus only on these companies. We believe, however, that there are other markets that may be more broadly indicative of the health of the metals industry. More deals are now being driven by financial acquirers reentering the market for downstream businesses, and mid-sized strategic acquirers are increasingly initiating larger, unsolicited bids across the sector.

Evidence of a more robust M&A environment shows on several fronts, including the increase in mega-deal announcements from a variety of acquirers. In addition, local-market and outbound deals from Asia continue to dominate sector deal totals, although acquirers from other regions have also become more active. We expect this greater diversity of regional participation will be a key theme in 2011.

Despite the increase in activity and contrary to some anecdotal evidence, valuations have not risen substantially. We view this as a positive consideration in our outlook because it indicates that most acquirers are unlikely to be priced out of the market. It is worth noting, though, that a substantial increase in competing bids, exemplified by the three bids exceeding \$1 billion that were made for Draka in the fourth quarter, has the potential to lead to higher valuations. Continuing uncertainty regarding sovereign debt risks, or inflation driven by quantitative easing, also could inhibit capital markets and make it more difficult to line up financing for new deals.

Despite these concerns, many constituents with mining assets have been able to use rising end-market demand and higher commodity prices to reduce debt and build substantial liquidity positions. With their strengthened balance sheets, these companies are now able to focus on boosting top-line growth or generating synergies through M&A opportunities. Accordingly, we believe that these factors support a positive outlook for M&A activity in the metals sector during 2011.

# Commentary

## Quarterly metals deal activity

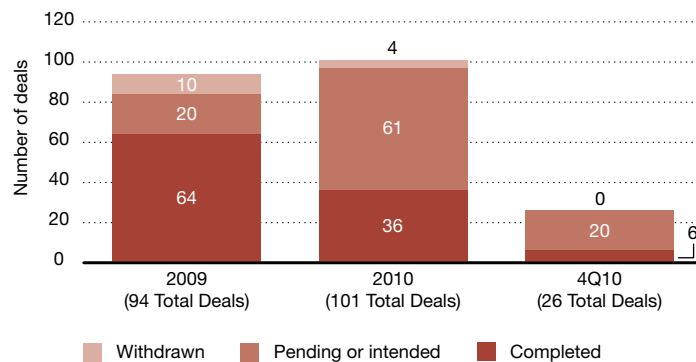
Measured by number and value of deals worth \$50 million or more

	2008				2009				2010			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Number of deals	38	44	35	26	18	17	24	35	23	21	31	26
Total deal value (US\$ bil)	28.3	18.2	22.2	16.0	11.8	63.1	7.5	5.7	6.2	16.8	50.0	13.7
Average deal value (US\$ bil)	0.7	0.4	0.6	0.6	0.7	3.7	0.3	0.2	0.3	0.8	1.6	0.5

Note: Sum of quarterly deal values may not match total deal value chart below due to rounding

## Deal activity by number of deals

Measured by announced deals worth \$50 million or more



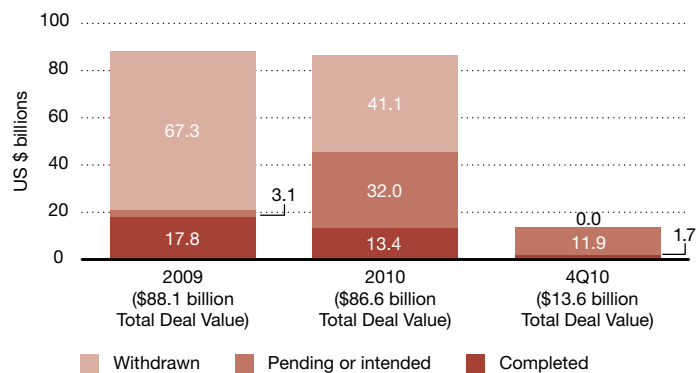
## Commodity prices fuel active market for metals deals

Although the number of announced deals worth \$50 million or more declined in the final quarter of 2010 compared to the third quarter, the 26 deals in the quarter exceeded those in each of the first two quarters of the year as well as all but the fourth quarter of 2009. While it also appears that total deal value announced in the sector declined dramatically in the fourth quarter, after adjustment for the impact of the \$40 billion BHP Billiton-Potash of Saskatchewan announcement in August 2010, total deal value actually increased compared to the third quarter.

This distinction is significant because it demonstrates that even though several recent high-profile announcements by metals acquirers did not close, the underlying market for metals M&A is very active as competitors look to boost growth through inorganic opportunities such as consolidation or backward integration. We do note, however, that completed deal value is below the level of 2008, when approximately \$61 billion worth of deals were completed.

## Deal activity by total deal value

Measured by announced deals worth \$50 million or more



It is likely that the recovery in metals M&A will continue. Though commodity prices remain below the highs of mid-2008, they have recovered significantly from their lows of early 2009. This revitalization, combined with increased stock valuations, gives potential acquirers currency in future acquisitions.

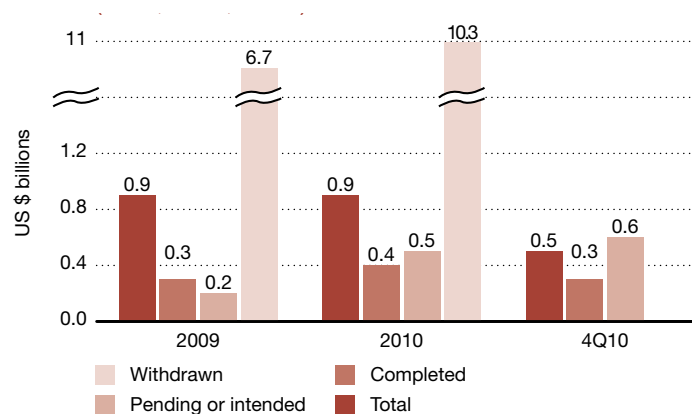
## Average values and median valuation dip in fourth quarter

Similar to the trend in total deal value, the progression of average deal values reflects the influence of the mega-deals involving BHP Billiton (the \$58 million Rio Tinto Western Australia iron ore joint venture announced in June 2009 and the aforementioned Potash announcement). While average deal value has declined slightly from 2009 to 2010, it would actually have increased if those deals were excluded. Similarly, average deal value for the fourth quarter is lower than both the previous quarter and the full year. However, it is higher if the August 2010 BHP Bilton deal is excluded. In keeping with our previous expectation, we believe that large deals will continue to be prevalent in 2011.

The slight decline in valuation in the fourth quarter compared to the full year is consistent with the countercyclical nature of valuation. Multiples declined, likely because of the strength in earnings. This recession in multiples is unlikely to persist in 2011 given expectations for a more competitive deal environment.

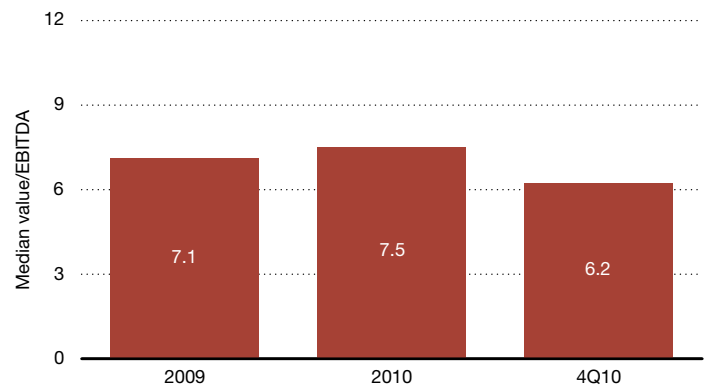
## Deal activity by average deal value

Measured by announced deals worth \$50 million or more



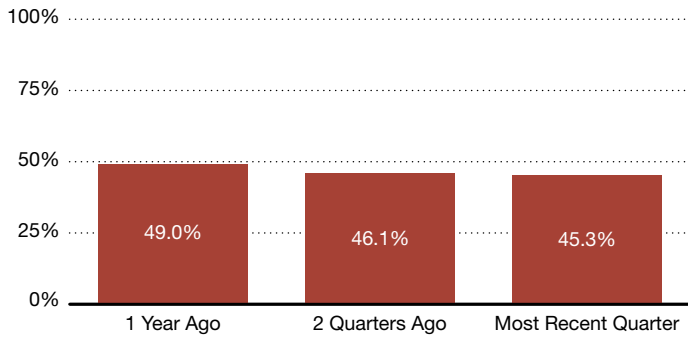
## Deal activity by median value/EBITDA

Measured by value/EBITDA for deals worth \$50 million or more in which target EBITDA was available



### Financial leverage

Measured by average of top 15 global public companies



Source: Company Reports

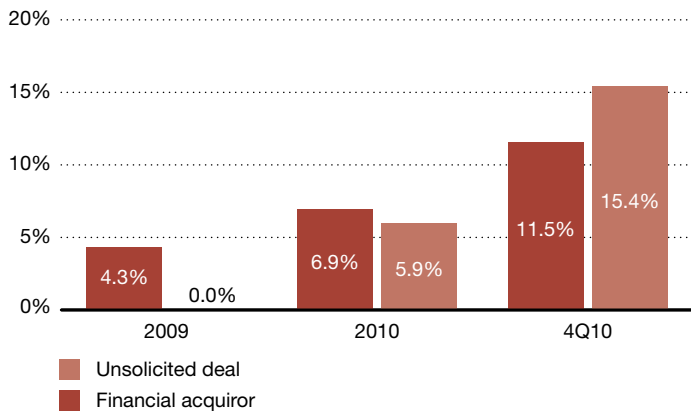
### Reduced debt positions companies for deals

Analysis of the trend in financial leverage indicates that the sector is becoming better positioned to engage in new deals. A survey of the top 15 publicly traded global competitors reveals that these companies have, on average, started to reduce financial leverage. When considered in conjunction with the relatively low level of interest rates as compared with historical standards, it is clearly an attractive financing vehicle for transactions.

Private equity investors have increased their involvement in the sector, illustrated most notably by the Carlyle Group's \$3 billion bid for CommScope, a manufacturer of cable, e.g. coaxial, fiber optic, for high-speed data networks. This was also the largest deal announced during the fourth quarter. Another example from the quarter was Clayton, Dubilier & Rice's purchase of a majority stake in Tyco International's electrical and metal products business, which makes products that include steel pipes, tubes, and cable.

### Acquisition characteristics

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



Financial investors should remain engaged in metals deals, though their focus is likely to stay on downstream targets, with upstream assets remaining primarily the domain of strategic acquirers. This is due to the inherent volatility, political risks, and potentially longer holding periods required for upstream acquisitions.

The availability of credit, which has helped financial investors make deals, contributed to the increase in unsolicited bids in the sector. The continuation of the supporting factors is likely to lead to more of these bids in the future.

## Mega-deals in 2009 (value of \$1 billion or more)

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bil	Category
Jun	Rio Tinto PLC-Western Australian Iron Ore Assets	Australia	BHP Billiton Ltd-Western Australian Iron Ore Assets	Australia	Withdrawn	58.00	Iron Ore
Feb	Hamersley Iron Pty Ltd	Australia	Aluminum Corp of China (Chinalco)	China	Withdrawn	5.15	Iron Ore
Sep	Daewoo International Corp	South Korea	Posco Co Ltd	South Korea	Completed	2.83	Other
Feb	Rio Tinto Ltd	Australia	Aluminum Corp of China (Chinalco)	China	Withdrawn	2.63	Iron Ore
May	Ternium Sidor	Venezuela	Corporacion Venesolana de Guayana (CVG)	Venezuela	Completed	1.97	Steel
Jul	ThyssenKrupp CSA Siderurgica do Atlantico Ltda	Brazil	Vale SA	Brazil	Completed	1.37	Steel

## Mega-deals in 2010 (value of \$1 billion or more)

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bil	Category
Aug	Potash Corp of Saskatchewan Inc	Canada	BHP Billiton PLC	United Kingdom	Withdrawn	39.76	Other
May	Vale SA-Aluminum Operations	Brazil	Norsk Hydro ASA	Norway	Pending	4.90	Other
Oct	CommScope Inc	United States	Carlyle Group LLC	United States	Pending	3.02	Other
Apr	BSG Resources Guinea Ltd	Guernsey	Vale SA	Brazil	Completed	2.50	Iron ore
Jun	Hangang Hanbao Iron & Steel Co Ltd	China	Hebei Iron & Steel Co Ltd	China	Pending	2.35	Steel
Jun	Mineracao Usiminas SA	Brazil	Sumitomo Corp	Japan	Completed	1.93	Iron ore
Dec	Anshan Iron & Steel Group Corp – Assets	China	Pangang Group Steel Vanadium & Titanium Co Ltd	China	Pending	1.73	Steel
Jun	Gerdau Ameristeel Corp	Canada	Gerdau Steel North America Inc	Canada	Completed	1.61	Steel
Nov	Draka Holding NV	Netherlands	Tianjin Xinmao Science & Technology Co Ltd	China	Intended	1.37	Other
Mar	Rio Tinto PLC-Simandou Iron Ore Project	Guinea	Aluminum Corp of China (Chinalco)	China	Pending	1.35	Iron ore
Aug	Arcelor Mittal South Africa Operations (Pty) Ltd	South Africa	Lexshell 771 Investments (Pty) Ltd	South Africa	Pending	1.26	Steel
Mar	Itaminas Comercio de Minerios SA	Brazil	East China Mineral Exploration & Development Bureau	China	Pending	1.22	Iron ore
Nov	Draka Holding NV	Netherlands	Prysmian SpA	Italy	Pending	1.15	Other
Jul	Paranapanema SA	Brazil	Vale SA	Brazil	Withdrawn	1.14	Other
Jul	JSW Steel Ltd	India	JFE Steel Corp	Japan	Completed	1.03	Steel
Oct	Draka Holding NV	Netherlands	Nexans SA	France	Intended	1.02	Other

## **Competing bids contribute to sector mega-deals**

The number of mega-deals, defined as deals with a disclosed value of at least \$1 billion, increased significantly. Companies announced 16 mega-deals in 2010, with five announcements coming during the fourth quarter (although three of the fourth-quarter mega-deals were competing deals for the same target, Draka Holding).

One similarity between the 2009 and 2010 mega-deal announcements is that the largest deal in each year involved the same acquirer and was subsequently withdrawn because of anti-trust concerns. In 2009, the \$58 billion BHP Billiton-Rio Tinto Western Australia iron ore joint venture fell victim to competition concerns; and in 2010, the BHP Billiton-Potash acquisition was withdrawn after the Canadian government blocked the deal. These deals illustrate the challenge that large metals and mining companies face when trying to boost growth inorganically. Both deals involved a large company that needed to acquire a sizable target to make a significant difference in growth prospects. The issue is that these deals for large targets are also harder to close because of regulatory and protectionism concerns.

Carlyle's acquisition of CommScope for \$3 billion was the largest deal announced in the fourth quarter. The deal appears to be on its way to closing, with CommScope shareholders approving the deal in early January 2011.

The second-largest deal announced this past quarter was a \$1.7 billion asset swap between Anshan Iron & Steel Group and its publicly listed subsidiary, Pangang Group Steel Vanadium & Titanium Co. Pangang will gain ownership of several iron ore mines in exchange for its steel and metal products business. This asset swap is part of a multiyear transfer of iron ore assets, which are expected to earn higher returns, into Pangang.

The remaining fourth-quarter M&A announcements involved competing bids for Draka Holding. Nexans SA announced a \$1 billion offer for the cable manufacturer prior to Prysmian SpA entering into a \$1.1 billion agreement as a white knight. The rationales for these bids included expanding market share in Europe and Asia. Tianjin Xinmao Science & Technology Investment Corp. also launched a \$1.4 billion unsolicited bid for Draka, although it now appears likely that the Prysmian bid will win, with its tender offer already under way.

Regardless of whether headline-grabbing mega-deals in the sector continue, the overall prospects for mega-deal announcements in 2011 are very good. Mega-deal announcements in 2009 tended to involve resource acquisitions, but the rationale for mega-deal announcements in 2010 expanded to include both strategic and financial acquirers seeking targets further downstream. This breadth of rationales will likely be representative of mega-deal activity in 2011.

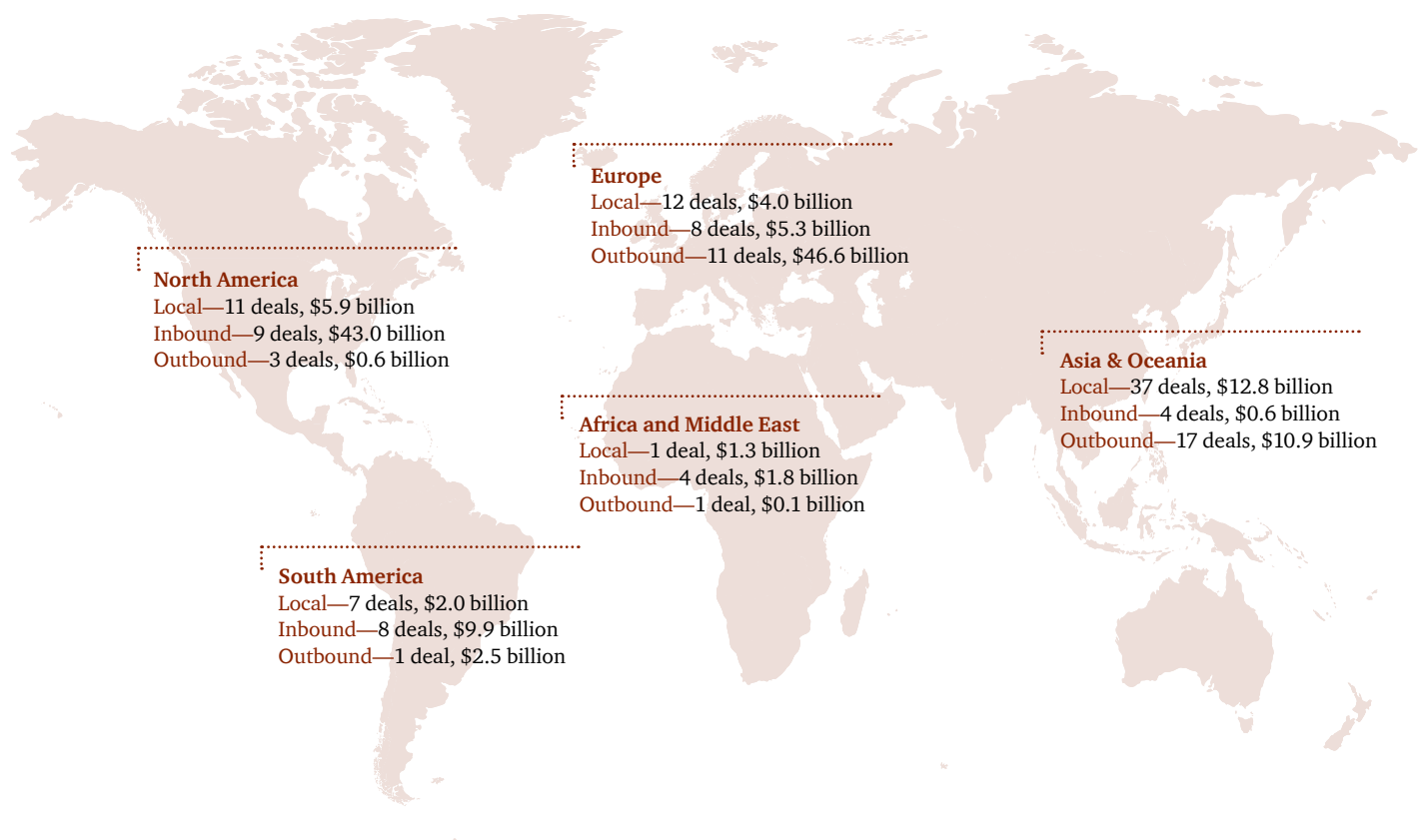
## Asia and Oceania dominate in local, outbound deals

The regional breakdown of deal activity during 2010 clearly demonstrates the growing importance of Asia and Oceania competitors in the metals deal market — the number of local deals in this region exceeded the local deals in all other regions combined. This high level of local deals reflects efforts to consolidate relatively fragmented domestic markets and compete more effectively in a highly globalized sector. In addition, the relatively high number of outbound deals from this region reflects the financial power that these entities now wield, with many of these deals representing attempts to secure access to mines outside the region.

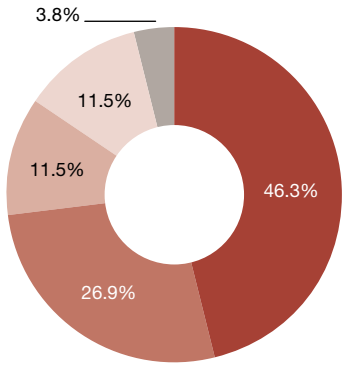
In 2011, Asian companies are likely to continue to contribute substantially to deal totals. However, conditions are slowly beginning to favor acquirers from other regions becoming more involved in M&A.

### Global metals M&A activity

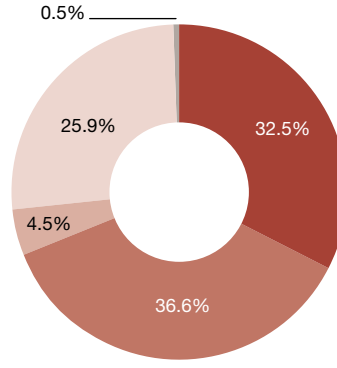
Measured by number and value of deals worth \$50 million or more (2010)



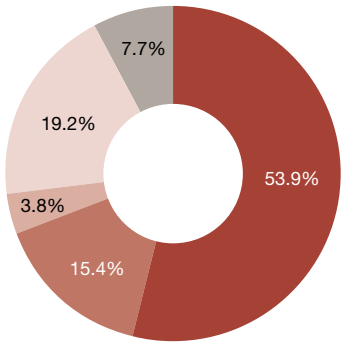
**Regional distribution of deals by target region**  
 Measured by number of deals worth \$50 million or more (4Q10)



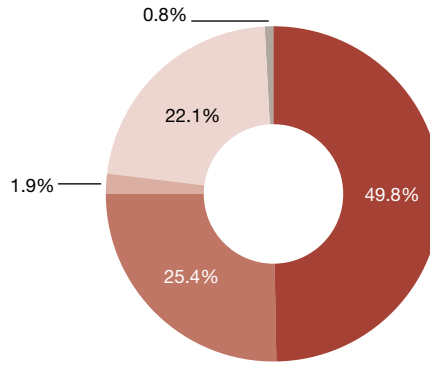
**Regional distribution of deals by target region**  
 Measured by value of deals worth \$50 million or more (4Q10)



**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)

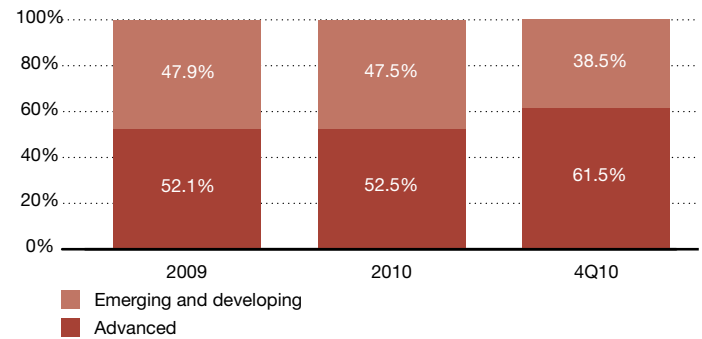


■ Asia & Oceania   
 ■ North America   
 ■ South America   
 ■ UK & Eurozone   
 ■ Europe ex-UK & Eurozone   
 ■ Africa/Undisclosed

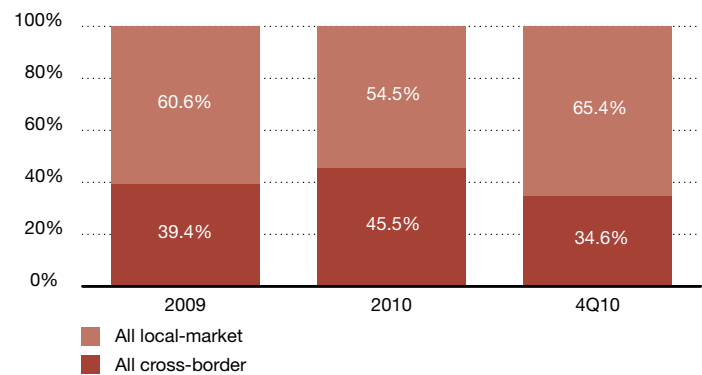
### **Acquirers from advanced economies and local-market deal makers more active in 4Q**

The regional distributions of deals during the fourth quarter were similar to those for the full year. While advanced economy acquirers slightly increased their relative participation in the deal market during the fourth quarter, emerging market companies remain in a strong position to engage in new deals. Investors expect advanced economy acquirers to deliver high rates of growth, which should lead these acquirers to engage in more cross-border deals into higher-growth emerging markets. In turn, such a longer reach could contribute to a reversal of the increase in local deals witnessed in the fourth quarter.

**Acquirers from advanced versus emerging and developing economies**  
Measured by value of deals worth \$50 million or more

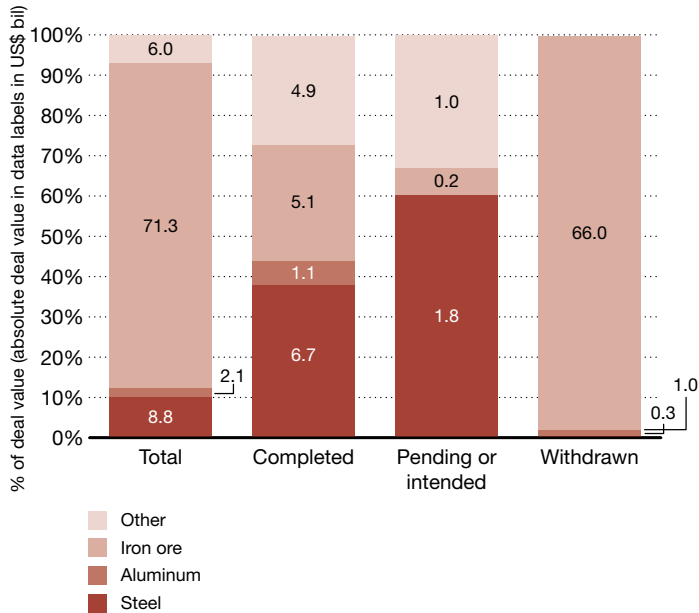


**Cross-border versus local-market deals**  
Measured by value of deals worth \$50 million or more



### Deals by target metal category—2009

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



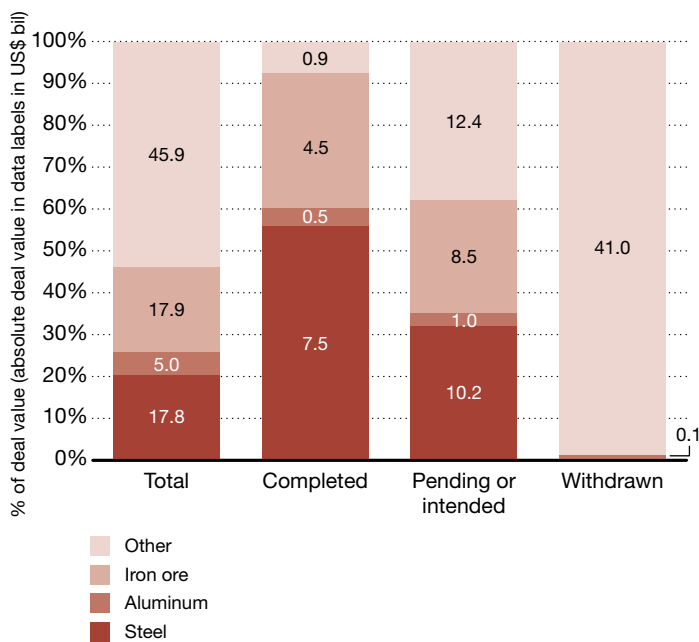
### Iron ore, steel assets take spotlight for acquisition

In previous editions of *Forging ahead*, we expected that iron ore and steel targets would account for the majority of deal value announced in the sector. This held true for 2010 when we exclude the effect of the BHP Billiton-Potash announcement.

Activity will likely remain focused on metals targets, though some metals acquirers may still attempt to put cash to work outside the sector. For example, speculation is circulating that BHP Billiton may attempt to acquire US oil and gas exploration and production company Anadarko Petroleum. Deals like this could dominate M&A headlines in the next year. However, the competitive environment indicates that most deals by metals acquirers will stay within the metals sector but outside the aluminium category, which remains largely consolidated on a global basis.

### Deals by target metal category—2010

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



## 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*.<sup>1</sup>

<sup>1</sup> [www.pwc.com/gx/en/paying-taxes](http://www.pwc.com/gx/en/paying-taxes)

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## Specialty case study: Turkey

### A global metals company

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<b>Issue</b>	<p>A global metals company wanted to apply a contract model whereby containers of steel are shipped to a third-party manufacturer in the European Free Zone (a free trade zone) in Turkey by vendors outside Turkey. Title to the steel is transferred in the European Free Zone (EFZ) from the vendors to the manufacturer's subsidiary in Germany and then to the third-party manufacturer located in the EFZ.</p> <p>After manufacture, 95% of the product is then shipped to the metals 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.</p> <p>The metals company sought assistance regarding the Turkish tax and foreign trade implications of the contemplated physical and invoicing flow, within the scope of the contract steel 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).</p>
<b>Action</b>	<p>Our approach in assisting the client consisted of analyzing the company's operations with respect to:</p> <ul style="list-style-type: none"><li>• Free trade zone legislation</li><li>• Foreign trade legislation</li><li>• Customs legislation</li><li>• VAT legislation</li><li>• Special consumption tax legislation</li></ul>
<b>Impact</b>	<p>The company was informed about the requirements so that its steel production model would not create a permanent establishment in Turkey and so it would not have to register in Turkey for corporate income tax purposes or VAT.</p> <p>It also gained insight to help establish that the anticipated tax consequences would flow from the contract production model.</p>

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# PwC's metals experience

## Deep metals experience

PwC continues to have the leading Fortune Global 500 market share in the metals industry. Our Metals practice serves ferrous and nonferrous primary and secondary metals producers through a network of over 1,000 professionals strategically located around the world. Central to the successful delivery of our services is an in-depth understanding of today's industry issues, in addition to a wealth of specialized resources and "best practices" that help in solving complex business challenges. Our highly skilled team encourages dialogue on top-of-mind trends and issues through active participation in industry conferences and associations, such as the American Iron and Steel Institute, as well as through industry-focused publications and Web forums. To address your industry needs wherever they arise, our professionals are concentrated in areas where the metals industry operates today and in the emerging markets where it will operate in the future.

## Quality deal professionals

PwC's Transaction Services practice, with more than 6,500 dedicated deal professionals worldwide, has the right industry and functional experience to advise you on various factors that could affect the transaction, including market, financial accounting, tax, human resources, operating, IT, and supply chain considerations. Teamed with our Metals practice, our transaction professionals can bring a unique perspective to your deal, addressing it from a technical aspect as well as from an industry point of view.

## Global connection

In addition to the over 1,000 professionals who serve the metals industry, our team is a part of an expansive Industrial Products group that consists of more than 32,000 professionals, including approximately 17,000 providing assurance services, 8,300 providing tax services, and 7,000 providing advisory services. This expands our global footprint and enables us to concentrate efforts in bringing clients a greater depth of talent, resources, and know-how in the most effective and timely way.



## Contacts

### **PwC Global Metals practice**

PwC's Metals practice provides industry-focused assurance, tax, and advisory services. Through our global network, we can draw upon the in-depth industry experience of specialists in every country in which your company operates. Our people can help you deal with the challenges of today, and they understand the implications for tomorrow.

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### **PwC Global Transaction Services practice**

PwC's 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.

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## Methodology

*Forging ahead* is an analysis of merger and acquisition activity in the global metals industry. Deal information was sourced from Thomson Reuters and includes deals for targets with primary SIC codes that fall into one of the following industry groups: iron ores; ferroalloy ores, except vanadium; steel works, blast furnaces, rolling mills, and finishing mills; iron and steel foundries; primary smelting and refining/nonferrous; secondary smelting and refining/nonferrous; rolling, drawing, and extruding/nonferrous; nonferrous foundries; miscellaneous primary metals products; and metals service centers and offices. 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 status of completed, intended, partially completed, pending, pending regulatory approval, unconditional—i.e. initial conditions

set forth by the acquirer have been met but deal has not been completed, or withdrawn. The term *deal*, when referenced herein, refers to transactions with a disclosed value of at least \$50 million unless otherwise noted.

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, Latin America, and the Caribbean UN groups), the Asia and Oceania region (includes Asia and Oceania UN groups), and Europe (divided into United Kingdom and Eurozone and Europe ex-UK and Eurozone regions). International Monetary Fund classifications were used to label economies as advanced or developing and emerging. Overseas territories were included in the region of the parent country. China, when referenced separately, includes Hong Kong.

Visit our metals industry website at  
[www.pwc.com/us/industrialproducts](http://www.pwc.com/us/industrialproducts)

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