

# Forging ahead

First-quarter 2009 metals industry mergers and acquisitions analysis

The weight of the auto industry continues to have an adverse effect on the metals sector



Welcome to *Forging Ahead*, PricewaterhouseCoopers' quarterly analysis of mergers and acquisitions (M&A) in the global metals industry. In addition to a detailed summary of M&A activity in the first quarter of 2009, we supplement this issue with a special report that addresses the effects of the national economic stimulus bill and the developments in the auto industry on the metals sector. Included in the discussion are ways in which automotive losses translate to difficulties for metals companies, as well as the companies' efforts for long-term restructuring.

## Special report:

# Metals companies find auto woes are highly contagious

The automobile industry is one sector that has had a dramatic upstream impact on the metals industry during the economic downturn. What is unique about automotive's effect is the uncertainty of the industry's structure following a global economic recovery, particularly in North America. Companies that are major direct or indirect suppliers to certain distressed automobile manufacturers may find their market positions fundamentally changed going forward. The impact on each metals company will be very different, depending on which makes and models they supply.

Although all automakers have realized significant reductions in volumes, as year-to-date US sales are down 38 percent compared with 2008, General Motors (GM) and Chrysler are the only companies that have accepted federal loans. These two companies are under considerable pressure to make changes that position them to succeed and most certainly will be more aggressive in their efforts to restructure than other automakers. Many of PricewaterhouseCoopers' metals sector clients are telling us their exposure to the automobile industry has proved greater than they realized and that the structural changes within the industry are imposing corresponding structural changes upstream in the supply chain that endanger a large swath of the industry. And that process could accelerate.

For example, consider the impact that a so-called surgical bankruptcy of GM, as discussed by government officials, would have on the metals sector. It could split the company into a good GM and bad GM by rapidly shedding troubled or less profitable brands and reduce its dealership network by nearly 3,000 retail stores over the next two years. GM has already announced it will shed Hummer, Pontiac, and Saturn, with or without a bankruptcy. A metals company tied closely to a supplier for discontinued brands will likely find its revenue slashed significantly in a relatively short period.

Chrysler has long planned to forge a deal with Fiat, an Italian automaker, as a means to become a viable company when it emerges from Chapter 11 bankruptcy.

As a result, companies with ties to Chrysler will likely contend with additional competition from established suppliers of Fiat.

Problems are hardly limited to US companies. Successful Japanese brands Honda and Toyota are cutting production at their US plants because of the depressed market. But they enjoy generally healthier financial and labor situations than their Detroit counterparts. Yet, even if foreign-based original equipment manufacturers (OEMs) take over market share shed by US OEMs and ramp up US production, US metals companies may find themselves frozen out because vehicles manufactured by non-US OEMs contain far less North American material, even when manufactured in the United States.

In addition to the \$17 billion to date in government loans to GM and Chrysler, the stimulus bill approved by Congress in February could provide some mitigation to the recessionary forces facing the industrial sector through current and future funding of infrastructure projects. But that stimulus money is likely not a determining factor for large portions of the industrial sector, such as metals. The stimulus plan has limited direct impact on the automotive sector, which is largely driven by consumers' wealth, income, and credit availability. Any benefit will be derived from the psychological effect on consumer confidence and the corresponding increase in consumer spending in automotive and other durable goods. The future of consumer spending may well decide which companies survive and which sectors undergo reorganizations that could spur mergers and acquisitions.

### Buying time through stimulus programs

Although the automotive industry's troubles are well-known, its dismal statistics are even more telling. The PwC AUTOFACTS®<sup>1</sup> global light vehicle production forecast for 2009 is 54.9 million units, down 17 percent from 66.2 million units in 2008. The 10.1 million-unit US sales predicted for 2009 translates into North American light vehicle output of 8.7 million, the lowest

<sup>1</sup> The PwC Automotive Institute is a team of industry specialists inside the firm's global Automotive practice dedicated to the ongoing analysis of sector trends. Client service offerings include insightful Analyst Briefings, the Analyst Notes information service, and the proprietary AUTOFACTS® Global Light Vehicle Assembly and Powertrain Consumption Forecast.

since 1982, according to the AUTOFACTS® second-quarter forecast. An industry that suffered from chronic overcapacity before the economic crisis now faces a painful unwinding of that capacity. Much of the global manufacturing and industrial base is following.

The exceptions to this automotive gloom are the BRIC countries (Brazil, Russia, India, and China), particularly China and Brazil, where aggressive government tax-incentive programs targeting burgeoning domestic markets have propped up sales and production. Those nations account for 25 percent of the 2009 global auto production forecast, compared with 9 percent in 2001.

For developed markets, government-backed programs and incentives seem to be the only viable near-term path to mitigating the collapse in demand and production. For instance, some European countries have adopted a modernization program that provides incentives for junking older, less fuel-efficient vehicles and that can be applied to the purchase of newer, greener cars. The standard setter for this type of program appears to be Germany, which has seen a 20 percent improvement in sales for the first quarter of 2009 versus the first quarter of 2008 since adopting the program in early 2009, including a 40 percent increase in March 2009 versus March 2008.

The US Congress is considering a handful of bills that could establish similar plans, including a potential \$4,500 “cash for clunkers” program. The impact of these programs may be uneven across producers in the metals sector. For instance, fiscal stimuli that target the infrastructure and automotive sectors create demand for pipe, rebar, tubing, and flat rolled products but not so much for plate and other highly specialized products. These policy measures, cannot do more than partially offset declines in construction (residential and commercial), machinery, aerospace, and energy sectors, whose orders are rapidly faltering.

## Long-term restructuring

Yet, even if stimulus plans succeed, global automotive sales are not expected to return to their previous highs for several years. The industry and its supply base will shrink. We expect the global OEM supply network to rationalize and consolidate significantly. This process may prove even more severe for North American suppliers, with their heavy reliance on US-based OEMs that have seen their 2008 combined market share fall below 50 percent for the first time in history.

The bottom line is that the metals sector, particularly in the United States, faces a near-term and possibly longer-term future in which the global automotive industry is both much smaller and more concerned with environmental efficiency. The sector should reasonably expect to earn less of its revenue from the automotive industry.

Many companies have realized this and are making efforts to diversify into sectors with larger growth potential—namely healthcare, energy, and public sector infrastructure spending. To adapt to these new realities, many companies likely will retool some of their processes and product lines to produce goods catered to the new growth engines.

This process might well spur M&A activity as automotive-dependent sectors look for strategic purchases or mergers that match skills and capabilities that can function in an energy- or healthcare-driven economy. In the short term, though, with deal financing still difficult to find, metals companies—and those from the sectors in our other reports—are seeking to fill the void the automotive industry has left in their income statements.

For now, metals companies are focused on repaying debt and rolling over short-term maturities. Many are raising capital to sustain operations. Alcoa, Rio Tinto, BHP Billiton, and Century Aluminum have all raised capital in the bond or stock markets in recent months. Alcoa even bought itself a one-year liquidity insurance policy hoping that the markets will recover in that span.

# Perspective: thoughts on deal activity in the first quarter of 2009

In the first quarter of 2009, the pace of deal announcements declined significantly, particularly as measured by deal value. We attribute this to the difficult operating environment for metals companies caused by falling end-market demand and attendant weak commodity prices. Despite the anemic level of deal activity, several quarterly trends in the metals M&A environment are of interest.

First, minority stake investments increased significantly during the first quarter. Acquisitions of minority interests grew from roughly one-third of deals during the previous two years to more than half of deals announced during the most recent quarter. We attribute this to the continued difficulty in raising the capital necessary to engage in large deals, as well as metals companies' growing risk aversion and focus on capacity rationalization and cost reduction.

Second, Aluminum Corporation of China (Chinalco) has entered into two deals with Rio Tinto and its subsidiary Hamersley Iron, for almost \$8 billion plus the promise of additional direct investment. The investment will provide a vehicle for Chinalco and Rio Tinto to enter into a number of joint ventures to develop aluminum, iron ore, copper, and coal projects. This positions Chinalco as a major raw materials player and secures Rio Tinto's strategy for the next decade.

Though we acknowledge an increase in global debt issuance during this most recent quarter compared with the first quarter of 2008, volatile capital markets, as well as a weak operating environment and poor sentiment, are likely to remain impediments to any rebound in metals deal activity.

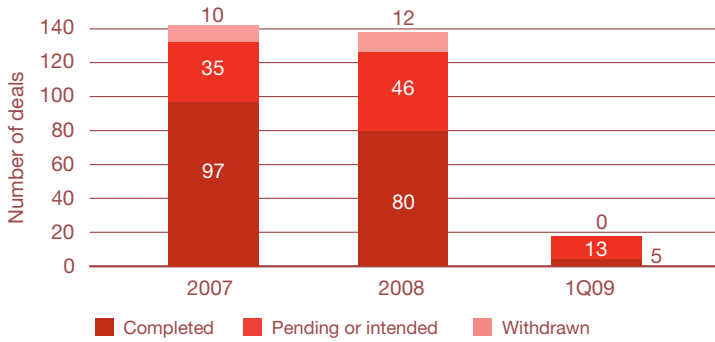
It is also likely that the need to reduce debt and increase liquidity will drive most new deals, coming as distressed sales of assets or divestitures of noncore assets by targets to survive an extended downturn. Purchases out of bankruptcy are attractive because they are relatively quick and allow acquirers to cherry-pick the assets they want. We also expect to see broader termination provisions, given recent high-profile break-ups of announced deals across all industries.

Overall metals M&A activity is likely to remain muted; however, expect well-capitalized buyers to continue to use this downturn as an opportunity to invest in attractive metals and mining assets. If the 2009 contract price for iron ore follows the recent drop in the spot price, though, a balancing act will occur between the lower value of iron ore companies and the steel makers' need to conserve cash.

# Commentary

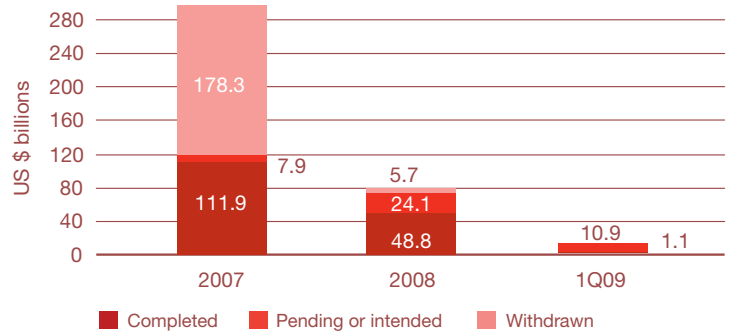
## Deal activity by number of deals

Measured by announced deals worth \$50 million or more



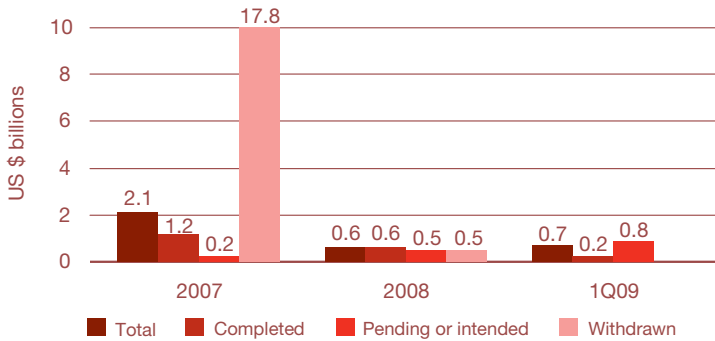
## Deal activity by total deal value

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



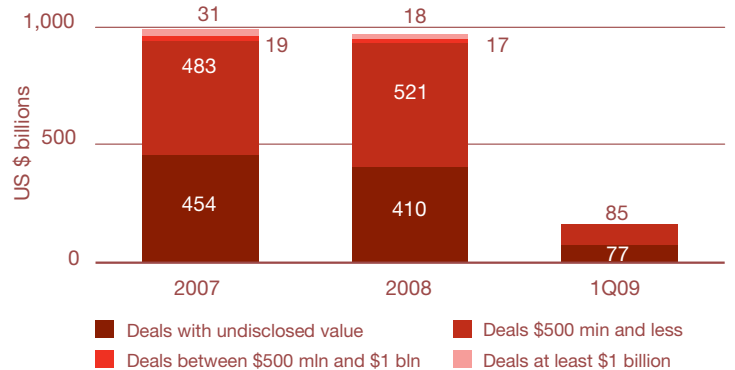
## Deal activity by average deal value

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



## Deal activity by number and range of deal value

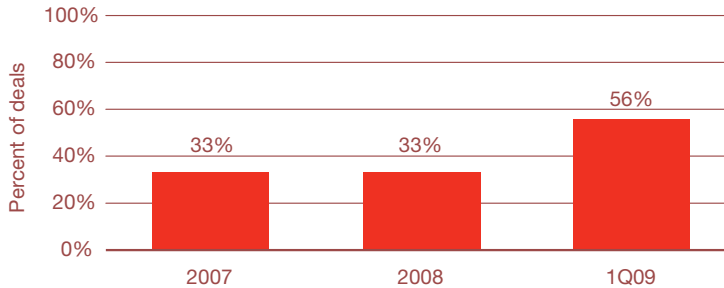
Measured by number of announced deals



# While transaction totals plunge, minority stake interests climb

## Minority stake purchases

Measured by percent of deals worth \$50 million or more for less than 50% ownership



The pace of activity for metals deal targets fell significantly during the first quarter of 2009 compared with the previous two years. Eighteen deals were announced in the first quarter of 2009; 142 deals were announced in 2007 and 138 deals in 2008.

The activity decline manifested most dramatically in total deal values. Only \$12 billion in deal value was announced for metals targets during the first quarter, far behind the pace set in 2007 and 2008. In 2007, total deal value announced was \$298.2 billion, a sum skewed upward by the \$144 billion BHP Billiton bid for Rio Tinto (since withdrawn). In 2008, \$78.6 billion worth of deals were announced.

Despite the difficult environment for M&A transactions, average value for deals announced during the first quarter remained similar to the average value for deals announced in 2008. This can be attributed to a relatively constant proportion of deals with values between \$50 million and \$500 million.

Interest in minority stake purchases increased dramatically, with deal announcements that target less than 50 percent ownership booming from 33 percent of deals announced in both 2007 and 2008 to more than 55 percent of deals announced in the first quarter of 2009. Acquisitions of minority stakes are likely to continue to be a preferred deal type through 2009 because of tight credit, weak commodity prices, and a general aversion to risk among strategic buyers.

Large deals in 2007 (value of \$1 billion or more)

Month announced	Target name	Target nation	Acquirer	Acquirer nation	Status	Value of transaction in US\$ bln	Category
Nov	Rio Tinto PLC	United Kingdom	BHP Billiton Ltd	Australia	Withdrawn	144.52	Iron ore
Jul	Alcan Inc	Canada	Rio Tinto Canada Holdings Inc	Canada	Completed	37.63	Aluminum
May	Alcan Inc	Canada	Alcoa Inc	United States	Withdrawn	26.92	Aluminum
May	IPSCO Inc	United States	Svenskt Stal AB(SSAB)	Sweden	Completed	7.57	Steel
Feb	Novelis Inc	United States	AV Aluminum Inc	Canada	Completed	5.79	Aluminum
Jul	Chaparral Steel Co	United States	Gerdau Ameristeel Corp	Canada	Completed	4.14	Steel
Mar	Boehler-Uddeholm AG	Austria	Voestalpine AG	Austria	Completed	3.49	Steel
May	Arcelor Mittal NV	Luxembourg	Arcelor SA	Luxembourg	Completed	3.38	Steel
Oct	Jubilee Mines NL	Australia	Xstrata PLC	Switzerland	Completed	2.77	Nickel
Dec	Alcoa Inc-Packaging & Consumer Business	United States	Rank Group Ltd	New Zealand	Completed	2.70	Aluminum
Apr	Sistema Minas-Rio	Brazil	Anglo American PLC	United Kingdom	Completed	2.45	Iron ore
Dec	Sukhaya Balka GOK	Ukraine	Evrz Group SA	Russian Fed	Completed	2.19	Iron ore
Mar	Lone Star Technologies Inc	United States	United States Steel Corp	United States	Completed	2.10	Steel
Nov	Quanex Building Products	United States	Shareholders	United States	Completed	2.02	Steel
Aug	Stelco Inc	Canada	United States Steel Corp	United States	Completed	1.94	Steel
Nov	Quanex Corp	United States	Gerdau SA	Brazil	Completed	1.75	Steel
Apr	Grupo Imsa SA de CV	Mexico	Ternium SA	Argentina	Completed	1.73	Steel
Dec	ArcelorMittal Inox Brasil SA	Brazil	Arcelor Mittal NV	Luxembourg	Completed	1.65	Steel
Apr	Algoma Steel Inc	Canada	Essar Global Ltd	India	Completed	1.60	Steel
Jul	Conducciones y Derivados SA	Spain	Tubos Reunidos SA	Spain	Withdrawn	1.51	Steel
Dec	China Oriental Group Co Ltd	Hong Kong	Arcelor Mittal NV	Luxembourg	Completed	1.47	Steel
Dec	Midwest Corp Ltd	Australia	Sinosteel Corp	China	Completed	1.38	Iron ore
Aug	Bethlehem Steel Corp-Sparrows Point Facility	United States	E2 Acquisition Corp	United States	Withdrawn	1.35	Steel
Aug	NV Umicore SA-Zinc Smelting & Alloying Business	Belgium	Zinifex Ltd-Zinc Smelting & Alloying Business	Australia	Completed	1.33	Other
Oct	Midwest Corp Ltd	Australia	Murchison Metals Ltd	Australia	Withdrawn	1.29	Iron ore
Dec	Sumitomo Metal Industries Ltd	Japan	Nippon Steel Corp	Japan	Completed	1.24	Steel
Jan	Baotou Aluminium Co Ltd	China	Aluminum Corp of China Ltd	China	Pending	1.23	Aluminum
Apr	Xstrata PLC-Aluminum Business	United States	Apollo Management LP	United States	Completed	1.15	Aluminum
Jan	Harris Steel Group Inc	Canada	Nucor Corp	United States	Completed	1.07	Steel
Jun	Cumerio NV/SA	Belgium	Norddeutsche Affinerie AG	Germany	Completed	1.04	Other
Aug	Consolidated Minerals Ltd	Australia	Palmary Enterprises Ltd	Ukraine	Completed	1.01	Steel

### Large deals in 2008 (value of \$1 billion or more)

<b>Month announced</b>	<b>Target name</b>	<b>Target nation</b>	<b>Acquirer</b>	<b>Acquirer nation</b>	<b>Status</b>	<b>Value of transaction in US\$ bln</b>	<b>Category</b>
Aug	OAo GMK Norilsk Nickel	Russian Fed	Vladimir Potanin	Russian Fed	Pending	9.65	Nickel
Mar	Zinifex Ltd	Australia	Oxiana Ltd	Australia	Completed	5.73	Other
Mar	IPSCO Inc-Canadian Tubular Operations	Canada	Evrax Group SA	Russian Fed	Completed	4.03	Steel
Aug	John Maneely Co	United States	OAo Novolipetskiy Metallurgicheskiy Kombinat (NLMK)	Russian Fed	Pending	3.53	Steel
Jan	IronX Mineracao SA	Brazil	Anglo American PLC	United Kingdom	Completed	3.49	Iron ore
Oct	Nacionale Minerios SA	Brazil	Investor Group	Japan	Completed	3.12	Iron ore
Jun	Eurasian Natural Resources Corp PLC(ENRC)	United Kingdom	Kazakhmys PLC	United Kingdom	Completed	2.55	Steel
Jan	IronX Mineracao SA	Brazil	Anglo American PLC	United Kingdom	Pending	2.01	Iron ore
Feb	J Mendes Ltda	Brazil	Usinas Siderurgicas de Minas Gerais SA(Usiminas)	Brazil	Completed	1.90	Iron ore
Jan	IronX Mineracao SA	Brazil	Shareholders	Brazil	Completed	1.88	Iron ore
Jul	Century Aluminum Co	United States	Glencore International AG	Switzerland	Completed	1.82	Aluminum
Dec	Handan Iron & Steel Co Ltd	China	Tangshan Iron & Steel Co Ltd	China	Pending	1.69	Steel
Mar	Oriel Resources PLC	United Kingdom	OAo Mechel	Russian Fed	Completed	1.52	Other
Mar	IPSCO Tubulars Inc	United States	OAo Trubnaya Metalurgicheskaya Kompanya (TMK)	Russian Fed	Completed	1.20	Steel
May	Panzhuhua Iron & Steel(Group) Co Ltd-Assets	China	Panzhuhua New Steel & Vanadium Co Ltd	China	Pending	1.16	Steel
Jan	Tenaris SA-Hydril Pressure Control Business	United States	GE Oil & Gas	Italy	Completed	1.12	Steel
Jun	PNA Group Inc	United States	Reliance Steel & Aluminum Co	United States	Completed	1.10	Other
Dec	DHS-Dillinger Huette Saarstahl AG	Germany	SHS-Struktur-Holding-Stahl GmbH & Co KGaA	Germany	Pending	1.07	Steel

### Large deals in 1Q09 (value of \$1 billion or more)

<b>Month announced</b>	<b>Target name</b>	<b>Target nation</b>	<b>Acquirer</b>	<b>Acquirer nation</b>	<b>Status</b>	<b>Value of transaction in US\$ bln</b>	<b>Category</b>
Feb	Hamersley Iron Pty Ltd	Australia	Aluminum Corp of China (Chinalco)	China	Pending	5.15	Iron ore
Feb	Rio Tinto Ltd	Australia	Aluminum Corp of China (Chinalco)	China	Pending	2.63	Iron ore

## Organizations put deals with large price tags mostly on hold

Only two large deals were announced during the first quarter of 2009, compared with 31 deals in 2007 and 18 deals in 2008. This decline in large deal activity contributed significantly to the decline in total deal value over the quarter.

The two large deals announced during the first quarter both involved acquisitions by Chinalco and targeted either a stake in Rio Tinto or its assets. Specifically, the deals included a plan to raise Chinalco's stake in Rio Tinto to 14.9 percent, the maximum allowed by the Australian government, through the purchase of convertible bonds and stakes in several Rio Tinto mines. This follows Chinalco's acquisition of a 9 percent stake in Rio Tinto through open market purchases in 2008. These deals enable Chinalco to gain access to iron ore, aluminum, and other resources while allowing Rio Tinto to reduce some of its high debt, much of which was incurred in the Alcan acquisition of 2007.

The Chinalco deals also signal that emerging market companies with significant balance sheet strength and/or government backing are willing to flex their financial muscle. Chinese companies, in particular, have become active acquirers of foreign natural resources companies.

The potential for incremental large deal activity during 2009 appears limited. We have seen evidence that the debt market has become somewhat more accommodating for investment-grade issuers; however, even the most credit-worthy strategic buyers appear focused on capital preservation in this difficult operating environment. In addition, the shift in deal interest toward minority stake purchases and divestitures of noncore assets makes it likely that large deal activity over the remainder of 2009 will continue at a very moderate pace.

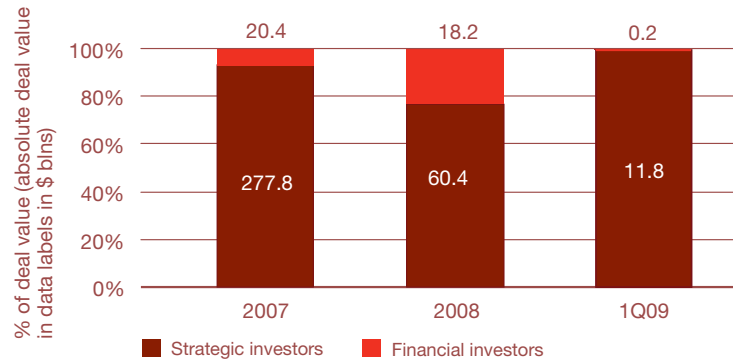
# Strategic investors make most deals

Strategic investors have historically been the most prolific acquirers in the metals sector, compared with their financial counterparts. This disparity was exacerbated during the first quarter by the continuation of harsh credit conditions, which disproportionately and negatively impacted financial investors.

It is likely that strategic investors that have engaged in deals over the last several years will keep focusing on integration of recent deals during the remainder of 2009. This should continue to dampen overall deal activity even though credit conditions and the rationale for consolidation seem to favor well-capitalized strategic investors.

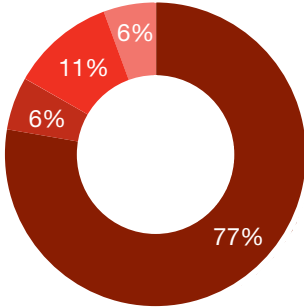
## Deals by investor group

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

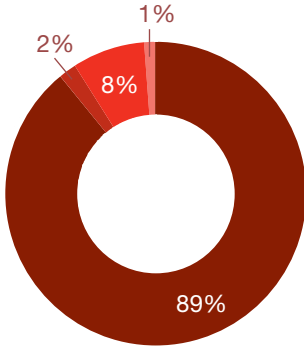


# Asia and Oceania region dominates deal making

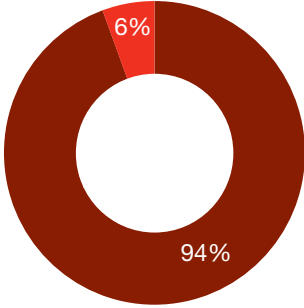
**Regional distribution of deals by target region**  
 Measured by number of deals worth \$50 million or more (1Q09)



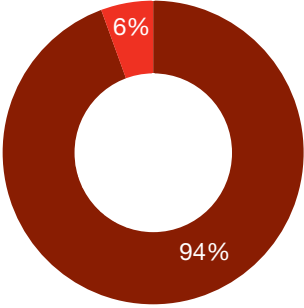
**Regional distribution of deals by target region**  
 Measured by value of deals worth \$50 million or more (1Q09)



**Regional distribution of deals by acquirer region**  
 Measured by number of deals worth \$50 million or more (1Q09)



**Regional distribution of deals by acquirer region**  
 Measured by value of deals worth \$50 million or more (1Q09)



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

Both acquirers and targets involved in deals announced during the first quarter overwhelmingly came from the Asia and Oceania region. This was driven by a relatively high level of acquisitions by Chinese entities, which had 12 of the 18 deals and almost 90 percent of the total deal value announced during the quarter. The aforementioned assessment that Chinese entities are motivated, relative to buyers from other countries, to engage in cross-border deals is validated by the fact that two-thirds of Chinese companies' acquisitions announced in the first quarter were cross-border deals. That compares with less than one-quarter of such deals announced during 2008.

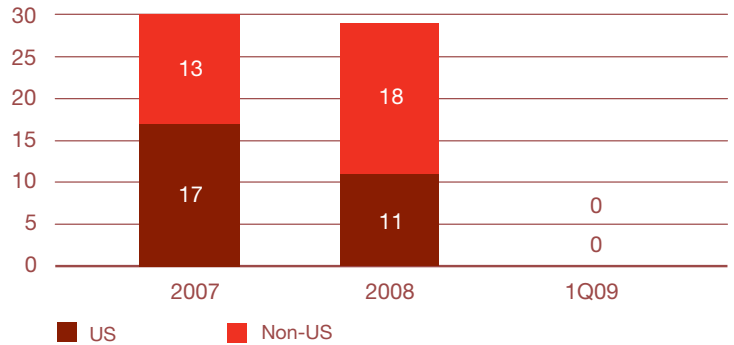
It is also noteworthy that one-third of all deals announced during the quarter, as well as 80 percent of deal value, were for investments in entities from Australia, an area of Chinese influence. Moreover, all of the deals for targets in Australia included acquirers from China. These deals included several transactions between Chinalco and Rio Tinto, as well as transactions between Hunan Hauling Iron & Steel Group and Fortescue Metals Group, Australia's third-largest iron ore miner. The Fortescue deal has received regulatory approval from Australian authorities. And although approval for the Rio Tinto deals remains pending, it is worth noting that there appears to be high concern over these proposed transactions that could delay or derail their consummation.

The lack of deals for US targets during the first quarter is notable, after these targets accounted for 21 percent of the deals announced in both 2007 and 2008. US acquirers were also uninvolved in the metals deal environment during the first quarter, after accounting for approximately 10 percent of deals announced in 2008. This is attributed to the relatively consolidated state of the US metals industry, as well as a weak economic environment compared with many emerging markets.

The decline in activity by Russian acquirers is also interesting, particularly since they announced nine cross-border deals in 2008, including four large deals (disclosed value higher than \$1 billion). This decline is largely attributed to the leverage levels ensuing from the previous consolidation phase and the rapid decline in commodity prices that left Russian metal companies in a fragile financial situation.

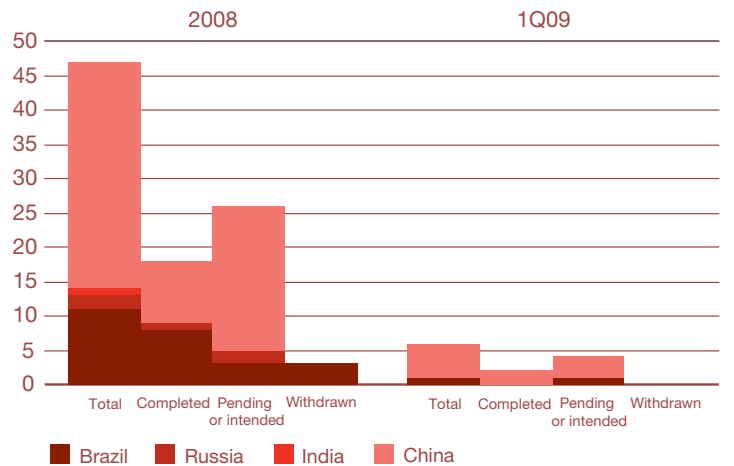
### US versus non-US acquirers of US targets

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



### Regional distribution of BRIC deals by target nation

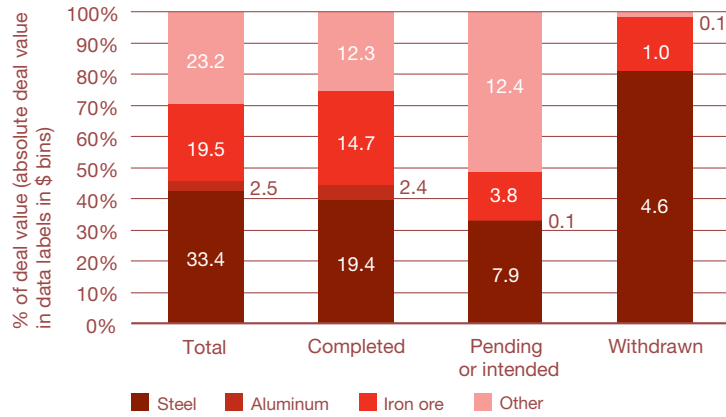
Measured by number of deals worth \$50 million or more



# Activity solidifies over iron ore, nonaluminum opportunities

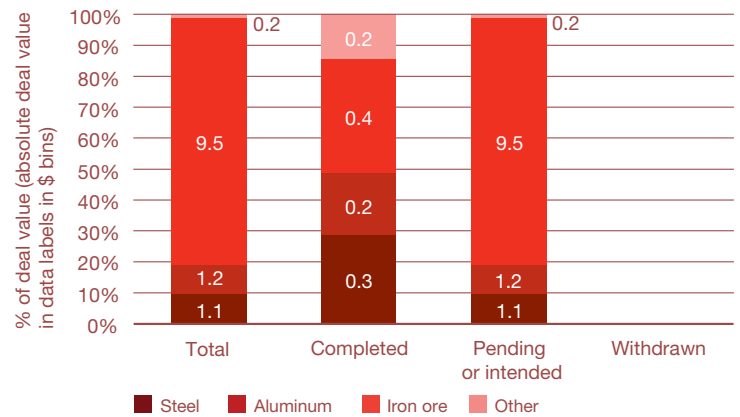
## Deals by target metal category

Measured by value of deals worth \$50 million or more (2008)



## Deals by target metal category

Measured by value of deals worth \$50 million or more (1Q09)



The expectation that interest in targets outside the aluminum category would remain relatively significant held true during the first quarter, when much of the deal volume was for iron ore targets. Because of the low total value announced during the quarter, the Rio Tinto and Fortescue deals contributed significantly to this segmentation.

The general environment for M&A transactions remains weak, and it is likely that activity will continue to be more prevalent outside the aluminum category for the rest of 2009 given the relatively consolidated state of this metals category.

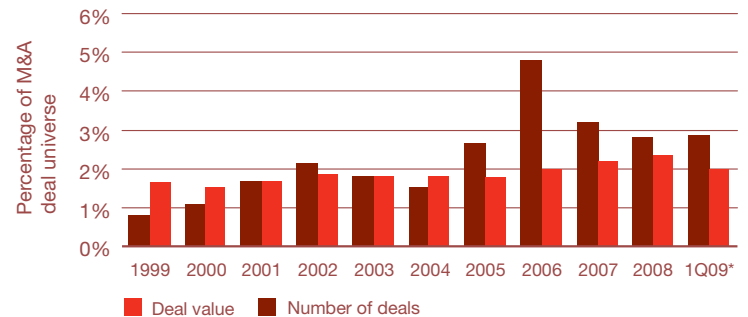
## Metals maintain above-average pace

Although both the number and value of deals for metals targets declined from 2008 to the first quarter of 2009, metals deals as a percentage of overall M&A activity (regardless of sector) remain above the 10-year averages. Deals for metals targets contributed 2.9 percent of the total M&A deal value and 2 percent of the deals during the first quarter. This compares with 10-year averages of 2.2 percent and 1.9 percent, respectively.

The relative number of metals deals to total number of deals (regardless of target sector) has remained more stable over the past 10 years than the metals deals' value. The higher fluctuation of the relative deal value over time reflects the cyclical nature of the sector and the varying ability of sector constituents to finance transactions.

## Metals deal activity relative to all M&A deals

Measured by value and number of all deals



## Economic stimulus: Relief carries added complexity

In February 2009, President Obama signed into law the American Recovery and Reinvestment Act (ARRA). This act includes \$787 billion to invigorate the economy and spur job growth. In addition to \$575 billion in spending, the bill sets aside \$212 billion for tax relief.

In the area of tax relief, ARRA contains provisions that extend “bonus depreciation.” For 2009, the legislation allows businesses to recover the costs of capital expenditures faster than under the ordinary depreciation schedule by permitting an immediate deduction of 50 percent of the cost of depreciable property such as equipment.

The recovery act also allows certain eligible small businesses (ESB) to elect an increased net operating loss carryback period for losses incurred in 2008. An ESB is generally a business that meets a \$15 million average annual gross receipts test. Eligibility under the enacted bill was significantly scaled back from the versions originally passed by the House and Senate, but many smaller companies, including corporations and partnerships, may still qualify.

By far, most of the recovery act money is for short- and long-term investments in infrastructure, renewable energy, research and development, education, and healthcare. It is the infrastructure, renewable energy, and research and development aspects of the act that could have the most implications for industrial products companies planning investments in capital improvements.

Because significant interaction with federal and state government agencies is required, it may be challenging for many manufacturing companies to apply for and secure a project grant. Among the most significant challenges:

- Understanding grant and contracting requirements at the federal, state, and local levels
- Staying abreast of oversight and reporting guidelines from all relevant levels of government
- Complying with the ARRA emphasis on transparency and accountability from the top down
  - Companies may be required to define the right measure and data at the start, collect the data, ensure transparency, and post results as widely as possible.
  - Companies implementing programs will have to anticipate and prepare for rigorous review by government inspectors general and the Office of Management and Budget (OMB). All will need to ensure accountability, consistency, controls, collaboration with auditors, and transparency.

Key practices companies should keep in mind as they consider whether to apply for ARRA funding are:

**Monitoring and tracking:** Required reports and relevant data must be uploaded to the recovery.gov website. Additionally, dashboards will be needed for data management and analysis.

**Governance:** OMB compliance includes the creation of a matrix to document, track, and communicate ongoing project progress.

**Risk management:** A risk assessment for not successfully completing an ARRA-funded project must be completed. Each identified risk must also be categorized and scored based on likelihood and severity. Furthermore, companies must assess the adequacy of internal controls for mitigating risks.

**Reporting and communication:** Reporting and communication plans must identify what data elements are required, show where the data resides, and establish protocols for data collection across regions, programs, and bureaus.

**Performance management:** Companies must establish a baseline and track metrics on a continual basis throughout the project to show that progress is made toward recovery act goals.

Although it is difficult to predict the exact results of the economic stimulus package, ARRA is a regulation that is likely to affect companies across all sectors because it blends tax relief with incentives to invest in large capital improvement projects. In both respects, the act has the potential to be a positive force on the US economy.

PricewaterhouseCoopers specializes in services related to accounting for and managing the distribution of funds. We currently act as the Department of Treasury Office of Financial Stability’s (OFS) core adviser on the development of OFS’ control environment. PwC’s roles include supporting the transactional processing and asset management activities of the \$700 billion Troubled Asset Relief Program. We are also closely involved in the September 11th Victims Compensation Fund and the FEMA Individuals and Households Program.

# Specialty case study: Bonus depreciation provisions provide welcome tax relief

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<b>Client issue</b>	<p>Many metals industry executives see the tax relief provisions in the economic stimulus plan as a way to balance cash savings so they will be well-positioned when the economy rebounds. The stimulus legislation generally extends the 50 percent bonus depreciation from calendar year 2008 to include calendar year 2009 (the “bonus depreciation period”), whereby a taxpayer can accelerate the deduction of 50 percent of the acquisition cost of eligible property. Knowing how best to apply the provision so that deductions are accelerated and taxable income is reduced can become a complex undertaking for metals industry companies that routinely spend millions on new equipment. This is especially true where contracts to acquire property were entered into, or the manufacture, construction, or production of the property begins, prior to the bonus depreciation period. In addition, companies must consider the impact of claiming bonus depreciation on other federal income tax provisions, including estimated tax computations, long-term contract accounting, domestic manufacturing deductions, etc.</p>
<b>Approach</b>	<p>A PricewaterhouseCoopers team of tax professionals was engaged to determine whether all or a portion of a US plant expansion for a multinational metals company qualified for bonus depreciation. This client contracted with a third party to build the plant expansion prior to the bonus depreciation period, and the manufacture of the property also began before the bonus depreciation period. The team was able to identify significant qualifying property that was eligible for bonus depreciation. In addition, the team advised the company on how the bonus depreciation deductions would affect its estimated tax payments and identified strategies that reduced the company’s 2009 estimated tax payments.</p>
<b>Impact</b>	<p>The PwC team worked with the client to determine when assets were acquired and also analyzed purchase contracts for adherence with the bonus depreciation qualification rules. Based on PwC’s findings and analysis, the client will realize a significant reduction in its taxable income, and therefore defer payment of cash taxes, through the accelerated write-off of 50 percent of the cost of eligible property placed in service in 2009.</p>

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# PricewaterhouseCoopers' metals experience

## Deep industry experience

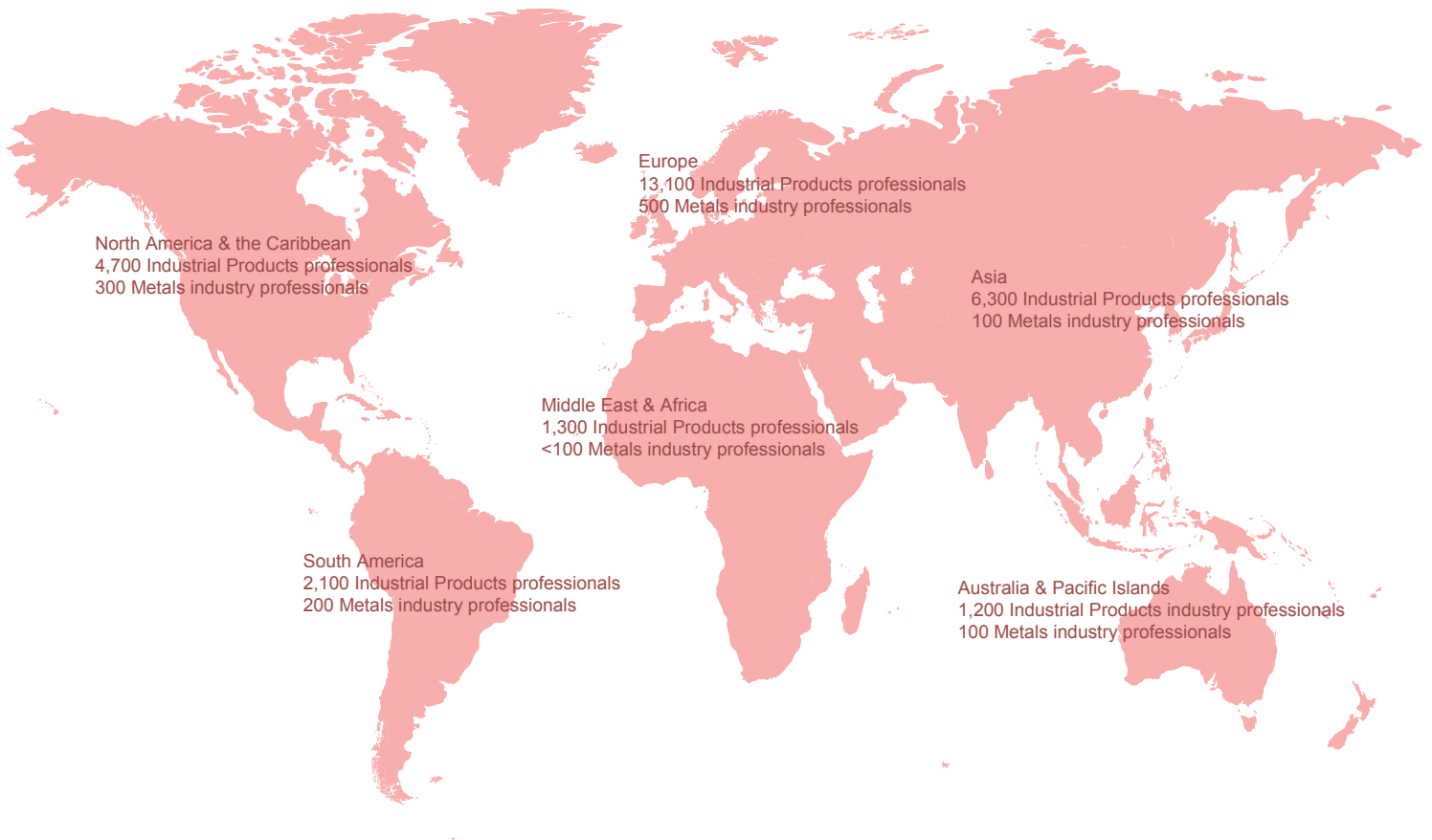
PwC continues to have the leading Fortune Global 500 market share in the Metals industry. Our metals industry practice serves ferrous and nonferrous primary and secondary metals producers through a network of more than 1,000 professionals strategically located around the world. Central to the successful 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 specialists are concentrated in areas where the metals industry operates today and in the emerging markets where it will operate in the future.

## Quality deal specialists

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

## Local coverage, global connection

In addition to having more than 1,000 professionals who serve the metals industry, our team is a part of an expansive Industrial Products group that consists of more than 28,700 professionals, including approximately 16,700 providing assurance services, 7,000 providing tax services, and 5,000 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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# Methodology

*Forging Ahead* is an analysis of merger and acquisition activity in the global metals industry. Information was sourced from Thomson Financial 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, 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 metal products; and metals service centers and offices.

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, 2007, and March 31, 2009, 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 *deals*, 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). Overseas territories were included in the region of the parent country. China, when referenced separately, includes Hong Kong.

Competing deals, not just the ultimate successful deal partner, were included in the data set used throughout the document.

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