

Forging ahead*

Global Metals mergers and acquisitions analysis
Third quarter 2008



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Perspective: Thoughts on deal activity in the third quarter of 2008

Welcome to the third quarter 2008 edition of *Forging Ahead*, our analysis of mergers and acquisitions in the metals industry. As we know, we are currently experiencing a severe global financial and credit crisis. The current global economic slowdown and lack of liquidity have resulted in a sell-off and significant decline in market capitalization across the industry.

The steel industry witnessed an unprecedented increase in prices from Jan. 1, 2008, to Sept. 30, 2008; the benchmark hot-roll price increased by 65 percent during this period. However, the first signs of softening prices appeared in September, when the hot-roll price dropped 5 percent—the first decline since 2007. Pricing challenges continued with the additional 12 percent decline in October prices. Looking forward, the consensus in the industry and in the market seems to indicate that demand and price will continue to fall but there is no agreement regarding the extent.

For the first half of 2008, aluminum prices experienced a more gradual rise, but still managed an increase of approximately 30 percent. Since July, however, prices have been on a steady decline with the three-month LME falling roughly 20 percent in the third quarter, and a further 16 percent decline in October. At current price levels, it is estimated that a large portion of global aluminum production could now be operating at a loss.

Deal activity for metals targets, as measured by the number of deals announced during the first three quarters of 2008, remained robust though there has been some attenuation of the pace of deal activity as measured by announced deal value. This is primarily attributable to a smaller average deal size for deals announced so far in 2008, as large sector constituents focused on integrating recent acquisitions.

It is uncertain how the decline in prices and weakening global demand, along with the recent strengthening of the US dollar, will affect mergers in the fourth quarter of 2008. Many companies have already announced output reductions or capacity curtailments, which may mitigate some of the recent downward pressure on price. However, as the credit crisis continues, we expect strategic investors will drive most deal activity, even though the sector constituents that have recently engaged in large deals may choose to focus on merger integration, cost containment, and capacity rationalization in the near term.

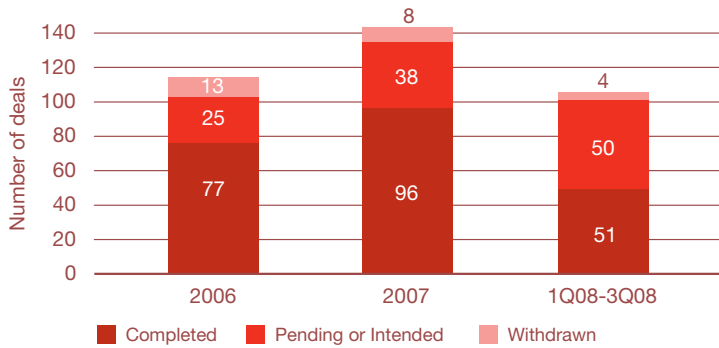
Our analysis reveals several noteworthy trends. First, the value of deals announced during 2008 for targets from South America has been significant and is the result of several large deals for targets in Brazil, including the transaction that allowed Anglo American to gain control of IronX Mineracao. Second, as expected, cross-border acquisitions of US targets increased because of weakness in the US dollar as well as the relatively strong positions of foreign metals companies. Third, Russian entities continue to be active acquirers for metals targets. Two of the three large deals announced during the third quarter of 2008—Norilsk Nickel and John Maneely Co.—involved acquirers from Russia. Finally, our expectation that the focus of metals M&A activity would shift more toward non-aluminum deals, particularly steel, held true during 2008, compared with the previous year.

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Deal activity by number of deals

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

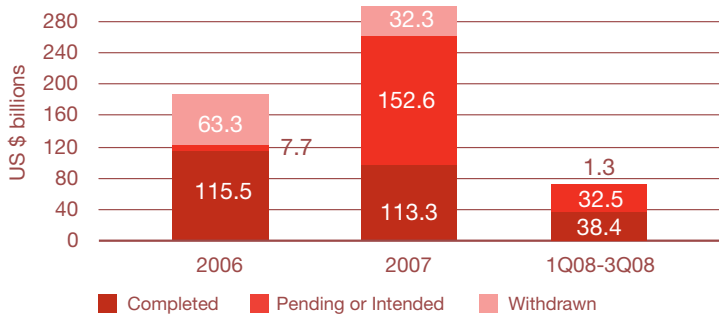


Activity remains strong despite tough environment

Despite a more challenging overall deal environment, especially for steel, the pace of deal activity for metals targets has remained robust, as measured by the number of deals announced during the first three quarters of 2008 relative to 2006 and 2007. By annualizing the 105 announced deals during 2008, we expect that 2008 deals will exceed the 115 deals announced during 2006 and approximate the 142 deals announced during 2007. More than two-thirds of the deals announced during 2006 and 2007 were completed by the end of the third quarter of 2008 (77 and 96 deals, respectively), while almost half of the deals announced during the first three quarters of 2008 have been completed. This reflects the correlation between time after deal announcement and the completion rate of deals. However, the deal completion rate for deals announced during 2008 may ultimately suffer as a result of the credit crisis and economic downturn. In addition, the deal completion rate may also suffer due to the operating struggles of many steel makers.

Deal activity by total deal value

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



Total deal value lags

The pace of deal activity for metals targets, as measured by the total deal value announced during the first three quarters of 2008 (\$72.2 billion), is not likely to match the level of total deal value announced during 2006 (\$186.5 billion) or 2007 (\$298.2 billion). This is largely because there were no deals announced with a value of at least \$10 billion during the first three quarters of 2008. There were seven such announcements during 2006, led by the \$32 billion acquisition of Arcelor by Mittal Steel, and in 2007, led by the \$144 billion proposed acquisition of Rio Tinto by BHP Billiton. In particular, the BHP Billiton/Rio Tinto announcement skewed the total value of deals announced during 2007 upward. This deal, which recently received the approval of the Australian Competition and Consumer Committee and awaits regulatory approval by the European Commission, is still pending. Several factors contributed to the lack of deal announcements during 2008 with disclosed values above \$10 billion, including a reduction in large deal targets available at prices that are considered to be accretive, greater industry emphasis on vertical integration, and focus on the integration of the large number of deals announced before 2008.

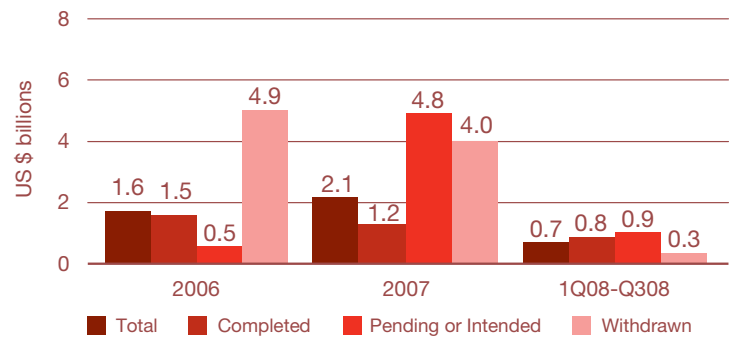
Although the pace of deals announced for disclosed values above \$10 billion has slowed, the number of deals announced during the first three quarters of 2008 with disclosed values between \$500 million and \$1 billion remains ahead of the pace of deals that fell into this range during all of 2006 and 2007.

Average deal value decline

The average value of all deals, regardless of deal status, announced during the first three quarters of 2008 has declined compared with 2006 and 2007. This reflects the decline in the number of deals with a disclosed value above \$10 billion announced in each period. A number of competing bids for large deals (defined as deals with a disclosed value of at least \$1 billion) led to the high average value for withdrawn deals during 2006 and 2007. In 2006 competing bids for Corus Group and Inco were announced. Tata Steel eventually consummated its announced deal for Corus Group and Cia Vale do Rio Doce eventually acquired Inco after a failed bid by Inco to purchase Falconbridge (a deal that would have created the largest global nickel producer). The large average value for withdrawn deals announced during 2007 results from the withdrawn deal by Alcoa for Alcan, a target subsequently won by Rio Tinto. There are fewer competing bids among the large deals announced during the first three quarters of 2008, a factor that will likely continue to attenuate the average value of withdrawn deals for the year relative to previous periods.

Deal activity by average deal value

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



Continuing interest in large deals

There were 16 large deals announced for metals targets during the first three quarters of 2008. The pace of these large announcements is ahead of the 19 deals from 2006 but lags the 31 deals in 2007. Several large announced deals represented competing or withdrawn bids, particularly among those announced in 2006; however, as of the end of the third quarter, none of the large deals announced during 2008 were competing bids and none have as yet been withdrawn. Despite the difficult environment for M&A in all sectors, interest in large deals for metals targets continued. Three of the 16 2008 large deals were unveiled during the third quarter, including the largest deal announced yet this year, the \$9.65 billion acquisition of a minority stake in MMC Norilsk

Nickel OJSC by Vladimir Potanin. This transaction is part of an unwinding of shared assets between former partners Vladimir Potanin and Mikhail Prokhorov that will allow Mr. Prokhorov to gain majority ownership of Polyus Gold, Russia's largest gold miner, while Mr. Potanin increases his stake in Norilsk Nickel, Russia's largest nickel producer, to 47 percent.

Other large deals announced during the first three quarters of 2008 include the friendly merger between copper and gold miner Oxiana and zinc miner Zinifex, which diversified the metals exposure and improved the liquidity and financial strength of the combined company; and the Anglo American acquisition of Brazilian iron ore assets from MMX Mineracao e Metalicos.

Large deals in 2006

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bln	Category
Jan	Arcelor SA	Luxembourg	Mittal Steel Co NV	Netherlands	Completed	32.24	Steel
May	Falconbridge Ltd	Canada	Xstrata PLC	Switzerland	Completed	17.40	Nickel
Aug	Inco Ltd	Canada	Cia Vale do Rio Doce SA	Brazil	Completed	17.15	Nickel
Jun	Inco Ltd	Canada	Phelps Dodge Corp	United States	Withdrawn	16.14	Nickel
Nov	Corus Group PLC	United Kingdom	Cia Siderurgica Nacional	Brazil	Withdrawn	14.61	Steel
May	Inco Ltd	Canada	Teck Cominco Ltd	Canada	Withdrawn	14.10	Nickel
Oct	Corus Group PLC	United Kingdom	Tata Steel UK Ltd	United Kingdom	Completed	11.79	Steel
May	OAo Severstal	Russian Fed	Arcelor SA	Luxembourg	Withdrawn	9.17	Steel
Aug	Arcelor Brasil SA	Brazil	Mittal Steel Co NV	Netherlands	Completed	5.63	Steel
Jan	Dofasco Inc	Canada	ThyssenKrupp AG	Germany	Withdrawn	4.59	Steel
Jun	Maverick Tube Corp	United States	Tenaris SA	Argentina	Completed	3.10	Steel
Jun	Inco Ltd	Canada	Phelps Dodge Corp	United States	Withdrawn	3.00	Nickel
Jan	Caemi Mineracao e Metalurgia	Brazil	Cia Vale do Rio Doce SA	Brazil	Pending	2.66	Iron Ore
Nov	Inco Ltd	Canada	Cia Vale do Rio Doce SA	Brazil	Completed	2.32	Nickel
Nov	Oregon Steel Mills Inc	United States	Evrz Group SA	Russian Fed	Completed	2.09	Steel
Sep	NS Group Inc	United States	IPSCO Inc	United States	Completed	1.51	Steel
Dec	Sicartsa	Mexico	Arcelor SA	Luxembourg	Completed	1.44	Steel
Oct	Grupo Imsa SA de CV	Mexico	Tarida SA de CV	Mexico	Completed	1.04	Steel
Mar	Corus Group PLC-Aluminium	Germany	Aleris International Inc	United States	Completed	1.01	Aluminum

Large deals in 2007

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bln	Category
Nov	Rio Tinto PLC	United Kingdom	BHP Billiton Ltd	Australia	Pending	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	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	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	Evrast 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	Completed	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	United States	E2 Acquisition Corp	United States	Withdrawn	1.35	Steel
Aug	NV Umicore SA-Zinc Smelting	Belgium	Zinifex Ltd-Zinc Smelting	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	CHALCO	China	Pending	1.23	Aluminum
Apr	Xstrata PLC-Alum Bus	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 the first half of 2008

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bln	Category
Aug	MMC Norilsk Nickel OJSC	Russian Fed	Vladimir Potanin	Russian Fed	Pending	9.65	Nickel
Mar	Zinifex Ltd	Australia	Oxiana Ltd	Australia	Completed	5.73	Other
Jan	MMX Mineracao e Metalicos SA	Brazil	Anglo American PLC	United Kingdom	Pending	5.50	Iron Ore
Mar	IPSCO Inc-Canadian Tubular Op	Canada	Evrax Group SA	Russian Fed	Completed	4.03	Steel
Aug	John Maneely Co	United States	Novolipetsk Steel OJSC	Russian Fed	Pending	3.53	Steel
Jan	IronX Mineracao SA	Brazil	Anglo American PLC	United Kingdom	Completed	3.49	Iron Ore
Jun	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	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
Mar	Oriel Resources PLC	United Kingdom	Mechel OAO	Russian Fed	Completed	1.52	Other
Mar	IPSCO Tubulars Inc	United States	TMK	Russian Fed	Completed	1.20	Steel
May	Panzhuhua Iron & Steel-Asts	China	Panzhuhua New Steel	China	Pending	1.16	Steel
Jan	Tenaris SA-Hydril Pressure	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

Trend toward deals under \$1 billion

With the slight decline in large deal volume and the potential effects of the global credit crisis on deal activity, we may be seeing the beginning of a trend toward smaller deal size in 2008. The current pace of deal activity for deals announced with a disclosed value between \$500 million and \$1 billion during the first three quarters of 2008 (16 deals) is ahead of the pace of deals that fell into this range

during all of 2007 (19 deals) and 2006 (16 deals), indicating that the broad trends affecting the metals M&A environment are moving more deal activity under the \$1 billion threshold. The majority of the deals in this category were deals that involved steel targets, including competing bids for Esmark by Essar Steel and OAO SeverStal (the eventual acquirer).

Deals at least \$500 million and less than \$1 billion in 1Q08-3Q08

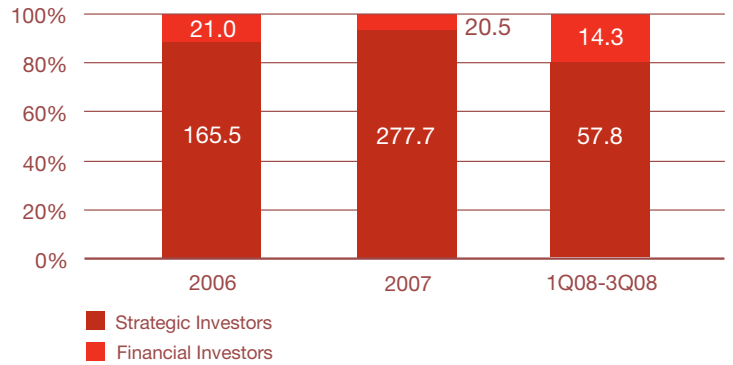
Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bln	Category
May	Pangang Grp Sichuan Changcheng	China	Panzhuhua New Steel	China	Pending	0.96	Steel
Jun	Superior Essex Inc	United States	LS Cable Ltd	South Korea	Completed	0.90	Other
Jun	Eregli Demir Celik Fabrikalari	Turkey	Arcelor Mittal NV	Luxembourg	Completed	0.88	Steel
Feb	Corporacion Aceros DM SA de CV	Mexico	Grupo Simec SAB de CV	Mexico	Completed	0.85	Steel
Mar	Dragon Steel Corp	Taiwan	China Steel Corp	Taiwan	Pending	0.83	Steel
Mar	Sparrows Point LLC	United States	OAO SeverStal	Russian Fed	Completed	0.81	Steel
Aug	London Mining South America	Brazil	Arcelor Mittal NV	Luxembourg	Pending	0.81	Iron Ore
May	Acos Villares SA	Brazil	Gerdau SA	Brazil	Completed	0.79	Steel
May	Esmark Inc	United States	OAO SeverStal	Russian Fed	Completed	0.76	Steel
Apr	Esmark Inc	United States	Essar Steel Holdings Ltd	Mauritius	Withdrawn	0.75	Steel
Apr	First Pine Enterprises Ltd	Hong Kong	Black Sand Enterprises Ltd	Hong Kong	Pending	0.74	Iron Ore
May	DRC Resources Holdings Ltd	Dem Rep Congo	CAMEC	United Kingdom	Completed	0.73	Other
Aug	American Molygold Corp	United States	Undisclosed Acquirer	Unknown	Pending	0.62	Other
Sep	Australian Bulk Minerals	Australia	Grange Resources Ltd	Australia	Pending	0.60	Iron Ore
Apr	SoGePar Group	Italy	Outokumpu Oyj	Finland	Completed	0.53	Other
Mar	NS Group Inc	United States	TMK	Russian Fed	Intended	0.50	Steel

Strategic investors still account for most bids

Strategic investors have historically accounted for the vast majority of announced deal value for metals targets (89 percent in 2006 and 93 percent in 2007). While the proportion of deal value announced during 2008 that is attributable to financial investors has increased (to 20 percent as a result of the Norilsk Nickel deal), strategic investors remain the dominant acquirers of metals targets. Many of the large strategic investors in recent deals might focus on merger integration in the near-term. Nonetheless, given the current extremely tight credit market, strategic investors will likely continue to account for the majority of metals deal value for the rest of 2008.

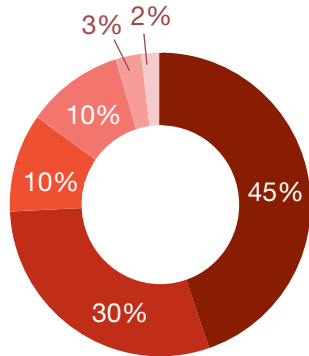
Deals by investor group

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



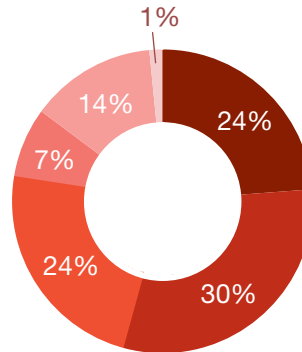
Regional distribution of deals by target region

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



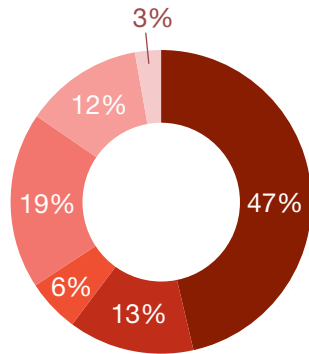
Regional distribution of deals by target region

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



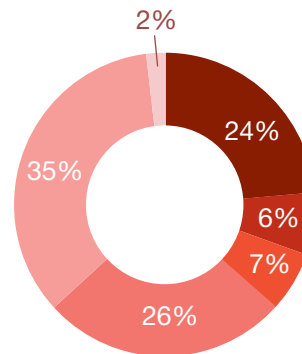
Regional distribution of deals by acquirer region

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



Regional distribution of deals by acquirer region

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



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

Regional analysis: Asia and Oceania leads for both acquirers and targets; North America still strong

Analysis of the regional distribution of deals indicates that firms in Asia and Oceania were both the leading acquirers and targets in terms of the number of deals announced during the first three quarters of 2008. As expected, interest in North America targets remained strong during the first three quarters of the year. Transactions for targets in North America led all regions as measured by deal value and ranked second as measured by number of deals. Russian acquirers led all nations as measured by deal value (31.7 percent of total deal value announced during the first three quarters of 2008), while the value of deals announced during 2008 for targets in South America was also significant. This was driven by several large deals that targeted Brazilian entities, including five of the 16 large deals announced during the year.

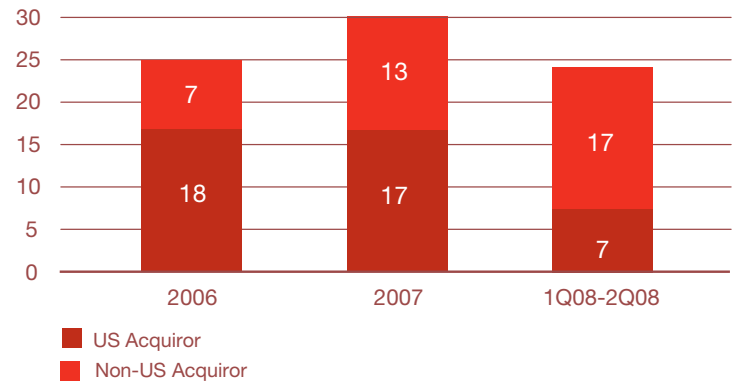
The expectation that cross-border deals for US targets would increase held true for the first three quarters of 2008 owing in part to the weak US dollar, which favors foreign acquirers. There were 24 deals announced for US targets during the first three quarters of 2008, which is ahead of the pace set in 2006 and 2007. In addition, foreign investors continue to account for a higher proportion of deals for US targets. During the first three quarters of 2008, cross-border acquisitions of US targets accounted for 71 percent of total deals for US targets, compared with 43 percent in 2007 and 28 percent in 2006. Acquirers from Russia have demonstrated significant interest in US targets, with Russian entities responsible for seven of the 17 cross-border deals for US targets during the first three quarters of 2008, including two of the five large deals that targeted US entities. Although foreign acquirers, including those from emerging markets, have demonstrated significant interest in US targets, the rapid rise of the US dollar since July 2008 could bring the ratio of cross-border-to-local-market (within-border) deals for US targets closer to earlier ratios.

Interest in China targets leads BRIC deals

The distribution of deals among BRIC countries has been led by interest in metals targets in China (21 deals in 2007 and 23 deals during the first three quarters of 2008). While the proportion of overall BRIC deal interest for targets in China was similar between 2007 and the first three quarters of 2008, the proportion of deals for targets in Russia and India has declined in favor of targets in Brazil. Both acquirers and targets from BRIC countries have been very active in large deals announced during the first three quarters of 2008. Seven of the 16 large deals announced during 2008 involved BRIC targets, including five deals for targets in Brazil. Eight of the 16 large deals announced during 2008 involved BRIC acquirers, including five deals with acquirers from Russia.

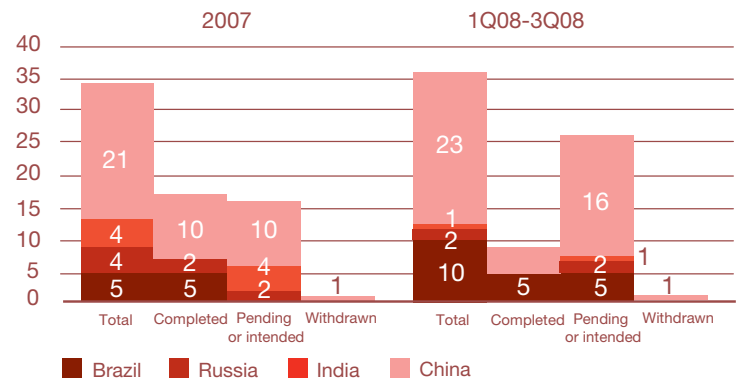
US versus non-US acquirers of US targets

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



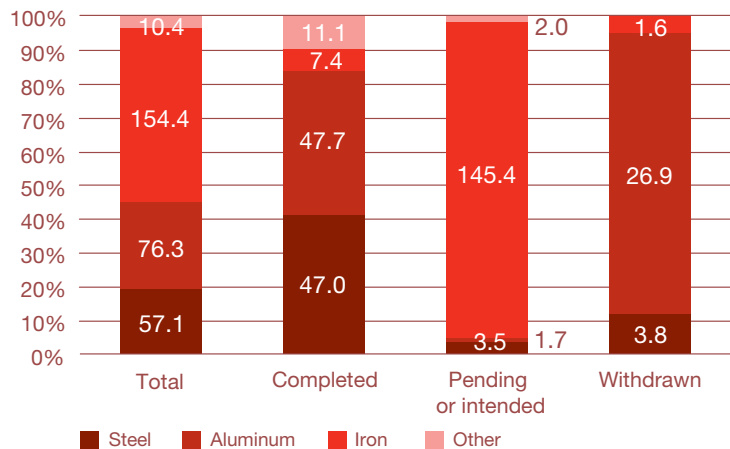
Regional distribution of BRIC deals by target nation

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



Deals by target metal category

Measured by value of deals worth \$50 million or more (2007)

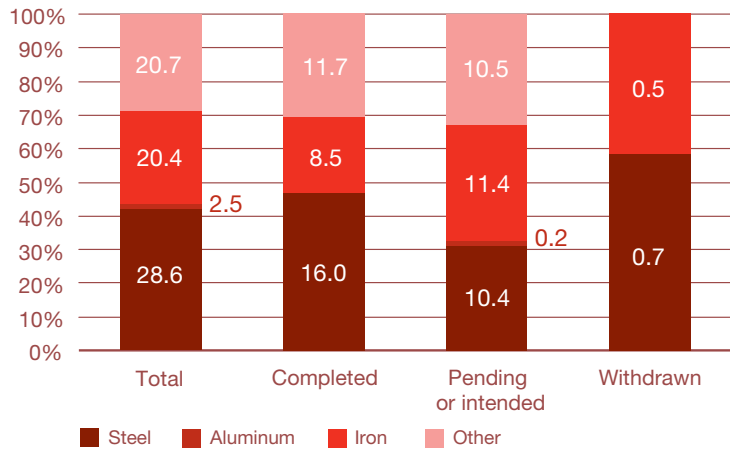


Interest in steel continues to rise

The proportion of deal interest in iron ore targets declined for 2007 and the first three quarters of 2008 in favor of targets from the steel and other categories (e.g., nickel). This shift to favoring steel results primarily from the inclusion of the \$144 billion deal for Rio Tinto in the iron ore category during 2007 (the deal accounted for 94 percent of total deal value in the category during the period). The increase ascribed to the “other” category during 2007 and the first half of 2008 was driven by the inclusion of the deals for Norilsk Nickel (nickel) and Zinifex (lead and zinc), the two largest deals announced during the first three quarters of 2008 for this category. Transactions announced for aluminum targets accounted for a relatively low proportion of overall deal value during the first three quarters of 2008. This is likely to be the case for the remainder of the year given the highly consolidated nature of the aluminum industry relative to other segments.

Deals by target metal category

Measured by value of deals worth \$50 million or more (1Q08-3Q08)

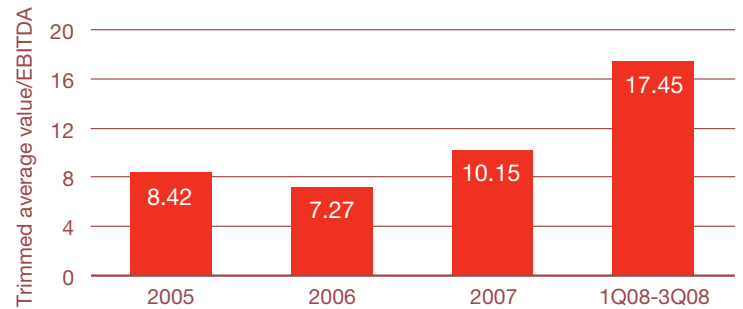


Deal value to EBITDA ratio soars

Compared with the previous three years, the trimmed average ratio of deal value to EBITDA increased dramatically for deals announced during the first three quarters of 2008. This increase reflects the higher valuations for metals targets, coupled with the economic slowdown, which generally lowers EBITDA and increases the value to EBITDA ratio, all other things being equal. The available sample of deal value to EBITDA data was limited in each period (27, 47, 49, and 27 deals for 2005, 2006, 2007, and the first three quarters of 2008, respectively), thus the trimmed average was selected as a measure of central tendency in order to reduce the influence of outliers. In the current calculation, the trimmed average is an average of the data remaining after 15 percent of the highest and lowest observations were removed from the sample.

Deal valuation by trimmed average of value to EBITDA

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

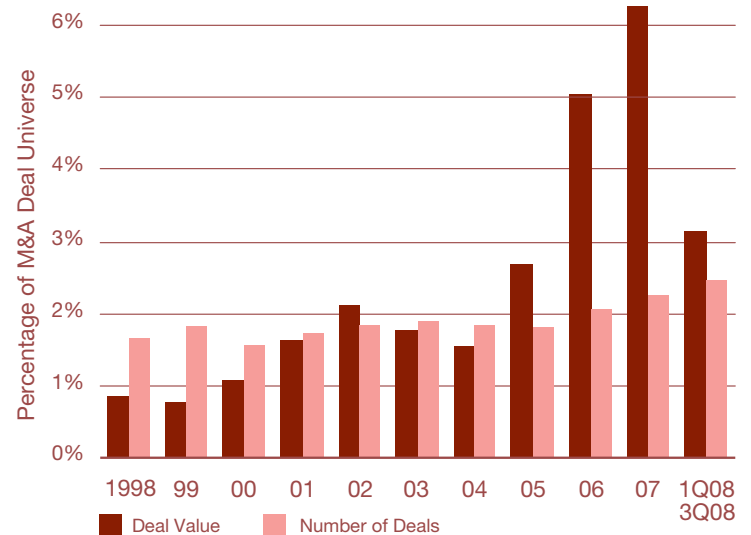


Metals deal activity remains high relative to other sectors

The relative level of deal activity for metals targets, as measured by the number of metals deals—to total number of deals (regardless of target sector), has remained somewhat stable over the past 10 years (close to the 10-year average ratio of 1.9 percent). Conversely, the relative level of activity for metals targets as measured by the value of announced deals as a proportion of total announced deal value (regardless of target sector), has fluctuated greatly during the past 10 years (10-year average of 2.4 percent and range of 0.9 percent to 6.3 percent). For deals announced during the first three quarters of 2008, the relative level of metal deal activity, as measured by both number of deals and deal value, exceeded the 10-year averages (2.5 percent vs. 1.9 percent and 3.2 percent vs. 2.4 percent, respectively), which indicates a high level of deal interest in the metals sector during the period. The higher fluctuation of the relative level of 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



PricewaterhouseCoopers

Information Technology: How to complete the M&A integration process, minimize disruptions, and achieve desired synergies

Mergers and acquisitions are often executed to gain access to new markets and products. While the revenue building effects of new markets and products can be fairly immediate, and certain redundant costs can be quickly eliminated, capturing and sustaining value over the long-term is a more difficult task. One of the most complex areas to manage over the long term is the integration of Information Technology.

The highest volume of activity over the longest period of time in an integration, particularly large-scale integrations, most often occurs in the Information Technology environment. This volume alone increases complexity, and this complexity is exacerbated by the fact that Information Technology commonly has the highest number of dependencies on other functions to execute its plans. It is no wonder why research consistently shows that integrating information systems is one of the top integration challenges for sizeable transactions.

To deliver following a deal, an organization's IT integration strategy must be closely aligned with the company's strategic objectives and goals, and further refined to meet the unique needs of each individual business unit. If not, it will degenerate into an almost frantic effort to complete a seemingly endless list of IT initiatives with little connection to the big picture. Building staff commitment to new goals and ways of doing business, and supporting these initiatives through a smooth integration of information technologies is vital to securing the stability and momentum to realize cost efficiency and maximize synergy capture.

Collaboration and partnership with business leaders to determine the business impact of IT Integration is a key success factor for any M&A integration.

The issues our clients face, the actions we help them take

At PwC, we understand the importance of getting the fundamentals of integration in place as quickly as possible during a deal to minimize disruptions and achieve synergies. We support our clients by rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future State Operations.

Set the course

A merger or acquisition, like other large scale corporate change, is an excellent opportunity to set a new course, both operationally and across the various support functions of the newly combined business. Early planning and a clear understanding of the newly combined company's goals are essential to successful IT integration. The needs and requirements of the combined company's current and target business models will determine which IT integration approach—absorbing one company's systems into the other's, using the best of both companies' systems, or developing and supporting standalone systems—will allow the company to achieve the desired end state quickly and efficiently.

Setting the course for Information Technology integration involves a thorough assessment of the IT environment across all major IT components—business applications, supporting infrastructure, organization, spending, assets, etc.—to provide a complete picture of integration opportunities and challenges. This requires close collaboration and partnership with business leaders to determine the business impact of IT integration opportunities— one-time costs, time-phased cost savings, timing, and risks—as well as potential interdependencies. IT opportunities are then based on revenue enhancement, cost savings, timing, level of effort, and risk avoidance.

Plan for and execute day one

Even if the best decisions are made as you Set the Course, much can go wrong upon close absent proper planning and execution. While Day One is a milestone for celebration, it is also the time for smooth transition of mission critical operations.

Because IT makes up the backbone of internal and external communications, it is imperative that certain systems and management reporting tools are operational on Day One. These systems typically include interim solutions for connecting internal and external users, providing key data and select application access, seamless help desk support, and specific systems that support financial reporting and human resources. Not only are these systems integral to smooth operations, they also provide connectivity and communication between the newly combined company.

Design and maximize future state operations

IT integration must be carefully orchestrated to maximize value creation, minimize costs, and realize integration objectives. This includes integration of IT core processes, such as systems development and delivery, data management, and infrastructure provisioning; supporting processes, such as third-party services, IT reporting structure, and operating procedures; and control structures, including governance practices, internal policies, and the usage of specific tools.

Every aspect must come together to deliver the fundamental promise of IT: the creation of value for customers (internal and external) through the effective deployment of technology. Using an IT integration roadmap can increase the likelihood of realizing value creation and maximizing the effectiveness of future state operations. The IT Integration roadmap consists of a balanced mix of application and data, infrastructure, and process related projects by business unit.

Our approach for delivering information technology integration success

Our disciplined approach to IT integration helps companies achieve early wins, build momentum, and instill confidence among their stakeholders. We take an active, hands-on approach to helping clients focus on the right things at the right times, creating early and sustainable capture of deal value. We deliver time-tested integration processes to support client integration teams and supplement those teams with experienced resources to fill resource and technical gaps as required. We customize our tools and services to complement each client's specific needs and internal capabilities.

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Methodology

Forging ahead is an analysis of M&A 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, 2005, and March 31, 2008, 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 deals 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 UK 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.

Metals case study

Client issue

A multinational metals company acquired an aluminum division. The IT platforms were dated and were not compatible. The company needed assistance assessing whether to implement new systems or leverage an existing system and migrate to a single platform.

Approach

PwC performed an “AS IS” assessment of existing IT systems comparing costs systems integration versus implementation in the short term and long term. The assessment included a projected business disruption analysis along with detailed project management plans for each scenario. Based on our analysis the client decided to proceed with implementing a new single platform for both companies and to integrate those existing systems that would be compatible with the new platform. We were engaged as the project manager for the implementation and led phase II of the systems integration workstream.

Impact

The client avoided incurring short-term costs to integrate systems that would need to be replaced in the near term. Implementing a new platform better positioned the company for its long term goals and minimized business disruptions.

PricewaterhouseCoopers Metals practice

PricewaterhouseCoopers provides services to ferrous and non-ferrous primary and secondary metals producers around the world through a network of industry professionals strategically located in over 30 countries. We bring experience, industry best practices, and a wealth of specialized resources to help solve business issues.

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