www.pwc.com/us/industrialproducts

Chemical compounds
Fourth-quarter 2010 global chemicals industry mergers and acquisitions analysis

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

pwc

Welcome to the fourth-quarter 2010 edition of *Chemical compounds*, PwC's quarterly analysis of mergers and acquisitions (M&A) in the global chemicals industry. In addition to a detailed summary of M&A activity in the quarter, this edition features a special report that discusses potential growth opportunities in emerging markets that may not have already been considered. As company executives analyze the long-term risks and benefits associated with such an endeavor, it is particularly important to understand each region's tax liabilities and advantages. In repositioning for growth, tax strategy may be the deciding factor.

Special report: Repositioning for growth

The tax implications of moving into an emerging market

Today's chemical companies have already found opportunities for growth by investing in the BRIC countries—Brazil, Russia, India, and China. As companies seek to reposition their business strategy to meet new demands, they now look to a second wave of emerging markets such as VISTA—Vietnam, Indonesia, South Africa, Turkey, and Argentina. When determining how and where to structure a deal, companies should consider the role tax could have in making or breaking the transaction.

In addition to their high gross domestic product (GDP) and rich natural resources, VISTA countries 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. The VISTA countries also offer free trade zones, where normal trade barriers such as tariffs and quotas are eliminated and bureaucratic requirements are lowered in hopes of attracting investors from around the globe. Foreign companies that establish a business in Turkey can hold mineral rights if they are regarded as Turkish companies. Additionally, the Turkish chemicals industry has a good competitive position in several segments including the production of soda ash, chrome ore, and boron chemicals.

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, including restrictive policies for foreign ownership in "strategic" sectors as well as preferential loans to domestic players. In the case of China, where capital is no longer a major constraint, a foreign business could expect to improve its position with the government to the extent that it is able to provide valuable technology.

Although the areas and the population are not nearly as great as within the BRIC countries, VISTA countries appear to be the next region poised for tremendous growth. In addition to favorable foreign investment policies, most of these countries have weak but stable currencies, which affords them competitive advantage and opportunities to supply developed countries with raw materials and products.

If a VISTA country is in your company's long-term strategic plans for growth, it's important to know how to structure the investment to reduce tax liability and gain tax advantage.

Tax issues faced by chemical companies that invest in VISTA countries

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

Vietnam

- The standard corporate income tax rate is 25%. Corporate income taxes are imposed at the national level. There are no local, state, or provincial taxes. Preferential corporate income tax rates of 10% and 20% are available where certain criteria are met.
- A value-added tax (VAT) is applied to goods and services used for production, trading, and consumption in Vietnam (including goods and services purchased from abroad) with certain exemptions. The standard VAT rate is 10%, but reduced rates of zero and 5% may apply in certain situations.
- 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 broadly), unless the transfers are capital contributions.
- Tax incentives for inward investment in Vietnam are granted based on specific, regulated 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.
- Additional tax reductions may also be available for engaging in manufacturing, construction, and transportation activities that employ several women 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 within 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 it has its place of effective management in South Africa. The place of effective management is the place where the operational management of the company is carried out.
- A secondary tax on companies is levied at a rate of 10% on the net dividends declared by South African resident companies. The net dividend amount is calculated by deducting dividends accrued from dividends declared during the dividend cycle. The company declaring the dividend, not the recipient, is liable for payment of the tax.
- The secondary tax 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 down from 28% 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.

Turkey

- The standard corporate income tax rate in Turkey is 20%.
- A VAT applies to sales of goods and services within Turkey at a standard rate of 18%.
- If both the legal and the business headquarters of a company are located outside Turkey, the company is regarded as a nonresident entity. If one of these headquarters is located within 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 as a basis guidelines set by the Organization for Economic Cooperation and Development (OECD).
- 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 of the borrower company at any time within the relevant year, the exceeding portion of the borrowing will be considered thin capital. Accordingly, under the new thin capitalization regulation, the ratio of loans received from related parties to shareholders' equity must be no more than three to one in order 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 capital build-up of the country and 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:
  - 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 within 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%. Argentine legal resident entities 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, finished or partly finished merchandise) with few exemptions, and on most services (e.g., construction, utilities, professional and personal services not derived from employment, rental, etc.) and on the import of goods and services. The general tax rate is 21%, although certain 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 in order to determine the value of goods and services in their transactions with foreign-related companies. This principle is extended to transactions with companies located in low- or no-tax jurisdictions.
- Various Argentine provinces have investment promotion regimes. Even when there are certain differences among these regimes, 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 without charge of public property

- 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.
    - 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 developed infrastructure in selected parts of the countries and a relatively sophisticated market structure, this is not 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 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 that can benefit government and business alike. And with six years of data available, the study gives some interesting perspectives on how the world's tax regimes have changed during this time—and, more recently, during a period of unprecedented economic turmoil.

The data below provides two snapshots—the ranking for each VISTA and BRIC economy (out of 183 economies in the study) for ease of paying taxes and total tax rate. The lower the ranking, the better the climate for tax administration and favorable tax rates. The study measured the ease of paying taxes by examining the time required for a company to prepare and file tax returns, the number of tax payments the company has to make, and the company's total tax cost as a percentage of commercial profits.

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

Source: PwC *Paying Taxes*[1]

[1] *Paying Taxes*, a PwC, World Bank, and IFC study that measures the ease of paying taxes across 183 economies covering the cost of taxes and the administrative burden of tax compliance.

Perspective:
Thoughts on deal activity in 2010

Based on our deal pipeline, the higher level of announced deal activity reported in 2010 was in line with our expectations. While the number of deals year to date surpassed 2009, we also saw fundamental differences in the type of deal activity.

The graphs and charts in the following pages show an increase in both the volume and the total value of deals in 2010 compared with 2009. Beginning in December 2009, we noted a considerable uptick in deal activity. This momentum came from strategic buyers that emerged from the downturn with strong balance sheets and were looking for smaller bolt-on acquisitions for their core businesses. During 2010, we noted two changes in the type of deal activity. Initially, we observed a gradual increase in the size of the deals in our business pipeline. Secondly, we saw an increase in the level of private equity activity in the deal processes. The trends continued throughout the year, resulting in an incrementally higher level of deal volume and a significantly higher level of deal value in 2010 versus 2009.

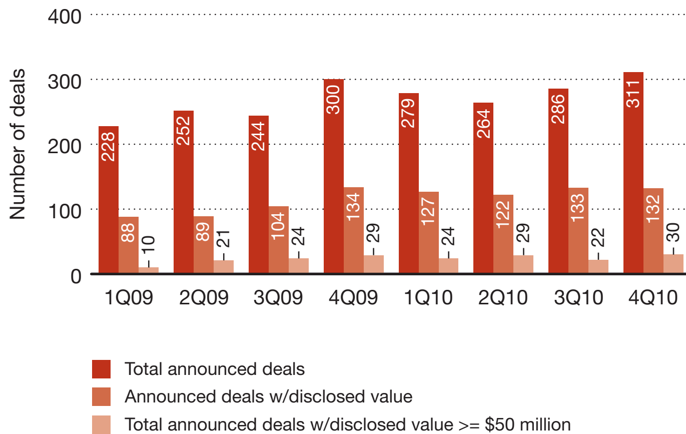
During the first three quarters of 2010, we saw deals move forward at a deliberately slower pace than they did during the pre-downturn period. We believe this was partially driven by caution exercised by buyers and lenders and the difficulty in assessing the trends in recent financial results.

At the beginning of the downturn in 2008, the industry experienced extreme volatility in volumes, raw material margins, and selling prices. Although overall profitability was down, the relationship between raw material costs and selling prices resulted in higher contribution margins per unit in many subsegments of the industry. As the economy recovered, the supply-demand ratio and pricing leverage varied across the sub-segments, allowing some of them to hold on to the higher margins for an extended period. These dynamics require an increased level of scrutiny during diligence in order to determine an accurate earnings baseline for the valuation model.

In fourth-quarter 2010, we noted a change in the pace of the deal process, which may be an indication that companies are able to move more quickly through diligence with an additional quarter of “post-downturn” results and/or an increase in the level of competition in the bidding process. This faster pace will require that companies enter the bidding process well prepared and prioritize their diligence issues and requests to be able to move quickly with limited information.

Commentary

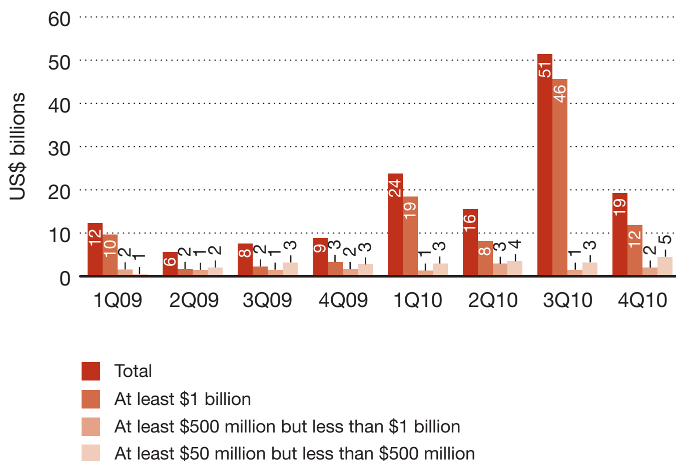
Quarterly deal activity by number of deals
(1Q09—4Q10)



Deal activity in fourth-quarter 2010 continued to build from prior quarters

In line with our expectations, deal activity (by number of deals) in fourth-quarter 2010 was up, with a 9% rise in announced deals and a 36% increase in announced deals with a disclosed value greater than $50 million compared with the third quarter. Compared with 2009, the full year total deal activity for announced deals was up more than 11%, and the full year deal activity for deals with a disclosed value greater than $50 million was up 25%. The general improvement in the economy, the increased profitability in the sector, and the trend to focus on growing core operations via bolt-on and complementary acquisitions have continued to drive M&A activity. We expect this trend to continue in 2011.

Quarterly deal activity by total deal value
(1Q09—4Q10)



Note: The chart above includes the $39.8 billion BHP/Potash deal announced in 3Q 2010. Excluding this transaction, the 3Q10 deal activity would have been $12 billion for "total" deals and $6 billion for deals worth "at least $1 billion."

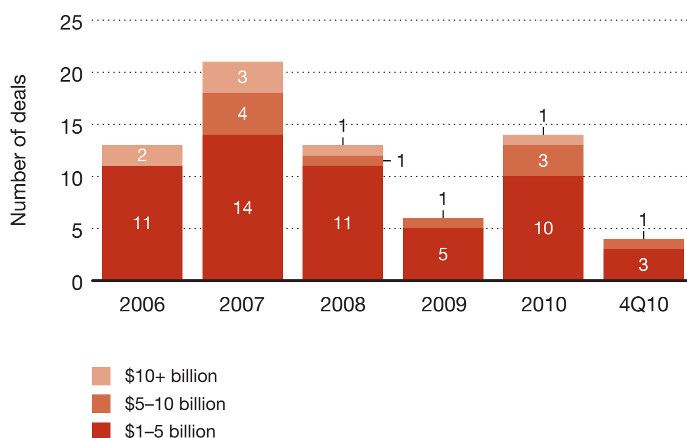
Average deal value was up considerably in 2010

Deal value in 2010 got a significant boost from the $39.8 billion attempted bid by BHP Billiton PLC for Potash Corp. The average value for deals worth more than $1 billion more than doubled from 2009. However, even excluding this deal, total value for all deals with a disclosed value greater than $50 million was still up more than 100%. We also continue to see a trend toward larger deals. Again excluding the BHP/Potash deal, average deal value for all deals with disclosed values greater than $50 million was up from $378 million in 2009 to $635 million in 2010. Based on what we see in the pipeline of deal activity for deals that have not been announced, we expect to see this trend continue.

Number of large deals up in 2010

The underlying data in 2010 supports what we have seen in the market with a significant increase in the average deal size. During the economic downturn, we noted that the level of deal activity by number of deals remained relatively high. However, the number of large deals and the average size of deals dropped significantly. Throughout 2010, we saw larger deal activity return, both as a function of deal availability and a shift in the risk profile of acquirers. We continue to see deal flow for larger deals and expect to see this trend continue in 2011.

Large deals (2006–2010, 4Q10)
Value greater than $1 billion (and number of deals in category)

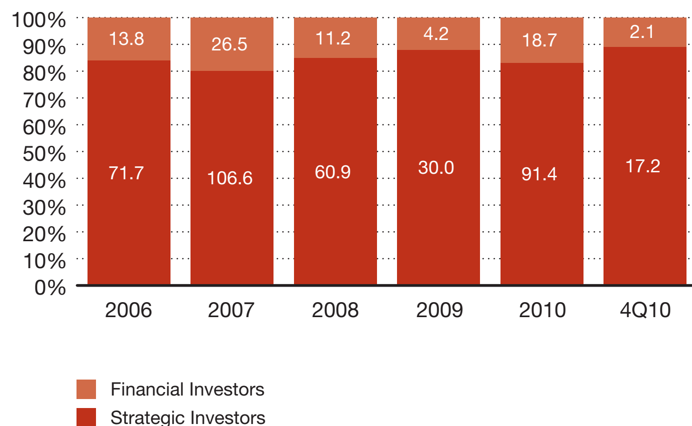


Deal activity by type of acquirer

Financial investor deal activity typically accounted for 15% to 20% of total deal value prior to the downturn. We have seen conditions improve for financial investors through 2010 as was evidenced in our view of deal activity and the announced deal data, which shows financial investors accounting for 17% of deal value. However, a portion of the financial investor deal activity was driven by the downturn with bankruptcy emergence creditor transactions. Adjusting for these transactions, the financial investor deal activity is approximately 10%, which is still below the pre-downturn range. We expect to see stronger financial investor deal activity in 2011, assuming that lending conditions continue to improve. We should also note that the level of financial investor deal activity is typically slightly understated by "hybrid" investor deal activity, in which the acquirer is an existing portfolio company of a financial investor.

As the economy continues to improve, we expect to see more financial investor activity on the sell side as some financial investors look to divest investments they were forced to hold during the economic downturn. We continue to recommend that companies analyze the portfolio of private equity investors for potential acquisition candidates. It can be assumed that all of the companies will be available for sale in the foreseeable future.

Deal value by type of acquirer (2006–2010, 4Q10)
Measured by percentage of deal value (actual deal value in billions, for deals with a disclosed value greater than $50 million, shown in chart)

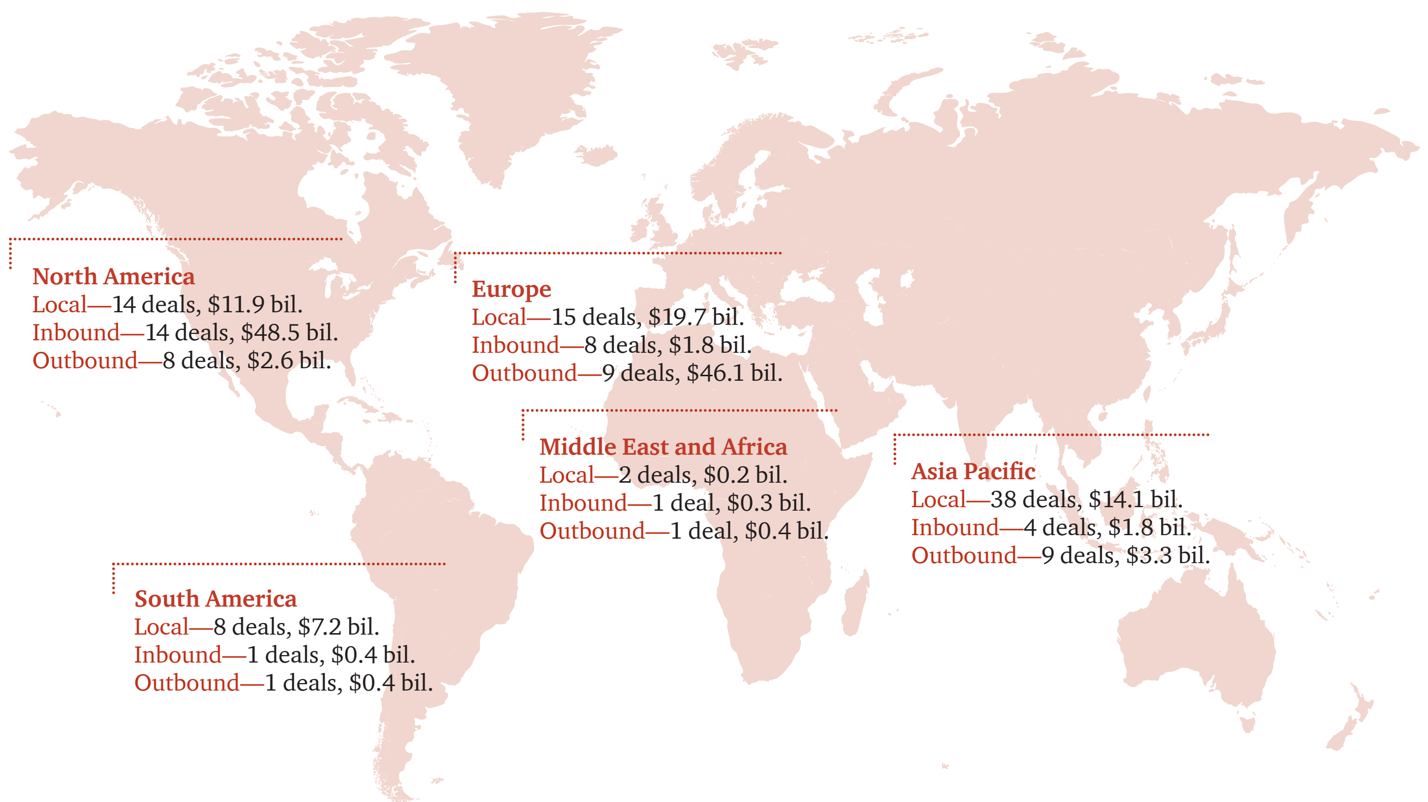


Regional distribution of fourth-quarter 2010 deals

The fourth quarter regional distribution of deal activity (by target region) deviated from the normal distribution in several ways: 1) the volume and value of European deals were lower than normal, although there are several large European deals in the pipeline that have not yet been announced; 2) the value of Eastern European deals was higher than normal, with a large Russian deal valued at more than $8 billion (see page 11 for additional detail); and 3) the value of Asian deals was higher than normal as the fourth quarter had two large deals (greater than $1 billion). Additionally, there were several announced cross-border deals, with Japan as the acquirer, valued at more than $600 million.

Global chemicals M&A activity

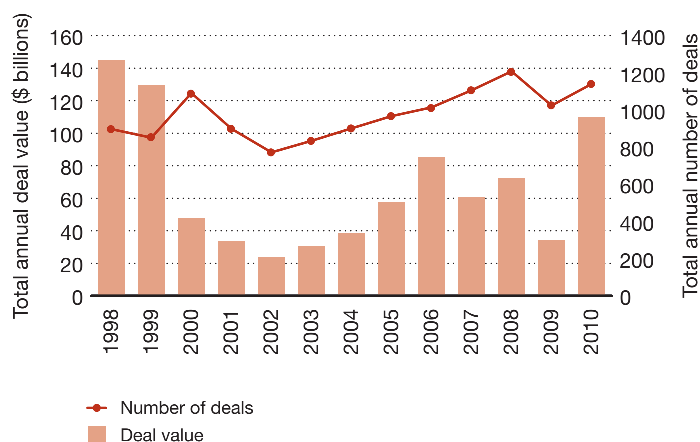
Measured by number and value of deals worth $50 million or more (2010)



Long-term deal value and volume

To provide a longer-term perspective of the level of deal activity, we analyzed the volume and value of deal activity during the past 13 years. In contrast to the value of transactions, which varied substantially across the period, the volume of transactions was relatively stable, even during economic downturns. This is due to a consistent level of small deal activity in the chemicals industry, which is driven by companies using M&A as a tool to continually reposition their business. During periods of economic downturn, large deal volume drops significantly, reducing total deal value. This held true for the recent recession. As the economy continues to recover, we are seeing an upturn in the level of large deal activity, which is expected to continue into 2011.

13-year comparison deal activity, 1998 to 2010



Large deals in 2009

Month announced	Target name	Target nation	Acquirer	Acquirer nation	Status	Value of transaction in US$ bln	Category
Feb	CF Industries Holdings Inc	United States	Agrium Inc	Canada	Withdrawn	5.60	Fertilizers & Agricultural
Jan	Terra Industries Inc	United States	CF Industries Holdings Inc	United States	Completed	4.07	Fertilizers & Agricultural
Jul	Nufarm Ltd	Australia	Sinochem Group	China	Withdrawn	2.29	Fertilizers & Agricultural
Nov	Mitsubishi Rayon Co Ltd	Japan	Mitsubishi Chemical Holdings	Japan	Completed	1.91	Commodity
Apr	Morton International Inc	United States	K+S AG	Germany	Completed	1.68	Specialty
Oct	Brazilian Renewable Energy Co	Brazil	ETH Bioenergia SA	Brazil	Completed	1.39	Commodity

Large deals in 1Q-3Q of 2010

Month announced	Target name	Target nation	Acquirer	Acquirer nation	Status	Value of transaction in US$ bln	Category
Aug	Potash Corp of Saskatchewan	Canada	BHP Billiton PLC	United Kingdom	Withdrawn	39.76	Fertilizers & Agricultural
Feb	Airgas Inc	United States	Air Products & Chemicals Inc	United States	Pending	7.65	Industrial Gases
Apr	LyondellBasell Industries NV	Netherlands	Creditors	Netherlands	Completed	6.84	Commodity
Sep	JNFL	Japan	Investor Group	Japan	Completed	4.75	Other
Jan	Quattor Participacoes SA	Brazil	Braskem SA	Brazil	Completed	4.13	Other
Feb	Terra Industries Inc	United States	Yara International ASA	Norway	Withdrawn	4.10	Fertilizers & Agricultural
Mar	Styron Corp	United States	Bain Capital Partners LLC	United States	Completed	1.63	Commodity
Jun	Albaugh Inc	United States	Makhteshim Agan Industries Ltd	Israel	Withdrawn	1.28	Fertilizers & Agricultural
Aug	AWB Ltd	Australia	Agrium Inc	Canada	Completed	1.10	Fertilizers & Agricultural
Feb	Fosfertil	Brazil	Mineracao Naque SA	Brazil	Completed	1.03	Fertilizers & Agricultural

Large deals in 4Q 2010

Month announced	Target name	Target nation	Acquirer	Acquirer nation	Status	Value of transaction in US$ bln	Category
Dec	Sil'vinit	Russian Fed	Uralkali	Russian Fed	Pending	8.18	Fertilizers & Agriculture
Nov	Sino Polymer New Materials Co	China	Lumena Resources Corp	China	Pending	1.34	Commodity
Nov	IFCO Systems NV	Netherlands	Brambles Investments Ltd	United Kingdom	Pending	1.26	Other
Dec	Xianglu Petrochemicals(Xiamen)	China	Heilongjiang Heihua Co Ltd	China	Pending	1.11	Commodity

Large deal summary for fourth-quarter 2010

Sil'vinit/Uralkali

Uralkali planned to acquire 100% of the shares in OAO Sil'vinit, a Solikamsk-based chemical and fertilizer mining company for a total value of USD 8.2 billion through a series of transactions.

Sino Polymer New Materials Co./Lumena Resources Corp.

Lumena Resources Corp. agreed to acquire a 95% interest in Sino Polymer New Materials Co. Ltd., a manufacturer of polyphenylene sulfide, from Ascend Concept Technology Ltd. (37.78%), Mandra Materials Ltd., Mandra Esop Ltd. (14.16%), Woo Foong Hong Ltd. (5.72%), MS China 10 Ltd. (7.66%), a wholly-owned unit of Morgan Stanley, Ying Mei Group Ltd. (5%), Triple A Investments Ltd. (3.46%), Sky Success Investments Ltd. (8.7%) and other undisclosed sellers (12.53%), for CNY 8.895 billion (USD 1.337 billion), in a reverse-takeover transaction. The consideration was to consist of CNY 949.132 million in cash and the issuance of 3.158 billion new ordinary shares valued at CNY 7.946 billion (USD 1.194 billion). The shares were valued based on Lumena's closing stock price of CNY 2.516 (USD 0.378) on November 5, 2010, the last full trading day prior to the announcement.

IFCO Systems NV/Brambles Investments Ltd.

Brambles Investments Ltd. of the UK, a wholly-owned subsidiary of Brambles Ltd., launched a tender offer to acquire the entire share capital, or 51.55 million ordinary shares in IFCO Systems NV, an Amsterdam-based manufacturer of plastic containers, from Island International Investment Ltd., a unit of Apax Partners SA, for a total value of EUR 923 million (USD 1.264 billion). The consideration was to consist of EUR 13.5 (USD 18.481) per share or EUR 696 million (USD 952.772 million) in cash plus EUR 227 million (USD 310.746 million) in debt. Originally, Brambles Ltd. was rumored to be planning to acquire IFCO Systems NV.

Xianglu Petrochemicals (Xiamen)/Heilongjiang Heihua Co. Ltd.

Heilongjiang Heihua Co. Ltd. signed a letter of intent to acquire the remaining 92.41% interest, which it did not already own, in Xianglu Petrochemicals (Xiamen) Co. Ltd., a manufacturer and wholesaler of chemical products, from Xiamen Xianglu Chemical Fiber Co. Ltd., a majority-owned unit of X-tra Cycle Ltd. (BVI)'s majority-owned Xianglu Industry Co. Ltd. of Hong Kong subsidiary, in exchange for an estimated 1.412 billion new Heihua ordinary shares valued at CNY 7.343 billion (USD 1112.529 mil). The shares were valued based on Heihua's closing stock price of CNY 5.2 (USD 0.782) on July 27, 2010, the last full trading day prior to the suspension.

PwC spotlight

With constant legislative, regulatory, and judicial changes, companies operating across borders are challenged to follow and comprehend ever-changing 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 requires 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 business 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 cross-border 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's (IFC) *Doing Business* study to produce our *Paying Taxes* report.

The purpose of the *Paying Taxes* study is to provide quantitative data to stimulate an informed discussion on tax policy and tax administration—and to inspire tax reform. The results of the study enable governments and investors to compare similar tax systems and to identify best practices. The report is free and can be accessed using this link: Paying Taxes 2011.

Chemical company case study:

Client: Global chemical company

Client issue

A global chemical company applies a contract model whereby specialty chemicals are shipped to a third-party manufacturer in the European Free Zone (EFZ), a free-trade zone in Turkey, by vendors outside of Turkey. Title to the specialty chemicals is transferred in the EFZ from the vendors to the manufacturer's subsidiary in Germany, and then to the third-party manufacturer in the EFZ.

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

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

PwC approach

Our approach consisted of analyzing the company's operations from the following perspectives:

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

The benefit

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

It also gained assurance that the anticipated tax consequences would flow from the contract production model.

PwC's chemicals experience

Deep chemicals experience

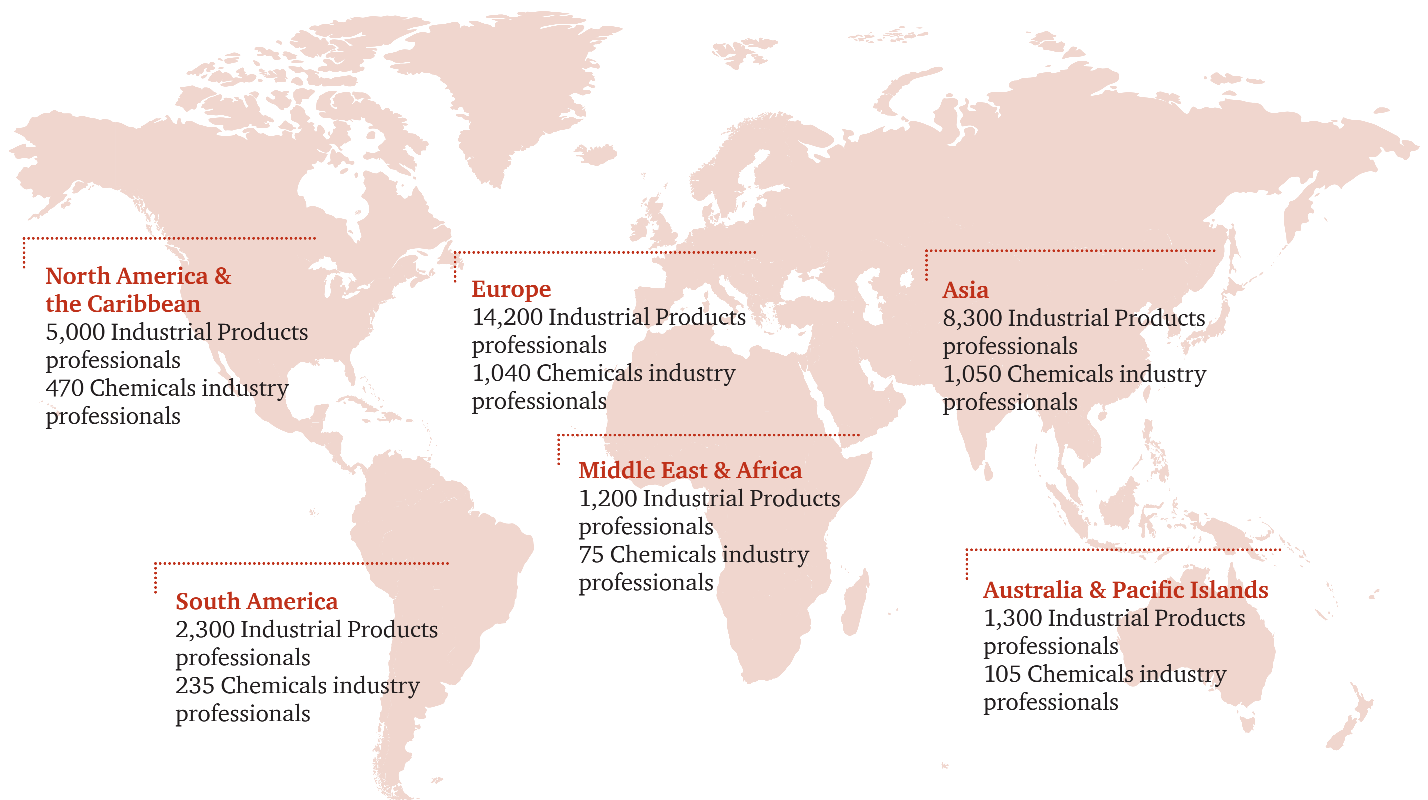
PwC continues to serve the leading market share in the industry. Our Chemicals Industry practice is comprised of a global network of nearly 3,000 partners and client service professionals. Our chemicals team encourages dialogue on emerging trends and issues by holding conferences for industry executives. PwC is also a sponsor of leading industry conferences and frequently authors articles for, or is quoted in, leading industry publications. Our involvement with these organizations represents PwC's commitment to furthering industry dialogue with chemicals industry leaders. Our professionals are concentrated in areas where the chemicals industry operates today and in the emerging markets where the industry 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 all factors that could affect the transaction, including market, financial accounting, tax, human resources, operating, IT, and supply chain considerations. Teamed with our Chemicals Industry practice, our deal professionals can bring a unique perspective to your deal, addressing it from a technical aspect as well as from a chemicals industry point of view.

Global connection

PwC's Chemicals Industry practice is a part of an Industrial Products group that consists of more than 32,000 professionals, including more than 17,000 providing Assurance services, 8,300 providing Tax services, and 7,000 providing Advisory services.



Contacts

PwC's Chemicals Industry practice

PwC's Chemicals Industry practice is a global network of professionals who provide industry-focused Assurance, Tax, and Advisory services to more than 200 public and private chemical companies. Our leadership team consists of:

Global Chemicals leader
Tracey Stover—Denver, CO, US
Phone: 1.720.931.7466
E-mail: tracey.a.stover@us.pwc.com

Global Chemicals Tax leader
Michael Burak—Florham Park, NJ, US
Phone: 1.973.236.4459
E-mail: michael.burak@us.pwc.com

Global Chemicals Advisory leader
Volker Fitzner—Frankfurt, Germany
Phone: 49.69.9585.5602
E-mail: volker.fitzner@de.pwc.com

Global Chemicals client service advisor
Alison McNerney—New York, NY, US
Phone: 1.646.471.1747
E-mail: alison.mcnerney@us.pwc.com

US Chemicals leader
Anthony J. Scamuffa—Philadelphia, PA, US
Phone: 1.267.330.2421
E-mail: anthony.j.scamuffa@us.pwc.com

US Chemicals Tax leader
Matthew Bruhn
Phone: 1.973.236.5588
E-mail: matthew.bruhn@us.pwc.com

US Chemicals Transaction Services director
Bruce Chalmers—Philadelphia, PA, US
Phone: 1.410.659.3488
E-mail: bruce.chalmers@us.pwc.com

US Chemicals Transaction Services director
Simon Bradford—New York, NY, US
Phone: 1.646.471.8290
E-mail: simon.bradford@us.pwc.com

US Industrial Products director
Neelam Sharma—Florham Park, NJ, US
Phone: 1.973.236.4963
E-mail: neelam.sharma@us.pwc.com

US Industrial Products sector analyst
Tom Haas—Florham Park, NJ, US
Phone: 1.973.236.4302
E-mail: thomas.a.haas@us.pwc.com

US Industrial Products marketing manager
Gina Reynolds—Florham Park, NJ, US
Phone: 1.973.236.4648
E-mail: gina.reynolds@us.pwc.com

Germany Chemicals leader
Eckhard Sprinkmeier—Düsseldorf, Germany
Phone: 49.0211.981.7418
E-mail: eckhard.sprinkmeier@de.pwc.com

France Chemicals leader
Stephane Basset—Paris, France
Phone: 33.01.56.57.7906
E-mail: stephane.basset@fr.pwc.com

Central and Eastern Europe Chemicals leader
Pawel Peplinski—Warsaw, Poland
Phone: 48.22.523.4433
E-mail: pawel.peplinski@pl.pwc.com

United Kingdom Chemicals leader
Richard Bunter—London, UK
Phone: 44.0.191.269.4375
E-mail: richard.bunter@uk.pwc.com

United Kingdom Chemicals Transaction Services director
Mike Clements—London, UK
Phone: 44.0.113.289.4493
E-mail: mike.clements@uk.pwc.com

Greater China Chemicals Leader
Jean Sun—Beijing, China
Phone: 86.10.6533.2693
E-mail: jean.sun@cn.pwc.com

Greater China Chemicals Transaction Services Partner
Roland Xu—Shanghai, China
Phone: 86.21.2323.2558
E-mail: roland.b.xu@cn.pwc.com

PwC's 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. The team consists of:

Global Transaction Services leader
John Dwyer—London, UK
Phone: 44.0.20.721.31133
E-mail: john.p.dwyer@uk.pwc.com

US Transaction Services leader
Martyn Curragh—New York, NY, US
Phone: 1.646.471.2622
E-mail: martyn.curragh@us.pwc.com

Europe Transaction Services leader
Volker Strack—Frankfurt, Germany
Phone: 49.69.9585.1297
E-mail: volker.strack@de.pwc.com

Asia-Pacific Transaction Services leader
Chao Choon Ong—Singapore
Phone: 65.6236.3018
E-mail: chao.choon.ong@sg.pwc.com

PwC's Research and Analytics group

Industrial Products Research and Analytics manager
Sean Gaffney—Tampa, FL, US
Phone: 1.813.348.7461
E-mail: sean.gaffney@us.pwc.com

Methodology

Chemical compounds is an analysis of deals in the global chemicals industry. Deal information was sourced from Thomson Reuters using the Thomson-defined industry sector of Chemicals and Allied Products for targets, and other selected upstream and downstream industries (e.g., oil & gas, mining, drugs, etc.) acquired by companies that are part of the Thomson-defined Chemicals and Allied Products designation. This analysis includes all mergers and acquisitions for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases and acquisitions of remaining interest announced between January 1, 2006, and December 31, 2010, with a deal status of completed, intended, partially completed, pending, pending regulatory approval, seeking buyer, seeking buyer withdrawn, unconditional (i.e., initial conditions set forth by the acquirer have been met but deal has not been completed) or withdrawn. Geographic categories generally correspond to continents with exceptions for Australia (included in the Asia Pacific category), Europe (divided into Western and Eastern categories based upon UN definitions) and the Middle East (defined as a separate category based upon US CIA World Factbook). Where the number of deals is referenced in this analysis it means the number of all deals with disclosed or undisclosed values unless otherwise noted.

Visit our chemicals industry website at www.pwc.com/us/industrialproducts

© 2011 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" and "PwC" refer to PricewaterhouseCoopers LLP, a Delaware limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity. This document is for general information purposes only, and should not be used as a substitute for consultation with professional advisors. MW-11-0193 JP

PricewaterhouseCoopers has taken all reasonable steps to ensure that information contained herein has been obtained from reliable sources and that this publication is accurate and authoritative in all respects. However, it is not intended to give legal, tax, accounting, or other professional advice. If such advice or other expert assistance is required, the services of a competent professional should be sought.