

## News release

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### **Mining and metals fundamentals remain compelling**

#### ***Transaction opportunities for some***

*New Delhi, 17 MARCH 2009* – Mining and metals sector fundamentals continue to be compelling. A rundown in inventories and infrastructure-intensive stimulus packages around the world are likely to contribute to a new rally in the sector.

Released today, Ernst & Young's annual review of mergers, acquisitions and capital raising in the sector, *2008: The year when cash was king*, highlights the impact of the global financial crisis on the sector.

“In 2008, the sector went from the heights of optimism to the depths of despair with the sudden and severe collapse in mining and metals prices in the third quarter,” says Ernst & Young Global Mining & Metals Sector Leader Mike Elliott.

“Although the mining sector was the last to be impacted, financing and deals all but dried up in the fourth quarter,” he says.

“Consolidation will continue to be slower in the short to medium term due to financing challenges, but mining and metals companies with strong balance sheets need to be aware of the potential opportunities.”

“In 2009, we expect niche deals to increase and a number of smaller US\$2 to US\$10 billion megadeals involving the mid-tiers. There will also probably be a focus on streamlining operations through the divestment of non-core assets.”

Elliott says China-based companies and state-owned enterprises are also actively shopping for once-in-a-lifetime acquisition opportunities in the current market, particularly in low risk markets, such as Australia and Canada.

Elliott says a sharp reduction in inventories and a bias in global stimulus packages toward metals-intensive infrastructure spending around the world may combine to create a new supply/demand imbalance, pushing up metal prices and deal values.

“Two to three trillion US dollars in economic stimulus packages have been announced around the world over the last few months, and it’s estimated that 30-40% of this will be going into infrastructure. More than 70% of the package planned by China alone is set to be in metals-intensive infrastructure spending.”

*2008: The year when cash was king* is a comprehensive analysis of all financing deals in mining globally, covering M&A, IPOs, bonds, loans and project finance, including country-by-country breakdowns based on data sourced from *Project Finance International* (PFI).

### **Key points**

#### **M&A**

- The value of M&A deals fell 40% in 2008 from US\$211 billion in 2007 to US\$127 billion in 2008.
- The volume of deals increased by 2% from 903 in 2007 to 919 in 2008, with most in the first half of the year and many proposed or planned deals delayed, damaged or destroyed by the effects of the global financial crisis and collapse in metal prices.
- Cross-border deals continued to outstrip domestic transactions, with cross-border deals valued at US\$69 billion in 2008 compared to US\$58 billion in domestic transactions.

#### **IPOs**

- IPO raisings dropped from US\$21.4 billion in 2007 to US\$12.4 billion in 2008.
- The number of IPOs fell from 280 in 2007 to just 117 in 2008.
- Exploration and early stage development companies were hardest hit by the extraordinary market conditions in 2008 and evaporation in equity finance.
- The top 10 IPOs accounted for 93% of the total amount raised in 2008.

#### **Loans**

- Astonishingly both the number and value of loans to the mining and metals sector grew in 2008 from 83 in 2007 to 268 in 2008, with the value increasing from US\$110.7 billion

to US\$171.7 billion. However, US\$55 billion of this was arranged (but not drawn down) by BHP Billiton for the proposed but abandoned acquisition of Rio Tinto.

- Average loan value fell from US\$1.3 billion to US\$641 million, reflecting the reduced size in acquisitions and projects.

#### Bonds

- Funding available for bonds in 2008 was about the same as in 2007 however, the average size of bond issues decreased.
- New funding of US\$38.1 billion was raised from 140 bond issues in 2008, with an average value of US\$268.7 million.
- Sixteen of the 57 bond issuers were based in China and companies in China led the market issuing 54 bonds with a total value of US\$6.7 billion.
- As with other sources of finance, the appetite for corporate paper rapidly reduced in the second half of the year, with the bond market effectively closed by year end.

#### Project finance

- The value of loans increased from US\$6.4 billion in 2007 to US\$7.7 billion in 2008, buoyed by a large number of new projects at the beginning of 2008.
- The number of projects financed decreased from 17 to 16, with seven involving some re-financing. By year end project financing had virtually ceased.

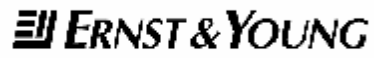
The full report, *2008: The year when cash was king*, is available through [www.ey.com/miningmetals](http://www.ey.com/miningmetals).

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