

# *Engineering growth*

## Fourth-quarter 2010 global engineering & construction mergers and acquisitions analysis

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

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Welcome to the fourth-quarter 2010 edition of *Engineering growth*, PwC's quarterly analysis of mergers and acquisitions (M&A) in the global engineering and construction 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 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 may be the deciding factor.

## Special report

# Repositioning for growth:

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

Today's engineering and construction (E&C) companies have already found opportunities for growth through the establishment of operations in the BRIC countries — Brazil, Russia, India, and China. As these companies seek to reposition their business strategy to meet new demands, they are now looking for opportunities in a second wave of emerging markets such as the VISTA countries — Vietnam, Indonesia, South Africa, Turkey, and Argentina.

Construction is booming in places like Indonesia, where the economy is rapidly expanding, but improvements to infrastructure are needed to sustain growth. The situation is similar in South Africa, where there has been an increase in public and private sector infrastructure investment, partly as a result of the 2010 Soccer World Cup event. E&C companies have significant opportunities to win work as governments increasingly open doors to inbound investment, through private-public partnerships, private finance initiatives, joint ventures, foreign direct investment, and partnering. The challenges are significant, as E&C companies need to manage regulatory issues, procurement strategies, and the local market and business culture, which vary widely around the world.

To be successful, today's E&C companies must understand the evolving global E&C industry and be in a position to take advantage of new markets as they emerge. Further, as the BRIC countries continue to be saturated by multinational corporations, the VISTA countries are an alternate option for consideration. Weak but stable currencies in several VISTA countries also affords them competitive advantage and opportunities to supply developed countries with raw materials and products.

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. All 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.

Without exception, VISTA country governments view foreign investment as an important source of capital for their economies. By comparison, China and Russia give the advantage to local businesses over outsiders. Both enacted policies that restrict foreign companies from investing in “strategic” sectors and provide preferential loans to domestic players.

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. 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 E&C companies that invest in VISTA countries**

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

#### **Vietnam**

- The standard corporate income tax rate is 25%. Corporate income taxes are imposed at the national level. There are no local, state, or provincial taxes. Preferential corporate income tax rates of 10% and 20% are available where certain criteria are met.
- Tax incentives for inward investment in Vietnam are granted based on regulated, encouraged sectors and difficult socioeconomic locations. The two preferential corporate income tax rates of 10% and 20% are available for 15 years and 10 years, respectively, starting from the commencement of operating activities. When the preferential rate expires, the corporate income tax reverts to the standard rate.
- A value added tax (VAT) is applied to goods and services used for production, trading, and consumption in Vietnam (including goods and services purchased from abroad) with certain exemptions. The standard VAT rate is 10%, but reduced rates of zero and 5% may apply in certain situations.

- Vietnam imposes a broad definition of *permanent establishment*.
- Production royalties in the form of a natural resource tax are payable in industries exploiting natural resources such as oil and gas, other minerals, forests, fisheries, and importantly, natural water. The tax rates vary depending on the natural resource being exploited, ranging from 1% to 40%, and are applied to the production output at a specified taxable value per unit (mining and manufacturing).
- A property tax is assessed on the rental of land use rights by foreign investors.
- A 10% withholding tax applies to interest payments to an overseas lender. It also applies in the case of royalty payments made to a foreign party for transfers of technology (which are defined very broadly), unless the transfers are capital contributions.
- Additional tax reductions may also be available for manufacturing, construction, and transportation activities that employ 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 in South Africa at a standard rate of 14%. Goods and services exported from South Africa are usually subject to a zero VAT rate.
- A South African resident company is subject to tax on its worldwide income, irrespective of source. A company is resident in South Africa if it is incorporated, established, or formed in South Africa or has its place of effective management in South Africa. The place of effective management is the place where the operational management of the company is carried out.
- A secondary tax 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 from 28% down to 14%.
- Royalties and know-how payments made to nonresidents for the use of, or right to use, intellectual property rights in South Africa are deemed to be from a South African source. The payer of the royalty or know-how payment is obliged to deduct a withholding tax of 12% of this payment. The 12% withholding tax may be reduced by the terms of the relevant tax treaty. For example, royalty payments made to a US recipient are subject to zero withholding.
- Deductions may be claimed for royalties, managerial service fees, and interest charges paid to foreign affiliates, provided such amounts approximate those that would be paid to an unrelated entity in an arm's-length transaction.

- The thin capitalization rules may be applied by South African taxing authorities where financial assistance, such as a loan, advance, or debt, or the provision of any security is granted by a nonresident investor to a resident investee who is either a related party or a corporate entity in which the investor has a direct or indirect interest entitling it to participate in not less than 25% of the dividends, profits, capital, or votes. The thin capitalization rules, when applied, disallow the deductibility of interest paid by the South African resident to the foreign lender, to the extent that such interest is considered by the South African taxing authorities to be excessive, such as when the paying company is thinly capitalized.
- To encourage innovation, current costs related to certain research and development activities carried on in South Africa are 150% deductible. The cost of machinery and other capital assets acquired for the purposes of research and development may be depreciated 50% in the first year of use, 30% in the second, and 20% in the third year.

## Turkey

- The standard corporate income tax rate in Turkey is 20%.
- A VAT applies to sales of goods and services in Turkey at a standard rate of 18%.
- If both the legal and business headquarters of a company are located outside Turkey, the company is regarded as a nonresident entity. If one of these headquarters is located in Turkey, the company is regarded as a resident entity. Resident entities are subject to tax on their worldwide income, whereas nonresident entities are taxed solely on the income derived from activities in Turkey.
- Dividend distributions to nonresident corporate shareholders are subject to a standard withholding tax rate of 15%.
- Turkey's new corporate income tax law includes considerable amendments to its transfer pricing regulations using Organization for Economic Cooperation and Development (OECD) guidelines as a basis.
- According to Turkey's new thin capitalization regulation, if the ratio of the borrowings from shareholders or from parties related to the shareholders exceeds triple the shareholders' equity

in the borrower company at any time in the relevant year, the exceeding portion of the borrowing will be considered thin capital. Accordingly, under the new regulation, the ratio of loans received from related parties to shareholders' equity must be no more than 3 to 1 to eliminate Turkish thin capitalization issues.

- Payments for royalties and interest made to foreign affiliates may be deductible for tax purposes, provided that transfer pricing and thin capitalization rules are followed.
- The Turkish government provides investment incentives (state aids) to facilitate a larger capital contribution by foreign investors to the country and to support activities that have a positive effect on employment. The import of machinery and equipment is exempt from customs duty and VAT. Additional incentives for new investment include the following:
  - Reduced corporate tax rate
  - Exemption for social security premium (employer's portion)
  - Interest support
  - Allocation of land for investments
- Free trade zones are special sites that lie geographically in Turkey but are deemed to be outside the customs territory. In general, activities such as manufacturing, storage, packing, general trading, banking, insurance, and trade may be performed in Turkish free trade zones.

## Argentina

- The standard corporate income tax rate in Argentina is 35%. Legal entities resident in Argentina are subject to tax on Argentine and foreign-source income. Legal resident entities are able to claim any similar taxes actually paid abroad on foreign-source income as a tax credit. The tax rate applies on net income determined on a worldwide basis.
- A national VAT is assessed on the sales of products, e.g., raw materials, produce, or finished or partly finished merchandise, with few exemptions; on most services (such as construction, utilities, professional and personal services not derived from employment, rental, etc.); and on import of goods and services. The general tax rate is 21%, although certain specific items are subject to a reduced rate of 10.5% or an increased rate of 27%.

- The transfer pricing regulations governing intercompany transactions adopt principles similar to those of the OECD, pursuant to which companies must comply with the arm’s-length principle to determine the value of goods and services in their transactions with foreign related companies. This principle extends to transactions with companies located in low- or no-tax jurisdictions.
- Various Argentine provinces have investment promotion regimes. Although the regimes have certain differences, generally they include the following incentives:
  - Exemption from provincial taxes such as turnover tax, stamp duty, real estate tax, etc.
  - Reduced public utility rates
  - Support for infrastructure and equipment projects
  - Facilities for the purchase, rental, or lease of public property without charge
- Argentine free trade zones offer exporters the possibility to import free from customs duties and VAT all the necessary equipment for construction of a “turnkey” plant within the zones.
  - Exporters manufacturing within the zones enjoy the benefit of buying supplies and raw materials from third countries, without having to pay duties

or taxes that lead to increased prices.

- The customs authority regulating these goods considers them as stored in a third country; therefore, incoming products are subject to inspection with the sole purpose of classifying quantity and type.
- In other words, goods enjoy a duty-free status until they enter the Argentine customs territory.
- Goods may remain in the free zone for a maximum period of five years.

### VISTA or BRIC

At this point, it’s difficult to assess the growth potential in a VISTA country. While BRIC countries tend to offer a more developed infrastructure in selected parts of the countries and a relatively sophisticated market structure, this is not yet the case for many of the VISTA countries. Without a developed infrastructure, rapid growth is difficult. Additionally, each VISTA country offers a mix of opportunities and risks.

Economic and political stability, varying business regulations, possible inflation, and competition among countries are also factors to consider when assessing whether an investment in a VISTA country will bring disappointment or long-term success.

### How BRIC and VISTA countries rank on taxes

*Paying Taxes*, a unique study from PwC, the World Bank, and the International Finance Corporation (IFC), measures the ease of paying taxes across 183 economies worldwide, covering both the cost of taxes and the administrative burden of tax compliance.

The study provides useful insights and identifies efficiencies, and it can benefit governments and businesses alike. With six years of data, the study includes interesting perspectives on how the world’s tax regimes have changed during this time — and, more recently, over a period of unprecedented economic turmoil.

The data below provides two snapshots: the ranking for each VISTA and BRIC economy (out of 183 in the study) for ease of paying taxes and total tax rate (with 1 being the lowest rate).

Country	Ease of paying taxes	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: *Paying Taxes 2011*.

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## *Perspectives:* Thoughts on engineering and construction deal activity in the fourth quarter of 2010

The fourth quarter saw continued growth in deal volume and deal value, and as expected, the full-year totals for both exceeded 2009. Average deal value in 2010 also exceeded that of 2009. Despite concerns of high unemployment in the United States and debt problems in Europe, buyer activity remains strong. Interestingly, the proportion of deals that included US activity increased both in volume and in value compared to the third quarter as well as for the full year compared to 2009, indicating that despite continued sluggishness in the engineering & construction sector, optimism remains.

Mega-deal (deals worth at least \$1 billion) activity remained low, with one deal in the fourth quarter, the \$7.45 billion acquisition of mining equipment manufacturer Bucyrus International by Peoria, Illinois-based Caterpillar. However, total mega-deal value for 2010 more than doubled that of 2009 overall, and mega-deal activity for the full year, as measured by number of deals, was almost double that of 2009.

In fourth-quarter 2010, financial investor contribution increased and accounted for more than one-quarter of deal volume. This reversed the trend of increasing strategic investor deals, which began when the economic recession hit. Based on deal value to EBITDA, valuations increased this quarter compared with prior periods. One explanation for this increase in valuations is that many strategic investors (still almost three-fourths of deal activity) are turning to acquisitive growth to make use of large amounts of cash saved during the economic slowdown. Historically, E&C companies have turned to acquisitions to achieve targeted growth rates, improve technical competencies, and increase geographic reach; up to one-half of the 2010 growth has been driven by mergers and acquisitions by existing E&C companies.

During the fourth quarter, targets in Asia and Oceania continued to drive deal activity, accounting for 48% of transactions valued at \$50 million or more, up from 43% in the third quarter. North American targets increased to 26% in the fourth quarter, as increased confidence in the economic recovery and cash-heavy balance sheets added to growth.

Activity related to the BRIC economies increased in the fourth quarter, to 11 target deals and 12 acquirer deals. Once again, China was the strongest driver of activity. Of the 11 deals announced for BRIC targets, eight were for targets in China. Of the 12 deals announced by BRIC acquirers, seven were by Chinese companies. The Chinese deals were predominantly local market (seven deals); and were for construction companies (six targets) and construction machinery and materials companies (two targets). This was driven in part by the high demand for infrastructure improvements, providing these companies with the capital for new deals. Four of the eight deals (50%) are classified as financial deals, a significantly higher proportion than that of the sector as a whole (28%).

Looking forward to 2011, several indicators lead us to believe that the deal environment will continue to improve. Equity markets continue to advance; the S&P 500 index increased almost 13% in 2010. However, high levels of unemployment and weak residential construction activity, particularly in the United States and other developed economies, highlight remaining weaknesses. Continued concerns about weak economic growth and European debt woes might also constrain investment. Nevertheless, we believe buyers remain optimistic in their near-term economic outlooks. Strong balance sheets, reduced costs, and margin growth remain relevant considerations and lead us to conclude that activity will continue to increase in the coming year.

# Commentary

## 2010 volume and value advances end on strong note

Both deal volume and deal value increased in fourth-quarter 2010 compared with the previous quarter. The general recovery in deal volume and value since first-quarter 2009 has continued, and going forward we expect activity to remain strong. Fourth-quarter average deal value remained strong compared with the most recent three-year average (\$0.4 billion compared with \$0.35 billion), driven in part by Caterpillar's \$7.45 billion offer for Bucyrus International.

### Quarterly Engineering & Construction deal activity

Measured by number and value of deals worth \$50 million or more (1Q08-4Q10)

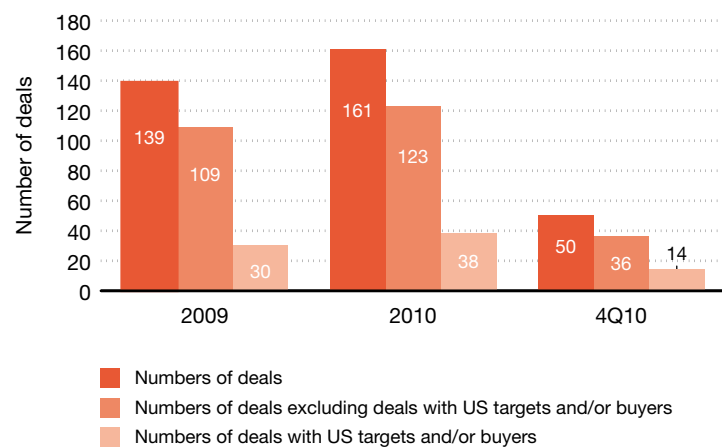
	2008				2009				2010			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Number of deals	56	65	42	45	15	33	37	54	34	43	34	50
Total deal value (US\$ bil.)	16.25	17.40	13.68	23.03	2.59	10.66	8.72	20.14	25.12	11.42	13.42	18.63
Average deal value (US\$ bil.)	0.3	0.3	0.3	0.5	0.2	0.3	0.2	0.4	0.7	0.3	0.4	0.4

## US-affiliated volume and value increasing

The percentage of deals involving US targets and/or buyers increased in the fourth quarter. Of the 50 transactions that took place, 14 (28.0%) involved a US entity. This compares with 23.6% for all of 2010. Significantly, US-based transactions contributed more than 57.5% of fourth-quarter deal value, well above the 2010 proportion of 39.1%. This increase in deal value may be an indication that, after cautious growth in the deal environment, US-based entities are becoming more confident in the economic recovery and are more willing to invest in growth opportunities. However, it should be noted that the Caterpillar-Bucyrus deal had a significant impact; without this deal, the United States would have accounted for only about 29.1% of deal value.

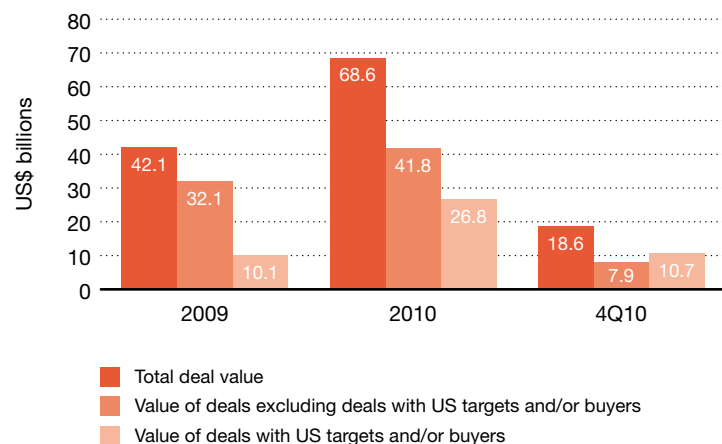
### Deal activity by number of deals

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



### Deal activity by total deal value

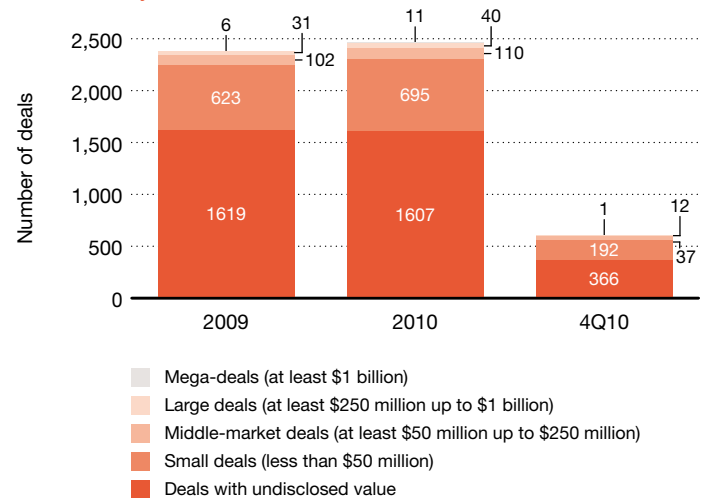
Measured by value of announced deals worth \$50 million or more



### Smaller deals continue to drive activity, but large and medium-sized deals increasing

As global economic trends continue to improve, smaller deals and transactions with undisclosed values remain the drivers of overall activity, in line with historical trends. However, the number of large deals (with a value between \$250 million and \$1 billion) increased in the fourth quarter as well as for 2010 overall. Middle-market deals (with a value between \$50 million and \$250 million) also demonstrated similar increases.

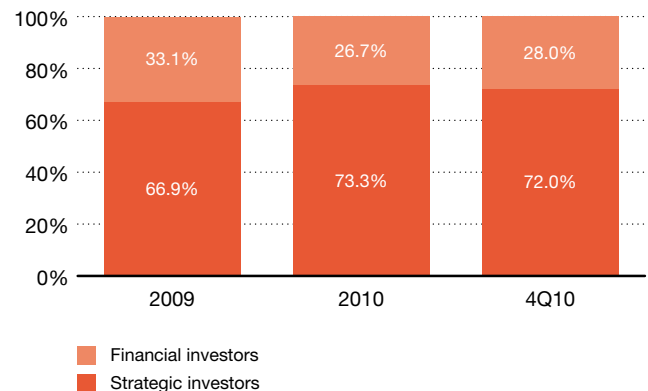
**Deal activity by number and range of deal value (including transactions with undisclosed values)**  
Measured by number of deals



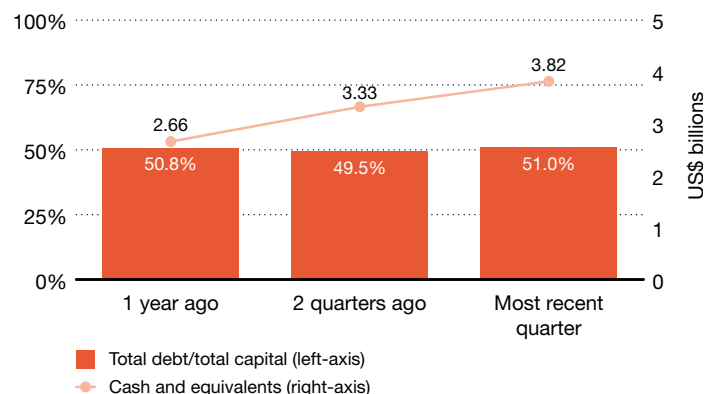
### Recent trend reverses as financial investments increase

During the past few years, private equity firms have faced considerable fundraising challenges, deterring their participation in the deal environment. Until recently, their involvement remained weak, as availability of credit and low returns constrained deal activity. In fourth-quarter 2010, financial investors' contribution to M&A activity increased, driving 28% of volume. Current market valuations, based on deal value to EBITDA for targets increased significantly. After several quarters of declining participation, financial investors appear to be returning to the deal environment. However, strategic investments continue to drive the majority of deals. While financial leverage remains fairly flat, cash on hand has increased substantially; companies with cash-heavy balance sheets are well positioned to make acquisitions in order to bolster growth and improve market share.

**Deal activity by investor group**  
Measured by number of deals worth \$50 million or more



**Financial leverage and liquidity**  
Measured by average of top 15 global public competitors



Source: Company reports

### ***Mega-deal value declines slightly***

There was one mega-deal (transactions of \$1 billion or more) in the fourth quarter, down from two in the third quarter. Deal value for the fourth quarter mega-deal was \$7.45 billion, compared with \$7.7 billion in the third quarter. This local market deal involves an offer by US-based Caterpillar to purchase Bucyrus International Inc., a US-based manufacturer and wholesaler of surface and underground mining equipment, aftermarket parts, and service. The purchase of Bucyrus will help Caterpillar expand its global footprint in the mining equipment industry and offer one-stop shopping in emerging markets, such as China.

Mega-deal activity by value for 2010 more than doubled that of 2009 overall, and mega-deal activity, as measured by number of deals, almost doubled. This increased activity of mega-deals is, in part, a consequence of reduced capital constraints (i.e., the difficulty in raising capital at attractive costs in the market is decreasing) and low activity in much of 2009. Although mega-deal activity remains constrained when compared with longer-term historical averages, over the near term we believe the level of deal activity should continue to improve as buyer interest expands and risk premiums contract to account for improving outlooks.

## Mega-deals in 2008

Month announced	Target name	Target nation	Buyer name	Buyer nation	Status	Value of transaction in US\$ bil.	Category
Dec	Itinere Infraestructuras SA	Spain	Pear Acquisition Corporation SL	Spain	Completed	7.93	Construction
Dec	Grupo Ferrovial SA	Spain	Concesiones de Infraestructuras de Transporte SA{Cintra}	Spain	Completed	4.00	Construction
Jul	Xella International GmbH	Germany	Xella International GmbH SPV	France	Completed	3.18	Nonmetallic minerals manufacturing
Jul	Cegelec SA	France	Qatari Diar Real Estate Investment Co QSC	Qatar	Completed	2.96	Civil engineering
Dec	Itinere Infraestructuras SA	Spain	Pear Acquisition Corporation SL	Spain	Completed	1.36	Construction
Mar	Cie de Saint-Gobain SA	France	Wendel SA	France	Completed	1.22	Nonmetallic minerals manufacturing
Apr	Safety-Kleen Europe Ltd	United Kingdom	Warburg Pincus LLC	United States	Completed	1.12	Construction
Jan	Tenaris SA-Hydril Pressure Control Business	United States	GE Oil & Gas	Italy	Completed	1.12	Construction machinery and materials
Jan	Malaysia Marine & Heavy Engineering Sdn Bhd	Malaysia	Ramunia Holdings Bhd	Malaysia	Withdrawn	1.06	Civil engineering
Jan	INVIN SL	Spain	Investor Group	Spain	Completed	1.05	Construction
Apr	Eiffage SA	France	Groupe Caisse des Depots & Consignations{CDC}	France	Completed	1.01	Construction

## Mega-deals in 2009

Month announced	Target name	Target nation	Buyer name	Buyer nation	Status	Value of transaction in US\$ bil.	Category
Dec	Cimpor Cimentos de Portugal SGPS SA	Portugal	Cia Siderurgica Nacional{CSN}	Brazil	Withdrawn	5.66	Nonmetallic minerals manufacturing
Apr	Centex Corp	United States	Pulte Homes Inc	United States	Completed	3.11	Home building
Dec	Daewoo Engineering & Construction Co Ltd	South Korea	KDB Value LLC	South Korea	Pending	1.90	Civil engineering
Aug	Cegelec SA	France	VINCI SA	France	Completed	1.71	Civil engineering
Jun	Cemex SAB de CV-Australian Assets	Australia	Holcim Ltd	Switzerland	Completed	1.63	Nonmetallic minerals manufacturing
Dec	Terex Corp-Mining Business	United States	Bucyrus International Inc	United States	Completed	1.30	Construction machinery and materials

## Mega-deals in 2010

Month announced	Target name	Target nation	Buyer name	Buyer nation	Status	Value of transaction in US\$ bil.	Category
Feb	Smith International Inc	United States	Schlumberger Ltd	United States	Completed	11.04	Construction machinery and materials
Nov	Bucyrus International Inc	United States	Caterpillar Inc	United States	Pending	7.45	Construction machinery and materials
Sep	Hochtief AG	Germany	Actividades de Construccion y Servicios SA{ACS}	Spain	Intended	4.02	Construction
Jul	Abertis Infraestructuras SA	Spain	Trebol Holdings Sarl	Spain	Completed	3.68	Construction
Jun	Subsea 7 Inc	Norway	Acergy MS Ltd	United Kingdom	Pending	2.50	Civil engineering
Mar	Kumho Industrial Co Ltd	South Korea	Creditors	South Korea	Completed	2.21	Construction
Jan	Arabtec Holdings PJSC	Utd Arab Em	Aabar Investments PJSC	Utd Arab Em	Withdrawn	1.75	Home building
Jan	Cimpor Cimentos de Portugal SGPS SA	Portugal	Camargo Correa Portugal SGPS SA	Portugal	Completed	1.33	Nonmetallic minerals manufacturing
Mar	Corredor Norte Toll Road Project	Panama	Republica de Panama	Panama	Pending	1.07	Construction
Feb	KNM Group Bhd	Malaysia	BlueFire Capital Group Ltd	Malaysia	Withdrawn	1.05	Construction machinery and materials
Jun	Societe des Autoroutes Paris-Rhin-Rhone SA	France	Eiffarie SAS	France	Completed	1.05	Construction

## Mega-deals in 4Q10

Month announced	Target name	Target nation	Buyer name	Buyer nation	Status	Value of transaction in US\$ bil.	Category
Nov	Bucyrus International Inc	United States	Caterpillar Inc	United States	Pending	7.45	Construction machinery and materials

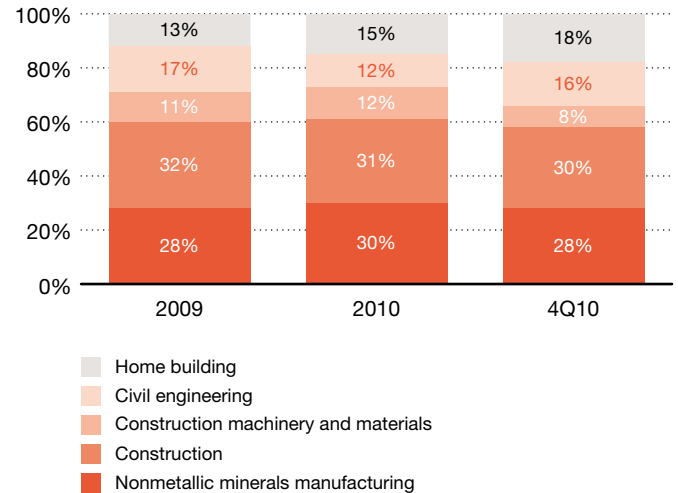
## Construction and nonmetallic minerals manufacturing categories drive activity

PwC segments the engineering and construction sector into five categories by comparing standard industrial classification (SIC) codes to our internal classification system. Based on this process, we group deals (measured by number) into five product and service segments:

- Home building
- Civil engineering
- Construction machinery and materials
- Construction
- Nonmetallic minerals manufacturing

Based on this methodology, during the fourth quarter of 2010, targets classified as construction and nonmetallic minerals manufacturing were the primary categories driving activity, contributing more than half of the quarter's activity. Both categories declined slightly, while home building and civil engineering showed increased activity. The increase in home builder activity may indicate optimism by buyers, who are positioning themselves for an anticipated increase in demand for residential real estate; however, the majority of home building deals were for targets outside the United States, so the increase does not indicate a complete revival of confidence in the US market. The civil engineering increase may indicate buyers anticipate an increase in nonresidential and infrastructure construction. It should be noted that despite the decline in activity of the construction machinery and materials category, the US-based Caterpillar-Bucyrus mega-deal occurred in this category.

**Deals by engineering & construction category**  
Measured by number of deals worth \$50 million or more



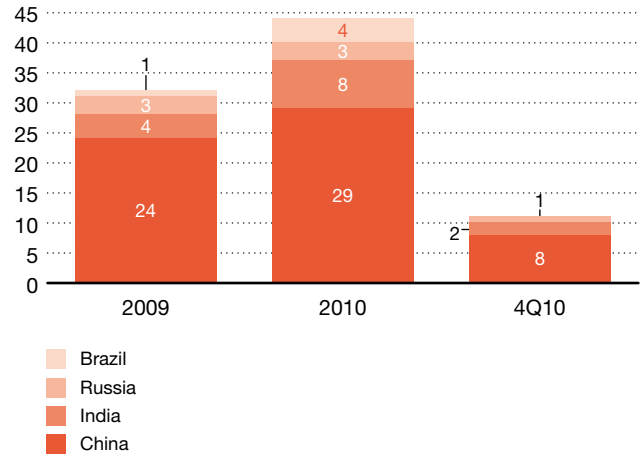
Note: Due to rounding, totals may not equal 100%

**BRIC-affiliated transactions increasing, in line with overall deal activity**

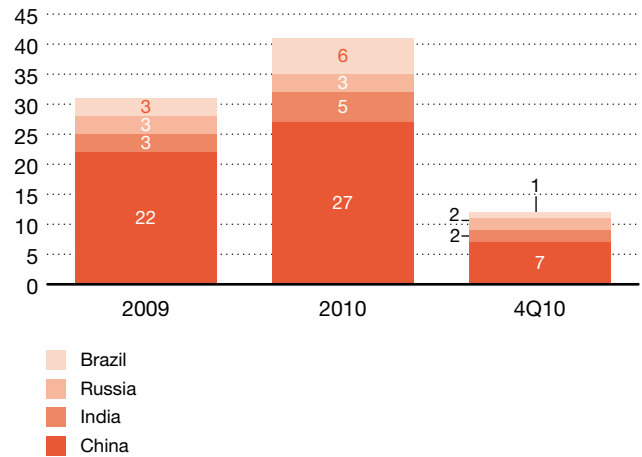
Just as deal activity overall increased during the fourth quarter as measured by number of deals, the level of activity affiliated with BRIC countries also increased, by 20% to 12 deals in the third quarter.

China generated most of the BRIC-related activity. Of the 11 deals announced for BRIC targets, eight were for targets in China. Of the 12 deals announced by BRIC acquirers, seven were by Chinese companies. The Chinese deals were predominantly local market (seven deals), and were for construction companies (six targets) and construction machinery and materials companies (two targets). Four of the eight deals (50%) for Chinese targets were classified as financial deals, a significantly higher proportion than that of the sector as a whole (28%).

**Distribution of BRIC deals by target nation**  
Measured by number of announced deals worth \$50 million or more



**Distribution of BRIC deals by acquirer nation**  
Measured by number of announced deals worth \$50 million or more



## Regional analysis

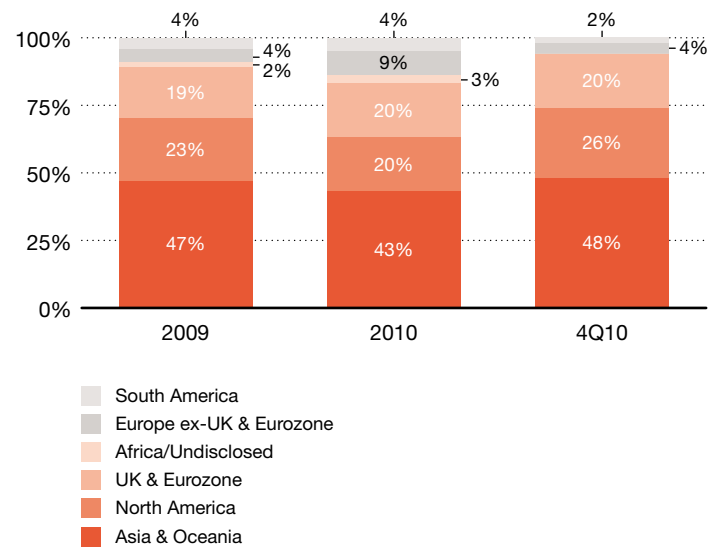
### Asia & Oceania leads deal activity; significant increase seen in North America

During the fourth quarter, targets in Asia and Oceania continued to drive deal activity, accounting for 48% of transactions valued at \$50 million or more, compared with 43% for both the third quarter and 2010 as a whole. North America increased to 26% in the fourth quarter, up from 23% in the third quarter, as increased confidence in the economic recovery and cash-heavy balance sheets added to growth. The Europe ex-UK & Eurozone region saw a significant decline in activity, decreasing to 4% in the fourth quarter from 14% in the third. Finally, the UK & Eurozone region increased from 14% in the third quarter to 20%, despite recent concerns about economic recovery in the Eurozone.

The Asia & Oceania region continues to dominate geographic trends for acquirers as well. A considerable portion of the activity in Asia involved local market deals, particularly in China, where Chinese companies increased their stakes in subsidiaries and joint ventures. We expect this region will continue to drive deal activity as China continues its rapid infrastructure expansion.

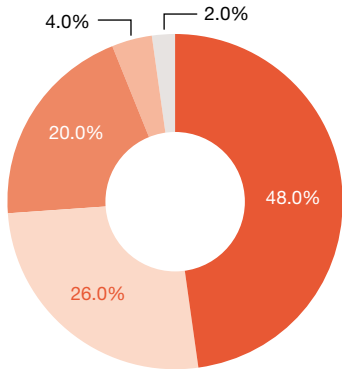
### Regional distribution of deals by target region

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

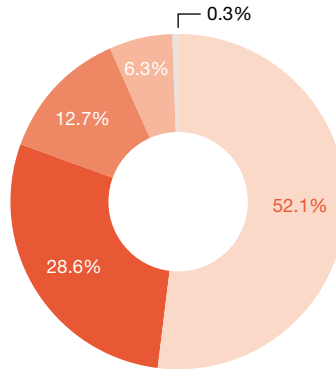


Due to rounding totals may not equal 100%

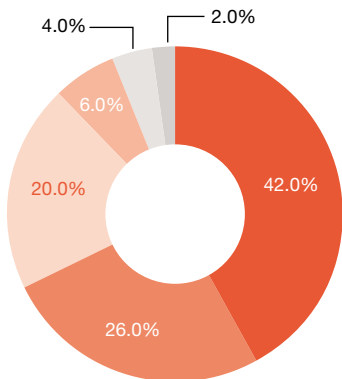
**Regional distribution of deals by target region**  
 Measured by number of deals worth \$50 million or more (4Q10)



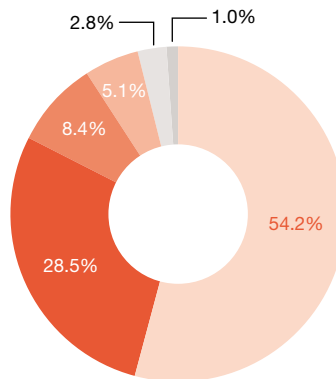
**Regional distribution of deals by target region**  
 Measured by value of deals worth \$50 million or more (4Q10)



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



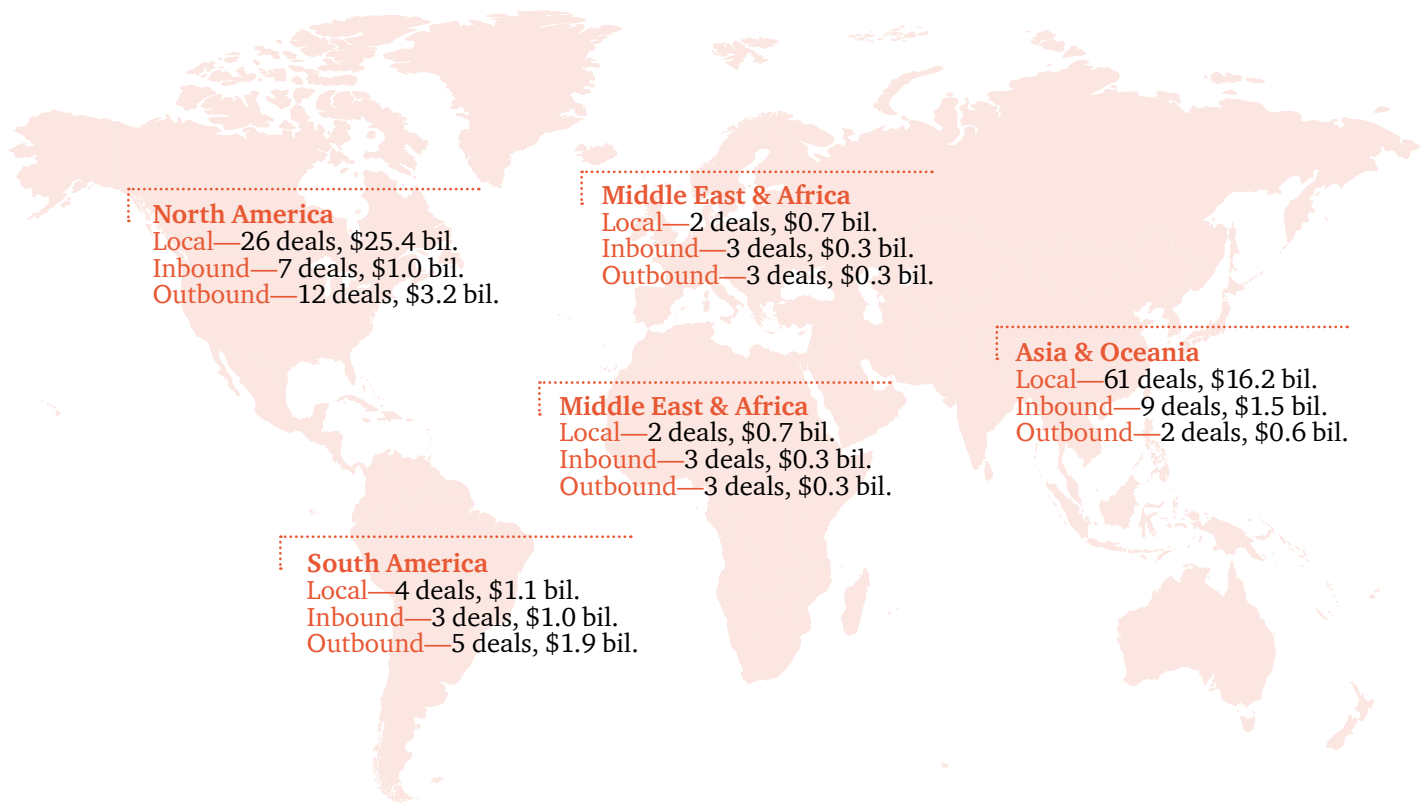
**Regional distribution of deals by acquirer region**  
 Measured by value of deals worth \$50 million or more (4Q10)



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

## Global Engineering & Construction activity

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

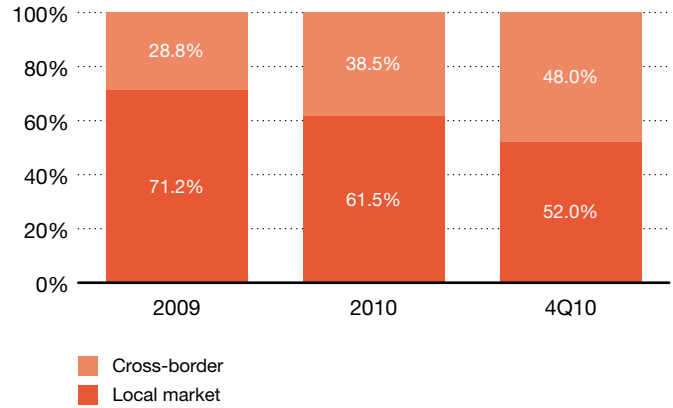


### **Allocation of cross-border deals shows significant improvement**

Historically, cross-border transactions have been an integral part of the M&A story, and since 2009, they have been steadily increasing as a percentage of deal volume. The fourth quarter showed a significant increase in these deals when compared with the year as a whole. Due to political, socioeconomic, and currency risks, cross-border transactions generally entail greater levels of risk than local market transactions do, so the greater proportion of cross-border activity during the fourth quarter may be indicative of increased buyer optimism regarding the sustainability of the current economic recovery. As the economy continues to improve, the growth in cross-border deal activity should continue as perceived rewards outweigh perceived risks. This increased cross-border activity will also be aided by the perceived need of corporations to augment slow organic growth by entering into new, faster-growing geographies, repositioning product portfolios for increased growth, etc.

### **Local market vs. cross-border deals (all nations)**

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



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## *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 and inform discussion on tax policy and tax administration — and to inspire tax reform. The *Paying Taxes* results enable governments and investors to compare tax systems with others on a like-for-like basis and to identify best practices. The report is free and can be accessed using this link: *Paying Taxes 2011*.<sup>1</sup>

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

## Specialty case study:

### *Transfer pricing structure leads to licensing, royalties and tax-efficient benefits*

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<b>Issue</b>	A multinational company wanted to do business in South Africa, a country enjoying economic expansion and a demand for new infrastructure projects. However, many of these projects require sophisticated new technologies that must be licensed from another country. The company needed the approved international license agreements for these technologies. It also needed help in complying with new tax laws and transfer pricing regulations, both of which are under increased scrutiny in a rapidly developing country such as South Africa.
<b>Action</b>	The company turned to PwC, the world's leading advisor in global transfer pricing. A team of specialists helped executives structure the licensing transactions in a way that enabled the company to charge royalties in return for the right to use new technologies.
<b>Impact</b>	The company successfully licensed the technologies, collected royalties from the transactions, and did so in tax-efficient way that helped reduce the global effective tax rate. In addition, the company achieved all this while reducing the risk of transfer pricing adjustments, penalties, and double taxation.

## Deep industry and transaction experience

PwC provides advisory, assurance, or tax services for nearly 90% of the engineering and construction companies listed in the Fortune 500. Our Engineering & Construction industry practice is composed of a global network of approximately 4,800 industry professionals who service approximately 20,000 engineering and construction companies around the world. We specialize in servicing private and public contractors, homebuilders, building products companies, and professional and support services companies, as well as governments. Central to the successful delivery of our services is an in-depth understanding of today's industry issues and our unwavering commitment to delivering economic value through specialized resources and international leading practices. Our highly skilled team encourages dialogue regarding complex business issues through active participation in industry conferences and associations, such as the Construction Financial Management Association.

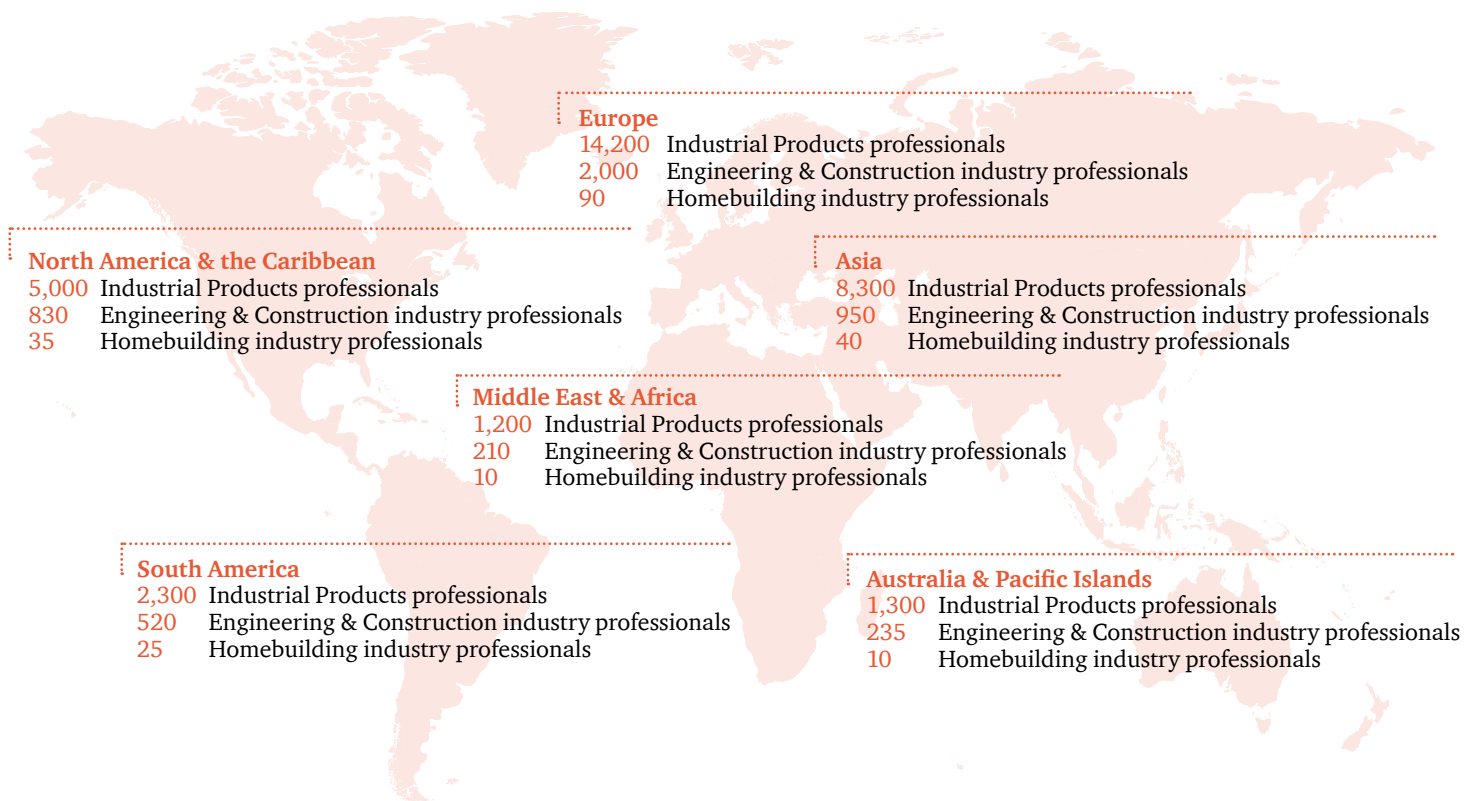
### Quality M&A deal professionals

PwC's Transaction Services practice consists of more than 6,500 dedicated deal professionals worldwide. The depth of their industry and functional experience enables them to advise clients regarding factors that could affect a

transaction across the deal continuum. From initial due diligence and evaluation to preparation for Day One and post-close merger integration, our teams are committed to capturing value throughout the deal process and achieving our clients' objectives. These functional areas include, but are not limited to, sales & marketing, financial accounting, tax, human resources, information technology, risk management, and supply chain. Teamed with our Engineering & Construction industry practice, our deal professionals can bring a unique perspective to your transaction, addressing it from a technical as well as industry point of view.

### Local coverage, global connection

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



## Contacts

### *PwC Engineering & Construction practice*

Through our global network, we can draw upon the technical and industry experience of E&C specialists in every country in which your company operates.

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(For Transaction Services professionals who specialize in the engineering and construction industry, see contacts in the Engineering & Construction practice section.)

## Methodology

*Engineering growth* is an analysis of deals in the global engineering and construction sector. Deal information was gathered from Thomson Reuters and includes deals for which targets have primary SIC codes that fall into one of the following SIC industry groups: single-family housing construction; residential construction; operative builders; industrial buildings and warehouses; nonresidential building construction; highway and street construction; bridge, tunnel, and elevated highway construction; water, sewer, pipeline, and utility line construction; heavy construction; plumbing, heating, and air conditioning; electrical work; carpentry work; roofing, siding, and sheet metal work; concrete work; water well drilling; structural steel erection; excavation work; installation or erection of building equipment; special trade contractors; asphalt paving mixtures and blocks; asphalt felts and coatings; flat glass; glass containers; pressed and blown glass and glassware; glass products, made of purchased glass; cement, hydraulic; brick and structural clay tile; ceramic wall and floor tile; clay refractories; vitreous plumbing fixtures and bathroom accessories; fine earthenware (whiteware) kitchen articles; pottery products; concrete block and brick; concrete products, except block and brick; ready-mixed concrete; gypsum products; cut stone and stone products; abrasive products; minerals and earths, ground or otherwise treated; mineral wool; nonclay refractories; nonmetallic mineral products; construction machinery and equipment; mining machinery and equipment, except oil and gas; oil and gas field machinery and equipment; elevators and moving stairways; conveyors and conveying equipment; hoists, cranes, monorail systems; industrial trucks, tractors, trailers, and stackers; lumber, plywood, millwork, and wood panels; brick, stone, and related construction materials; roofing, siding, and insulation

materials; construction materials; lumber and other building materials dealers; engineering services; architectural services; surveying services; air and water resource and solid waste management. Balance sheet data was sourced from public company reports.

This analysis includes all individual mergers and acquisitions for disclosed or undisclosed values, leveraged buyouts, privatizations, minority-stake purchases and acquisitions of remaining interest announced between January 1, 2008, and December 31, 2010, with a deal status of completed, intended, partially completed, pending, pending regulatory approval, unconditional (i.e., initial conditions set forth by the buyer have been met but deal has not been completed), or withdrawn.

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 and Latin 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). The Eurozone includes Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, and Spain. Oceania includes Australia, New Zealand, Melanesia, Micronesia, and Polynesia. Overseas territories were included in the region of the parent country and China, when referenced separately, includes Hong Kong. The term “deals,” when referenced herein, refers to deals with a disclosed value of at least \$50 million unless otherwise noted.

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