Australia
Opportunities and barriers to inbound construction

OVERALL G20 ATTRACTIVENESS RANK FOR INBOUND CONSTRUCTION ACTIVITY: 7

G20 rankings & data

<table>
<thead>
<tr>
<th>G20 heatmap rankings</th>
<th>12</th>
<th>16</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction industry health</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction industry value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction industry, real growth</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Announced spend on construction in next 3 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country financial health</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget balance</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall announced fiscal stimulus</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP/Head</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit ratings rank</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ease of doing business</td>
<td></td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Doing business overall rank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dealing with construction permits rank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business transparency rank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax regime</td>
<td></td>
<td>6=</td>
<td>7</td>
</tr>
<tr>
<td>BDO overall tax rank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World bank – paying taxes rank</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Financial metrics
- Total fiscal stimulus announced: £19.76bn
- Announced spend on construction in the next 3 years including fiscal stimulus to construction: £19.3bn
- Construction industry value – 2009: £34bn
- Main corporate tax rate: 30%

Construction sector metrics

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction industry value, £bn</td>
<td>32</td>
<td>34</td>
<td>36</td>
<td>37</td>
<td>38</td>
<td>40</td>
<td>41</td>
</tr>
<tr>
<td>Construction industry, real growth, per cent y-o-y</td>
<td>5.0</td>
<td>2.1</td>
<td>1.4</td>
<td>2.0</td>
<td>-0.1</td>
<td>0.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Construction industry, per cent of GDP</td>
<td>6.3</td>
<td>6.2</td>
<td>6.1</td>
<td>5.9</td>
<td>5.8</td>
<td>5.8</td>
<td>5.7</td>
</tr>
</tbody>
</table>

BDO review of tax
- Corporate tax rates around the G20 average
- Thin capitalisation restrictions can apply but with generally acceptable max debt: equity level
- Tax depreciation includes the potential for deductions based upon an enhanced cost base
- Wide ranging environmental incentives may be available

Overall scoring: 6/10

6= out of the G20

BDO ease of doing business

1 Very easy  2 Quite easy  3 Average  4 Quite difficult  5 Very difficult

Top construction firms

1 Leighton Holdings
2 Lend Lease
3 Bilfinger Berger Australia Pty Ltd
4 Brookfield Multiplex Group
5 LU Simon
6 Grocon

This dominance is a barrier to the extent that to compete significant working capital would need to be invested into Australia.
“Australia offers good opportunities for inbound construction activity. It enjoys a strong economy and benevolent tax and regulatory environment. In addition, its position as a gateway to the Asia-Pacific region adds a unique advantage. Dominant local competition and relationship with unions and regulatory bodies are the main barriers to inbound companies.”

Richard Kelly
Partner, Head of Construction

Overall levels of business taxation are around the G20 average but a number of environmentally targeted measures will be of particular benefit to construction groups focussing on investing in Australia, including environmental incentives and enhanced taxed depreciation.”

Stephen Herring
Tax Partner, Real Estate and Construction

Opportunities and barriers

Ranked 7th overall in our G20 heatmap, Australia offers good opportunities as a destination for inbound construction activity.

The Australian construction and engineering industry grew by 15.4 per cent in 2007. Under the Auslink programme, the Australian government spent around AUD15.8bn (£7.4bn) on road and rail projects funded between 2004 and 2009 (91 per cent road, 9 per cent rail). In 2008 it announced the second wave of the Auslink program, allocating an estimated AUD22.7bn (£10.7bn) to upgrade critical elements of the nations road and rail infrastructure. Examples of major projects financed in 2007 include the duplication of the Hume Highway in New South Wales (NSW); the NSW government’s Epping-Chatswood rail link and Western Australia’s (WA) Perth-Mandurah railway.

In 2007-08 the federal government invested AUD33bn (£1.4bn) in direct and indirect grants to replace, upgrade and maintain the quality of land transport infrastructure on behalf of the Australian Government. Additional investments were also made in specific road transport programs.

As of 2008, there has been a rise in the value of infrastructure projects financed by the state governments in Australia. Furthermore, there had also been an increase in government funding of social infrastructure, such as schools in Sydney, the Southbank Technical and Further Education (TAFE) institution in Brisbane, and the redevelopment of the Royal Children’s Hospital in Melbourne.

The first Australian federal budget (2008-2009) of Prime Minister Kevin Rudd will submit to the parliament AUD41bn (£19.3bn) for infrastructure spending on transport, utilities, telecommunications and education infrastructure.

In February 2009 the Federal Government announced a AUD42bn (£19.76bn) stimulus package. Of this around AUD30bn (£14.1bn) has been allocated to infrastructure, with most going to ‘social’ projects including schools and public housing. As part of this ‘National Building’ stimulus package the government has pledged to invest AUD26.4bn (£12.4bn) in road and rail infrastructure over the period 2009-2013.

It is forecast that the construction industry value real growth will decline in the coming years, falling from an estimated 6.1 per cent in 2008 to 0.9 per cent in 2010.

Australia has been one of the pioneers of PPP schemes. Australia’s PPP market shows the second-highest levels of sophistication and activity globally after the UK. However, the business community has been complaining of an inadequate regulatory regime.

Reasons Australia is attractive for inbound construction activity

• Notwithstanding the current economic climate, Australia has a strong underlying economy and attractive tax regime.

• Strong population growth is likely to drive further infrastructure requirements.

• Major government projects being announced as well as a good fiscal stimulus devoted to the construction sector.

• Australia’s approach to regulation is seen as best practice.

• The continued importance of the Asia-Pacific region as a source of world economic growth means Australia is a strategic location for business opportunities in Asia.

Barriers/challenges to construction activity

• Relationship with unions and regulators – any new entry construction company would need to have local people to deal with union and regulator requirements.

• Relationships and reliance on third party contractors.

• Strong local competition which can dominate the local market.

BDO viewpoint and advice

Pitfalls to avoid when doing business in Australia

• Not understanding the nuances of each sector of the Australian market, for example building in Sydney vs. Melbourne.

• Underestimating the strengths of existing relationships (especially with unions and regulatory bodies) when trying to break into new markets.

Practical advice for inbound construction activity

• New entrants must have local people / advisers on the ground with significant experience.

• Significant tender work rarely awarded (Government and private) to new entrants – joint Ventures advantageous in this area.

Useful tax and other incentives for inbound construction activity

Main depreciation rates:

• Buildings – Tax depreciation is available at 2.5 per cent per annum.

• Other tangible business assets – normally obtain tax depreciation, over the useful life on the asset, either based upon 100 per cent of costs (the “prime-cost method”) or from a 150 per cent cost-base (the ‘diminishing-value method’).

Other incentives:

• An immediate deduction should be allowed for expenditure incurred for the sole or dominant purpose of carrying out Environmental Protection Activities (“EPA”). EPA are activities undertaken to prevent, fight and remedy pollution, and to treat, clean up, remove and store waste.