France
Opportunities and barriers to inbound construction

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G20 rankings & data

Financial metrics
- Total fiscal stimulus announced
- Announced spend on construction in the next 3 years including fiscal stimulus to construction
- Construction industry value – 2009
- Main corporate tax rate

Construction sector metrics

<table>
<thead>
<tr>
<th>Year</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>Industry value, £bn</td>
<td>102</td>
<td>111</td>
<td>119</td>
<td>125</td>
<td>130</td>
<td>135</td>
<td>-</td>
</tr>
<tr>
<td>Real growth, per cent y-o-y</td>
<td>8.2</td>
<td>6.1</td>
<td>3.2</td>
<td>0.9</td>
<td>2.0</td>
<td>2.4</td>
<td>-</td>
</tr>
<tr>
<td>Industry, per cent of GDP</td>
<td>5.9</td>
<td>6.2</td>
<td>6.3</td>
<td>6.4</td>
<td>6.4</td>
<td>6.4</td>
<td>-</td>
</tr>
</tbody>
</table>

BDO review of tax
- Relatively high headline rate of corporate tax
- Stringent thin capitalisation rules with relatively complex application
- Comprehensive tax depreciation regime
- Few sector specific tax incentives

BDO ease of doing business

There are some minor barriers but the size of the opportunity still outweighs these.

Top construction firms
- VINCI SA
- Bouygues SA
- Eiffage SA
- Fayat
- Spie Batignolles SA

The French construction industry is among the most dominant globally, with domestic firms, VINCI, Eiffage, Lafarge and Bouygues, representing the largest companies in the areas of general contracting and engineering.
Opportunities and barriers

 Ranked 11th overall in our G20 heatmap, France offers a good environment for inbound activity but a complex regulation and strong local competition are barriers.

 In 2007, the French construction sector was of a similar size to that of the UK (£67bn) and represented 8 per cent of French GDP.

 Non-residential construction showed growth of more than 10 per cent in 2006, supported by strong in-flows of FDI. The most important sub-sectors in non-residential construction are industrial and commercial, both of which performed well during the year with storage buildings being the strongest performing area. In 2008 growth in the construction sector slowed to 6.1 per cent as the domestic economy slipped into recession.

 As of 2007 France had four of the top ten European construction companies and, along with the UK, had the highest number of companies in the top 100.

 In December 2008, French President Nicolas Sarkozy announced a £24.81bn stimulus package to boost the country’s economy. Under the scheme, state-owned companies will increase investment by £3.72bn in 2009 and the Government will supplement this with a further £3.72bn to be spent on high-speed rail projects, dams and canals, university campuses and road maintenance amongst other projects, in an effort to revive the stagnating construction industry.

 In December 2008, it was announced that France is preparing to restructure its freight transport sector, with an emphasis on increasing the percentage carried by rail by transferring freight typically carried by road onto rail.

 The construction sector in France is expected to grow at a modest pace over the medium term. Growth will be boosted by substantial public sector investment.

 In December 2008, the French Government indicated its intention to reduce its road freight percentage and increase rail’s share. France intends to enhance its position as the world leader in atomic energy, with the construction of a new generation of pressurized water nuclear plants.

 In a recent report examining the costs associated with starting-up and operating a business in various locations around the world, France was assessed to have the lowest cost base in Europe — this takes into account cost aspects including, salaries and wages, cost of location, transportation and utilities costs.

 Successive French governments have favoured public investment in big infrastructure projects, particularly in airports, railways and highways. While arguably the ongoing fiscal squeeze means this will not be sustainable, some of the benefits, in terms of increased capacity, are making themselves felt within the forecast period.

 The French Government is planning to support the use of PPPs through special provisions and additional funding through its stimulus package (‘le plan de relance’).

 This includes a Government guarantee for all bank loans taken out by a PPP and in January 2009, the French senate introduced various amendments which are intended to make PPPs more viable. Recently completed PPP projects include the A19 and A41 toll road concessions, and tranches one and two of the prisons programme. There are also a number of road-building projects under way.

 Reasons France is attractive for inbound construction activity

 • France is a relatively easy place to do business with low business set-up costs.
 • Longer term opportunities (over three years) look encouraging with public spending expected to rise.
 • The PPP environment is expected to improve supported by the French Government.

 Barriers/challenges to construction activity

 • France has a strong local construction industry with some of the largest international construction companies based in France.
 • The tax environment is not as encouraging as it should be.
 • Tendency to ‘buy French’ when projects being put to tender.

 BDO viewpoint and advice

 Pitfalls to avoid when doing business in France

 • Mishandling relationships with government, who despite significant reform and privatization over the past 15 years, continue to control a large share of economic activity.
 • Not appreciating the complex labour laws and regulation.
 • Local differences in doing business with local authorities as the French Government decentralises responsibility for some areas of construction.

 Practical advice for inbound construction activity

 • Build an understanding of the legal and regulatory regime in France by using the right advisors with experience on the ground.
 • Build relationships with the national trading bodies for the construction industry.
 • Select the right partners to deal with the tough competition in this market.

 Useful tax and other incentives for inbound construction activity

 Main depreciation rates:

 • Buildings – straight line tax depreciation, typically 3 per cent for business premises.
 • Movable fixed assets – straight line depreciation according to rates issued by the Ministry of Finance.
 • The declining balance method may also be available for moveable fixed assets acquired before 2008.

 Other incentives:

 • For PPP projects – special tax allowances; allowing the Government to advance to a bank the great majority of the loan required by the private partner.
 • This enables the bank to pass on the lower interest rates obtainable by Government; and allows PPPs to be signed on the basis of ‘adjustable financing’, without finalising a deal with banks, so that it can proceed on the basis of Government advances while waiting for improved conditions in the financial market.