Italy
Opportunities and barriers to inbound construction

G20 rankings & data

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<th>G20 heatmap rankings</th>
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<td>Construction industry value</td>
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<td>World bank – paying taxes rank</td>
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Financial metrics

- Total fiscal stimulus announced: £74.1bn
- Announced spend on construction in the next 3 years including fiscal stimulus to construction: £2.9bn
- Construction industry value – 2009: £143bn
- Main corporate tax rate: 27.5%

Construction sector metrics

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<th>2006</th>
<th>2007</th>
<th>2008</th>
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<tr>
<td>Construction industry value, £bn</td>
<td>135.5</td>
<td>142.1</td>
<td>142.8</td>
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<tr>
<td>Construction industry, real growth, per cent y-o-y</td>
<td>3.1</td>
<td>1.6</td>
<td>-2.1</td>
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<tr>
<td>Construction industry, per cent of GDP</td>
<td>-</td>
<td>11.1</td>
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BDO review of tax

- Corporate tax rates are towards the lower end of the G20 range
- Thin capitalisation restrictions are relatively restrictive
- Tax depreciation policies are reasonably competitive
- Special tax incentives are a useful are all around the G20 averages
- Tax incentives are available on environmentally sustainable items

Overall scoring 6/10 6= out of the G20

BDO ease of doing business

There are major barriers against inbound construction activity and this will prevent these companies doing business

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

Top construction firms

- Impregilo
- Astaldi
- Trevi
- Pizzarotti
- Condotte D’Acqua
“Italy faces significant challenges as it deals with the consequences of the downturn on its already weak public finances. In addition, complex regional differences, strong unions and local construction sector are further barriers for inbound construction activity.”

Richard Kelly
Partner, Head of Construction

“A competitive headline corporate tax rate together with a comprehensive tax depreciation system secure a favourable taxation ranking. Specific reliefs for environmentally sustainable items may benefit certain construction industry projects but restrictive thin capitalisation rules may increase after tax financing costs.”

Stephen Herring
Tax Partner, Real Estate and Construction

Opportunities and barriers

Ranked 15th in our G20 heatmap, Italy presents a challenging environment for inbound construction activity. Construction is a major part of the Italian economy, worth £1.43bn, with over 1,300 enterprises and more than 2 million employees. In 2007 investments under construction represented 11.1 per cent of GDP. Between 1998 and 2007 investments under construction grew by 29.4 per cent, a growth rate more than double the GDP (+13.5 per cent).

After 9 years of growth the construction sector showed its first negative signs during 2008. The OECD expects that Italy will be in recession for at least the whole of 2009, and possibly well into 2010. The financial crisis will compound existing issues relating to low productivity growth, deteriorating competitiveness and high public debt.

According to the national institute of statistics, the production index of the construction industry (including residential) in the fourth quarter of 2008 was down by 10 per cent year-on-year, and the investment in public infrastructures was down by 6 per cent. Public tenders have been reduced by 8.7 per cent.

According to ANCE, the Italian Chamber of Construction, looking at the most recent data available (November 2008), projections for 2009 are particularly negative for the public sector. ANCE expects activity in the sector will drop by 6.8 per cent with a substantial drop in private sector activity. Government spending is also expected to decrease. In early 2009 the Italian Government announced a £7.4bn stimulus package (representing 5 per cent of GDP) of which £15.4bn has been allocated to infrastructure spending over the next 3 years. Around 2/3rds of the spending is expected to go to Northern Italy. The programme will include the construction of flood barrier systems in Venice, and highway, hospital, and school construction in southern Italy.

In March the Italian government presented plans for the construction of a £1.2bn suspension bridge linking Sicily to the mainland, with a projected completion of 2016.

The European Commission is expected to launch a call for tender for funding projects due to end before the end of this year, as part of the Trans-European Transport Network. The budget for this call for tender is £465.1m. Of the total funding of the project Italy is expecting to receive £889m in the following years.

Due to the weakness of public finances, the government is likely to be a big supporter of PPPs and it is also likely to favour private investments in infrastructure. Some of the most recent major projects structured as PPPs include the road connection of Ancona harbour and main roads (£459m); road connection of San Vittore (AI) – Bojano -Campobasso (£1.3bn); road connection Catania-Ragusa (£1.2bn); road connection Cianello - Benevento (£658m).

Barriers/challenges to construction activity

- Complex regulatory requirements for all companies, inbound and local and uncertainty about their application.
- Level of corruption and presence of organized crime in the construction industry.
- Difficult tendering and project management requirements when dealing with public projects.
- Compulsory social security insurance scheme managed by the National Institute for Social Security (INPS). Average contribution 36.6-45.07 per cent. Around 9 per cent is paid by the employee.
- Difficulty of access to credit and time taken for the preliminary investigation by the banks.
- Delayed payments from government for completed works.
- High and rising public debt.

BDO viewpoint and advice

Pitfalls to avoid when doing business in Italy

- Underestimating the complexity of regulatory requirements and labour laws in Italy.
- Misunderstanding tendering requirements for public sector projects.

Practical advice for inbound construction activity

- Foreign investors who intend to conduct commercial activities in Italy can choose from a wide range of legal entities, but inbound construction companies are best off if they operate in Italy through a local-branch company with legal personality and limited liability status, and not through permanent establishments, under the laws applicable to Italian corporations.
- For inbound construction companies it is difficult to enter directly into the market without cooperation with local companies; it is also better that they operate in Italy in joint venture with local Companies to avoid enormous difficulties in the participation and management of public contests.
- Foreign investors have to deal with regulatory issues, government and local labour laws.
- Approximately half of all Italian workers belong to a trade union. Each union usually represents a political party and has the opportunity to negotiate directly with the government and the Association of Italian Enterprises (Confindustria) for national collective agreements, which are valid for an entire industry.
- It is important to develop a good understanding of the regional differences in Italy. Economic development varies greatly from region to region.

Useful tax and other incentives for inbound construction activity

Main depreciation rates:
- Buildings – Straight line tax depreciation at rates between 3 per cent – 7 per cent per annum.
- Machinery and equipment – Straight line tax depreciation is permitted at rates between 20 per cent – 25 per cent per annum.

Other incentives:
- Tax relief for energy efficient expenditure. An enhanced tax deduction (equal to the 53 per cent of the actual costs incurred) is available on qualifying energy efficient items albeit restricted to €100,000 (£87,000) on individual items.
- Italy encourages foreign investment by offering foreign-owned entities the same incentives, primarily subsidised loans, cash grants and tax credits, available to entities owned by Italian nationals. Foreign investors may obtain other incentives from local (regional and provincial) authorities and the EU.

Sources: