

## ***Intersections***

### Fourth-quarter 2010 global transportation and logistics industry 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 *Intersections*, PwC's quarterly analysis of mergers and acquisitions (M&A) in the global transportation and logistics industry. In addition to a detailed summary of M&A activity in the quarter, this edition features a special report on potential growth opportunities in emerging markets. As company executives analyze the long-term risks and benefits associated with such an endeavor, it is particularly important for them 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 transportation and logistics (T&L) companies have already found opportunities for growth by establishing operations in the BRIC countries — Brazil, Russia, India, and China. As these companies seek to reposition their business strategies to meet new demands, they are looking for opportunities in a second wave of emerging markets such as those of the VISTA countries — Vietnam, Indonesia, South Africa, Turkey, and Argentina.

Thanks to the strong development of emerging markets, completely new logistics passageways will appear on the world map: passages between Asia and Africa, between Asia and South America, and within Asia. The expected relative weight of the flow of goods between the continents is shifting. Logistics companies in developed markets have to actively develop the foresight necessary to use the enormous potential of this trend to productively and cooperatively take advantage of the new trade corridors. As the BRIC countries become more saturated with multinational corporations, VISTA is an alternate option for consideration.

In addition to their high gross domestic product and rich natural resources, VISTA countries have favorable foreign investment policies. As a result, most of the VISTA countries are expected to experience increased M&A activity during 2011. 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 global investors. Turkey has also launched an all-embracing privatization program that provides a legal and structural environment for free enterprise to operate, along with the transfer of privatization revenues to major infrastructure projects.

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. Weak but stable currencies in several VISTA countries also afford them competitive advantage and opportunities to supply developed countries with raw materials and products.

Although the areas and populations 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 transportation and logistics companies that invest in VISTA countries**

Following is a summary of the primary tax issues companies are likely to encounter when investing in each VISTA country:

##### **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 in question, 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 be available for manufacturing, construction, and transportation activities that employ several female staff 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 performed.
- 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

## Methodology

*Intersections* is an analysis of mergers and acquisitions in the global transportation and logistics industry. Information was sourced from Thomson Reuters and includes deals for which targets have primary NAICS codes that fall into one of the following NAICS industry groups, NAICS industries, or national industries: scheduled air transportation; nonscheduled air transportation; rail transportation; deep-sea, coastal, and Great Lakes water transportation; inland water transportation; general freight trucking; specialized freight trucking; urban transit systems; interurban and rural bus transportation; taxi and limousine service; school and employee bus transportation; charter bus industry; other transit and ground passenger transportation; support activities for air transportation; support activities for rail transportation; support activities for water transportation; other support activities for road transportation; freight transportation arrangement; other support activities for transportation; postal service; local messengers and local delivery; general warehousing and storage; refrigerated warehousing and storage; other warehousing and storage; and process, physical distribution, and logistics consulting.

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 acquirer have been met but deal has not been completed), withdrawn, seeking buyer, or seeking buyer withdrawn. The term *deal*, when referenced herein, refers to transactions with a disclosed value of at least \$50 million unless otherwise noted.

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 North America and Latin and Caribbean UN groups), the Asia and Oceania region (includes Asia and Oceania UN groups), and Europe (divided into United Kingdom, plus Eurozone and Europe ex-UK and Eurozone regions). The Eurozone includes Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain. Oceania includes Australia, New Zealand, Melanesia, Micronesia, and Polynesia. Overseas territories were included in the region of the parent country. China, when referenced separately, includes Hong Kong. International Monetary Fund classifications were used to categorize economies as advanced or developing and emerging.

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 numerous 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, although geographically located in Turkey, 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
  - 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. BRIC countries tend to offer a more developed infrastructure in selected parts of the countries and a relatively sophisticated market structure, which is not yet the case for many 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 of the world's economies, covering both the cost of taxes and the administrative burden of tax compliance.

The study provides useful insights and identifies efficiencies, and 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 following data 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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## Perspective: Thoughts on T&L deal activity in the fourth quarter of 2010

T&L deal activity, as measured by both the number and total value of deals, continued to grow in the fourth quarter 2010. A significant number of mega-deals – deals with a disclosed value of at least \$1 billion – helped to drive value and volume totals for the period and contributed to full-year 2010 totals that exceeded that of 2009.

The recovery continued to focus on passenger, rather than freight, transportation deals into the fourth quarter, with infrastructure announcements contributing substantially to overall deal and mega-deal activity. Although we are reluctant to interpret the trend as the beginning of a secular shift in the deal market, it is notable that a preference for infrastructure investments, which offer relatively stable returns, could well drive a continued interest in passenger targets in future quarters.

Financial investors are back, with these acquirers accounting for the majority of mega-deals announced this quarter. The rebound in financial investor participation in overall deals, as well as mega-deals, is a result of healthier capital markets, which continue to recover from their post-leverage bubble hangover. The substantial rise in leveraged buyout activity also reflects the improved credit market conditions.

In addition to the improved environment for financial investors, our analysis of financial statements indicates that many large strategic investors will be in better position to engage in new deals in 2011. The focus on liquidity and de-leveraging during the downturn has resulted in

improved balance sheets with reduced debt ratios and substantial increases in average cash positions. If companies don't move cash into investments with higher potential returns, such as M&A, they could face pressures to return this capital to shareholders through dividends and stock buybacks.

Distressed M&A have also declined. We consider distressed M&A to involve targets undergoing restructuring or in bankruptcy. As the recovery progresses, we expect that deals between financially sound parties looking to boost growth prospects will remain more common than the need-based deals that characterized the recent downturn.

Still, several factors could stall the recovery in M&A activity. For example, concerns remain over the endurance of the economic recovery in many developed markets. In addition, deal valuations are moving higher and, as investors bid up desirable transportation and logistics assets, acquirers may ultimately conclude that return possibilities have diminished. However, we believe these concerns are relatively minor compared with the many positive factors unfolding in the sector. The overall tenor of the deal market is highly positive, leading to our optimistic outlook for transportation and logistics deal activity in 2011.

### Deal Activity

#### Quarterly transportation and logistics 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
<b>Number of deals</b>	55	42	49	49	22	14	26	34	36	32	38	42
<b>Total deal value (US\$ bil)</b>	22.5	34.4	18.8	22.6	5.5	4.8	8.1	53.0	17.3	14.1	16.9	35.6
<b>Average deal value (US \$ bil)</b>	0.4	0.8	0.4	0.5	0.3	0.3	0.3	1.6	0.5	0.4	0.4	0.8

Deal activity continued to be strong in the fourth quarter 2010. Total deal value and volume, and average deal value, all exceeded the previous three quarters. In addition, when excluding the \$36 billion November 2009 Burlington Northern transaction, the total and average value of announcements were the highest quarterly figures over the last three years.

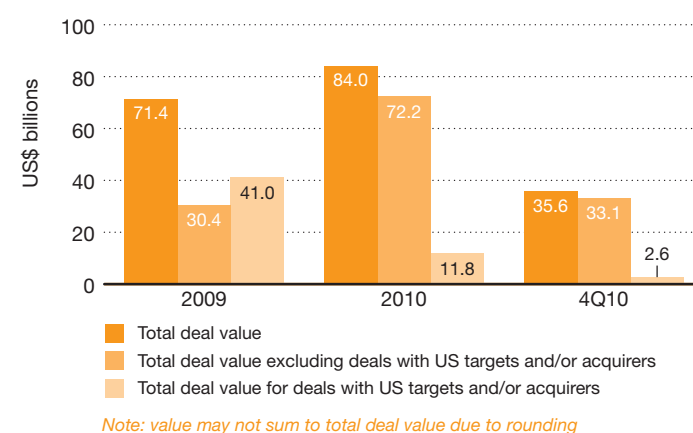
The jump in the number of mega-deal announcements, defined as deals with a disclosed value of at least \$1 billion, drove this increase in value. Six of the fourteen mega-deals announced during 2010 were announced during the fourth quarter. Notably, both the increase in the pace of deal activity and in mega-deals coincided with a decline in the contribution of US entities to the deal market. In fact, only one mega-deal announced during the fourth quarter involved a US entity. This decline is in line with earlier expectations that the increased US involvement in the transportation and logistics deal market could be short-lived based upon muted growth expectations.

The growth in deal activity also resulted in average deal values moving higher this quarter, supported primarily by a flurry of mega-deal announcements. Several of these mega-deals were for passenger ground targets, which led this mode to account for approximately half of the deal value announced during the quarter. However, this does not necessarily reflect a broad shift of interest toward passenger ground targets. In fact, this mode would have accounted for less than 10% of announced deal value if not for the competing bids for Malaysia's Plus Expressways, which were the largest deals of the quarter.

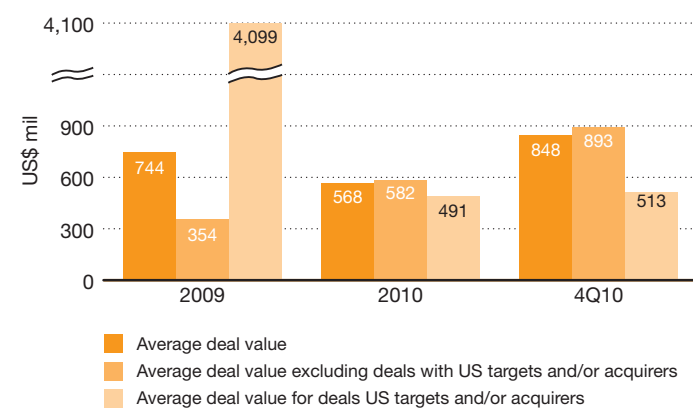
**Deal activity by number of deals**  
Measured by number of deals worth \$50 million or more



**Deal activity by total deal value**  
Measured by value of deals worth \$50 million or more



**Deal activity by average deal value**  
Measured by value of deals worth \$50 million or more



## PwC experience

### Deep transportation and logistics experience

PwC provides advisory, assurance, or tax services for over 93% of the transportation and logistics companies listed on the Fortune 500. Our Transportation and Logistics practice is composed of a global network of approximately 4,900 industry professionals who service nearly 300 public and private companies located around the world. Central to the successful delivery of our services is an in-depth understanding of today's industry issues and our 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 Air Transport Association, American Trucking Association, American Railroad Association, and European Logistics Association.

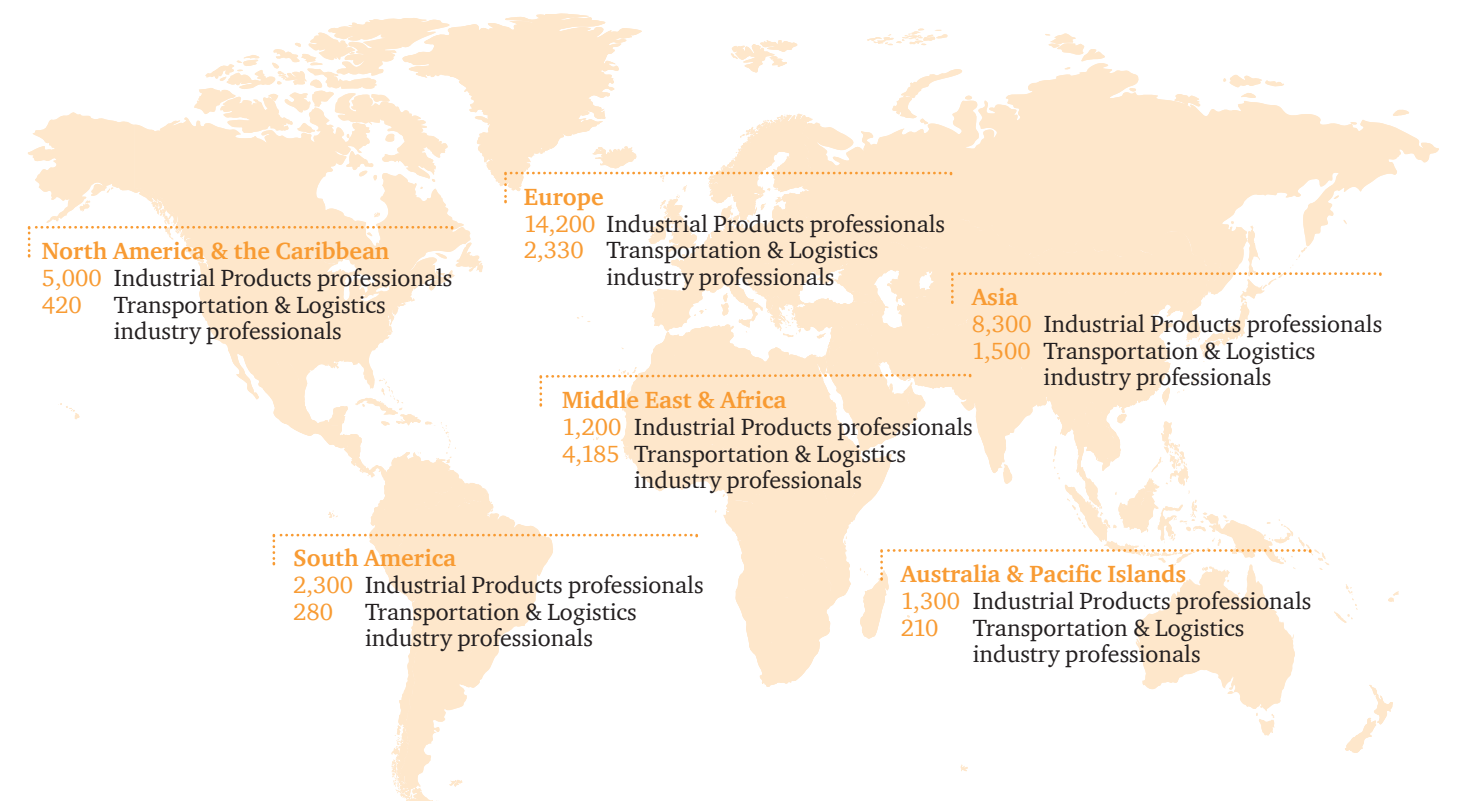
### Quality M&A deal professionals

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 Transportation & Logistics 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 global transportation and logistics resources, our team is part of a large 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.



## Specialty case study:

### Aggressive due diligence leads to the right deal

**Issue** A US commercial aviation company was looking to expand internationally through a strategic acquisition in Eastern Europe and wanted assistance in evaluating the acquisition. The company needed help understanding the complexities of an international market and a cross-border transaction. The company also needed due diligence assistance to help determine the right price for the acquisition through diligence.

**Action** PwC helped the company create a cross-border, cross functional team of specialists (financial, tax, commercial, operations, employee benefits/HR, and risk management) to conduct due diligence. Our team identified tax exposures for aggressive tax positions associated with transfer pricing, research and development tax credits, and other local territory exposures and positions.

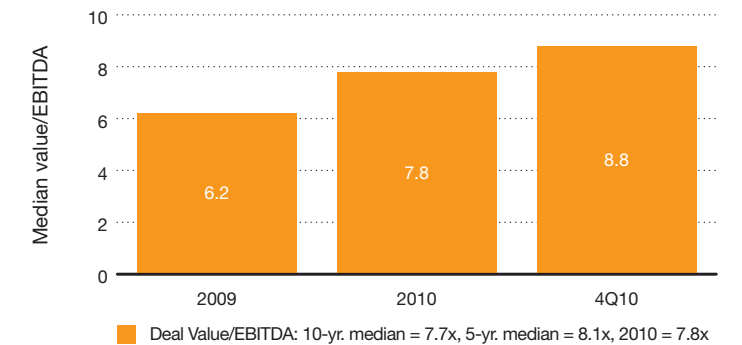
**Impact** The company was positioned to pay the right price for the deal, with related risks already identified and factored into the valuation. Additionally, the company was able to ensure that it could clearly communicate its post-transaction combined earnings. This helped the company mitigate the risk of overstating the combined earnings, which many companies face soon after an acquisition.

The overall increase in activity contributed to higher deal valuations. While median valuations can vary substantially over the short term, median deal-to-EBITDA in the sector has remained remarkably stable over both the last 5- and 10-year periods, at a multiple of around 8 times. It is reasonable to expect that valuations, which rose to 8.8 times for deals announced during the fourth quarter, are likely to attenuate as higher valuations can price certain acquirers out of the market and hurt expected returns on potential deals. We expect that valuations are likely to revert to the mean; however, a higher than historical average level could persist for some time before any reversion occurs.

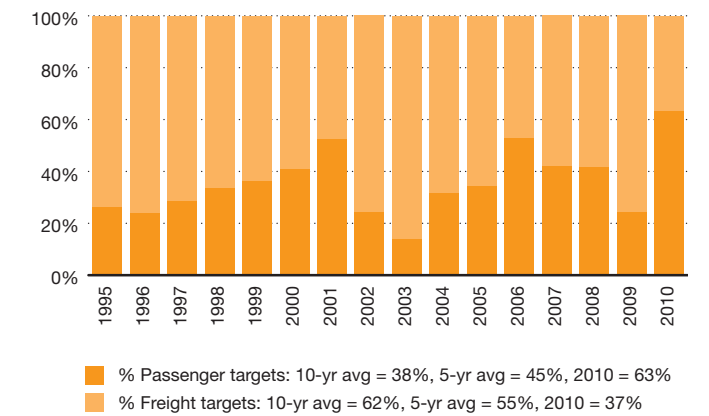
### Deal characteristics

Our analysis of historical activity by mode reveals that over the past 5-, 10-, and 20-year periods, roughly 60% of transportation and logistics deal value and volume involved freight rather than passenger targets. This contrasts with the current deal environment, which skews more toward passenger targets. It is still too early to tell whether a secular shift in transportation and logistics deals toward these targets is underway; however, there are two trends evolving that may support future passenger M&A activity. The first is the increase of infrastructure funds as an investment vehicle. The second trend relates to the fiscal pressures many governments are facing, which could lead to more concessions of transportation infrastructure. Accordingly, our view is that we may see a continued preference for passenger deals, though substantial uncertainty remains in this forecast.

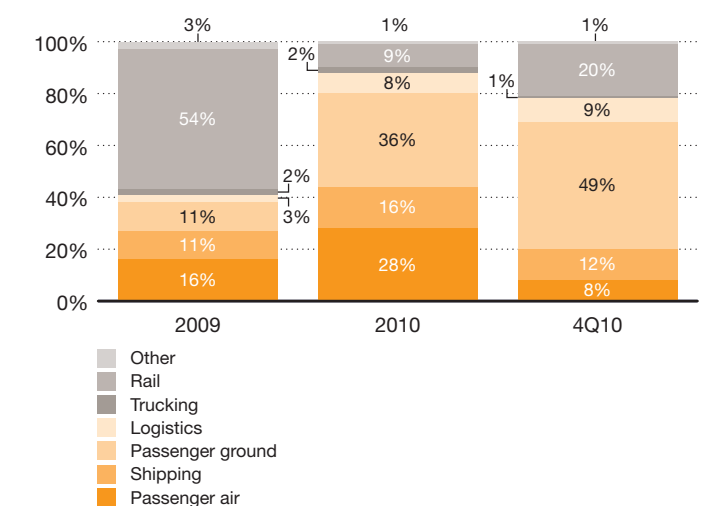
**Deal valuation by median value/EBITDA**  
Measured by value/EBITDA for deals worth \$50 million or more for which target EBITDA was available



**Historical deals by transportation & logistics mode**  
Measured by value of deals worth \$50 million or more

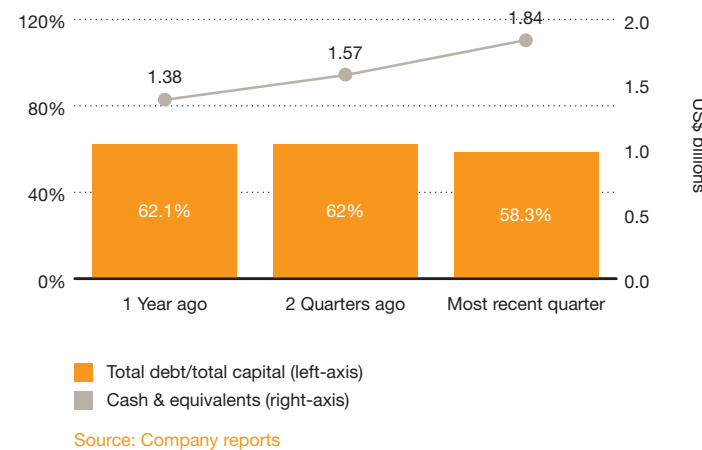


**Deals by transportation & logistics mode**  
Measured by value of deals worth \$50 million or more



Many transportation and logistics companies are in a better position to engage in new deals, as evidenced by lower average financial leverage and higher cash positions. This positioning is the result of a concerted effort by many companies in the sector to use the recent economic downturn as an opportunity to boost liquidity and strengthen balance sheets.

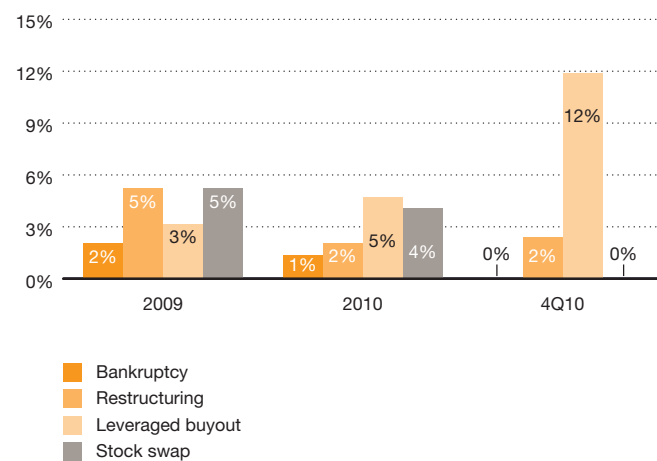
**Financial leverage and liquidity**  
Measured by average of top 25 global public competitors



Source: Company reports

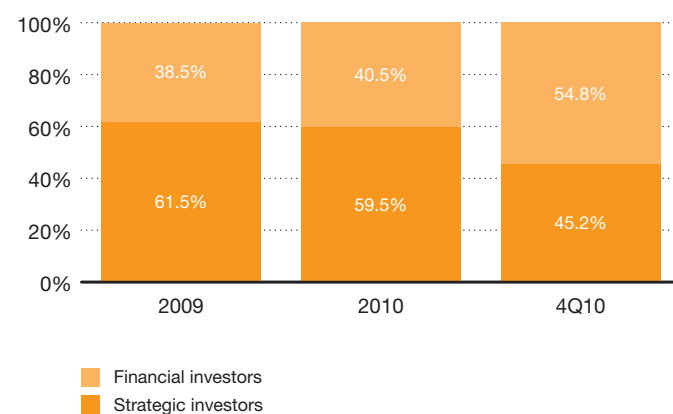
Recent trends in acquisition techniques reflect the improved operating and credit environments. Deals for targets in bankruptcy and restructuring continue to decline, while the greater availability of, and willingness to use, credit is contributing to the rise in leveraged buyout activity. Healthier credit markets have likely contributed to a decline in stock swaps (in which an acquirer uses its stock to purchase a controlling interest in a target), likely reflecting the various, and sometimes competing, options acquirers have in financing M&A investments.

**Acquisition techniques**  
Measured by percentage of deals worth \$50 million or more



Recovering credit markets are also driving the relative increase in financial investor participation during the fourth quarter. These acquirers mostly remained on the sidelines in terms of M&A activity for the past several years. Macro-conditions support their sustained return to the transportation and logistics deal market, which augurs well for future deal activity.

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



## PwC spotlight

Companies operating across borders today must contend with constant legislative, regulatory, and judicial changes that are often challenging to follow and comprehend. Similarly, globalization, economic realities, operational adjustments, and corporate mandates require tax departments to follow and comprehend internal initiatives.

The convergence 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 reach their business goals in a tax-efficient manner, both locally and globally. Our professionals help companies:

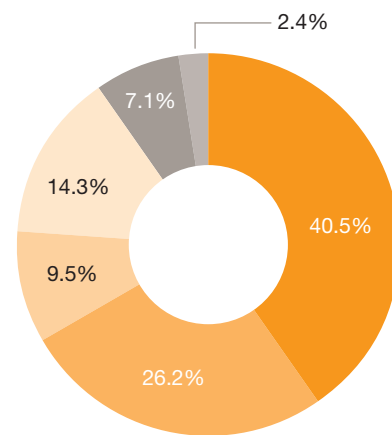
- Stay abreast of international developments that may affect their business
- Formulate effective and tax-efficient cross-border strategies for both US and overseas investments
- Manage their global structural tax rate
- Respond to inquiries from regulatory authorities

We've also collaborated with the World Bank and the International Finance Corporation's 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 at [www.pwc.com/gx/en/paying-taxes](http://www.pwc.com/gx/en/paying-taxes).

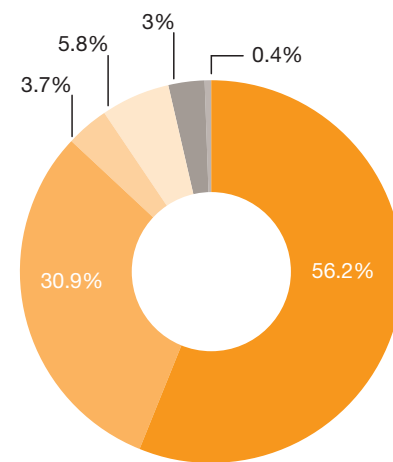
### Regional distribution of deals by target region

Measured by number of deals worth \$50 million or more (4Q10)



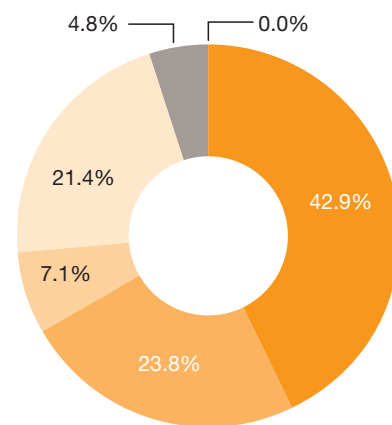
### Regional distribution of deals by target region

Measured by value of deals worth \$50 million or more (4Q10)



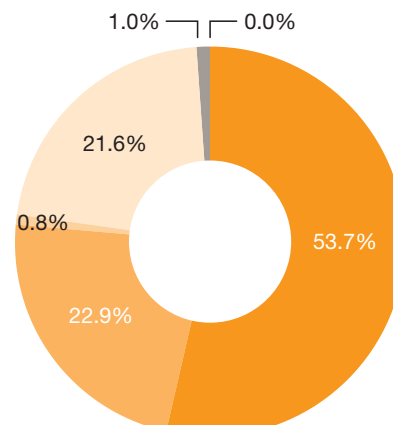
### Regional distribution of deals by acquirer region

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

### Mega-deals

#### Mega-deals in 2009 (deals with a disclosed value of at least \$1 billion)

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bil	Category
Nov	Burlington Northern Santa Fe Corp	United States	Berkshire Hathaway Inc	United States	Completed	36.72	Rail
Nov	Transurban Group	Australia	Investor Group	Canada	Withdrawn	4.59	Passenger ground
Nov	Iberia Lineas Aereas de Espana SA	Spain	British Airways PLC	United Kingdom	Pending	2.90	Passenger air
Oct	London Gatwick Airport Ltd	United Kingdom	Global Infrastructure Partners LLC	United States	Completed	2.47	Passenger air
Jun	Transdev SA	France	Veolia Transport SA	France	Pending	2.26	Other
Sep	Hanjin Shipping Co Ltd -Shipping & Relevant Business	South Korea	Shareholders	South Korea	Completed	1.35	Shipping
Jul	National Express Group PLC	United Kingdom	Investor Group	Spain	Withdrawn	1.24	Passenger ground
Mar	Smit Internationale NV	Netherlands	Koninklijke Boskalis Westminster NV	Netherlands	Completed	1.21	Shipping
Jul	Shanghai Airlines Co Ltd	China	China Eastern Airlines Co Ltd	China	Completed	1.10	Passenger air

#### Mega-deals in 2010 (deals with a disclosed value of at least \$1 billion)

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bil	Category
Dec	Plus Expressways Bhd	Malaysia	Jelas Ulung Sdn Bhd	Malaysia	Pending	8.30	Passenger ground
Jan	Japan Airlines Corp	Japan	Enterprise Turnaround Initiative Corp of Japan{ETIC}	Japan	Completed	8.17	Passenger air
Oct	Plus Expressways Bhd	Malaysia	Investor Group	Malaysia	Intended	7.46	Passenger ground
May	Continental Airlines Inc	United States	UAL Corp	United States	Completed	3.69	Passenger air
May	Transurban Group	Australia	Investor Group	Canada	Withdrawn	3.68	Passenger ground
Aug	TAM SA	Brazil	LAN Airlines SA	Chile	Pending	3.43	Passenger air
Nov	Eversholt Rail Group	United Kingdom	Eversholt Investment Group	United Kingdom	Pending	3.42	Rail
Nov	HS1 Ltd	United Kingdom	Investor Group	Canada	Completed	3.40	Rail
Mar	Arriva PLC	United Kingdom	Deutsche Bahn AG	Germany	Completed	2.43	Passenger ground
Sep	OOO "Primorskiy Torgovyi Port"	Russian Fed	OOO "Novorossiyskiy Morskoy Torgovyi Port"	Russian Fed	Pending	2.16	Shipping
Oct	La Poste SA	France	Groupe Caisse des Depots & Consignations (CDC)	France	Pending	2.11	Logistics
Dec	DP World Australia Ltd	Australia	Citi Infrastructure Investors	United States	Pending	1.50	Shipping
Sep	Odebrecht Transport Participacoes SA	Brazil	Fundo de Garantia do Tempo de Servico	Brazil	Completed	1.11	Passenger ground
Sep	AirTran Holdings Inc	United States	Southwest Airlines Co	United States	Pending	1.04	Passenger air

The number of mega-deal announcements in 2010 surpassed those of 2009 due to fourth quarter activity. Of the fourteen deals announced in 2010, six were announced during the fourth quarter. In line with our previous expectations that infrastructure investments would help drive M&A totals, the majority of fourth quarter mega-deals involved infrastructure targets and financial acquirers.

The two largest deals of the quarter, which were competing bids for the privatization of Plus Expressways Berhad, matched these characteristics. Plus Expressways bills itself as the largest toll expressway company in Southeast Asia and is majority-owned by the Malaysian government. The two potential acquirers were an investor group including the state-owned Employees Provident Fund (EPF) and UEM Group Berhad, and Jelas Ulung Sdn Berhad. The Jelas Ulung Sdn offer was unexpected and, in fact, they did not meet a deadline for submitting a deposit, which leaves EPF/UEM Group with the sole remaining offer. The EPF/UEM offer would allow Plus Expressways to leverage its relatively favorable cost of capital to offer more competitive toll rates. In addition, EPF/UEM is viewed as a preferred bidder because of the strategic importance of the asset.

The fourth-largest deal announcement this quarter was the \$3.4 billion, 30-year concession of Britain High Speed 1 Railway by an infrastructure management unit of Ontario Municipal Retirement System (OMERS) and Ontario Teachers' Pension Plan (OTPP). This deal will offer the acquirers international diversification and potential benefits from European rail deregulation. Another infrastructure deal announced this quarter was Citi Infrastructure Investors' \$1.5 billion controlling interest acquisition of DP World Australia, which services five container terminals in Australia. This divestiture will help DP World raise cash to service debt obligations, which are reportedly substantial.

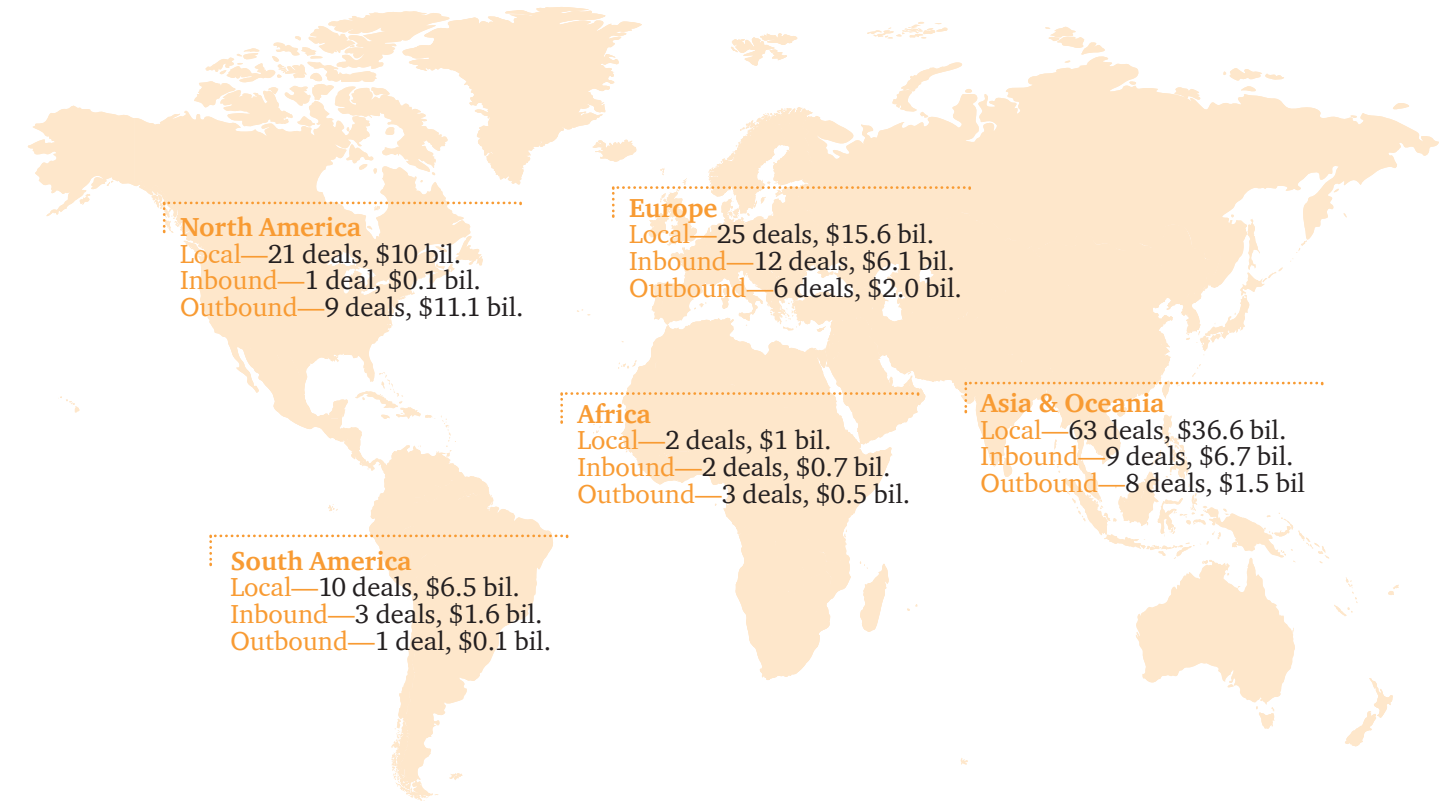
Other mega-deals announced this quarter include the \$3.4 billion leveraged buyout of Eversholt Rail Group, one of the three large UK rolling stock companies, by a financial investor consortium made up of 3i Infrastructure, Morgan Stanley Infrastructure Partners, and Star Capital Partners. In addition, the French state-owned bank Caisse des Depots purchased a \$2.1 billion minority stake in mail company La Poste as part of an attempt to improve the company finances ahead of the liberalization of the European postal market in 2011.

The outlook for mega-deal activity is bright. Infrastructure deals, which are attractive due to the allure of predictable cash flows, were a hallmark of this past quarter, and are likely to remain a source of mega-deal activity. In addition, the overall financing and expected return environment have improved such that additional growth in mega-deals beyond this category is likely in 2011.

## Regional analysis

### Global transportation and logistics M&A activity

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



The global distribution of sector deal activity during 2010 indicates that acquirers primarily focused on consolidating their local markets, particularly in the Asia and Oceania region, where relatively fragmented developing markets are common. This distribution largely mirrors the geographic segmentation of deals during the fourth quarter. The Asia and Oceania region is likely to account for much of the deal activity in 2011, although the number of inbound deals may increase as acquirers seek to capitalize (as much as domestic regulations allow) on its expected relatively high economic growth rates. Any increase in North American and European deal totals is likely to depend on greater confidence in the strength of the economic recovery in these markets. With expectations for modest growth in these regions, the most likely outcome is that M&A activity will grow incrementally.