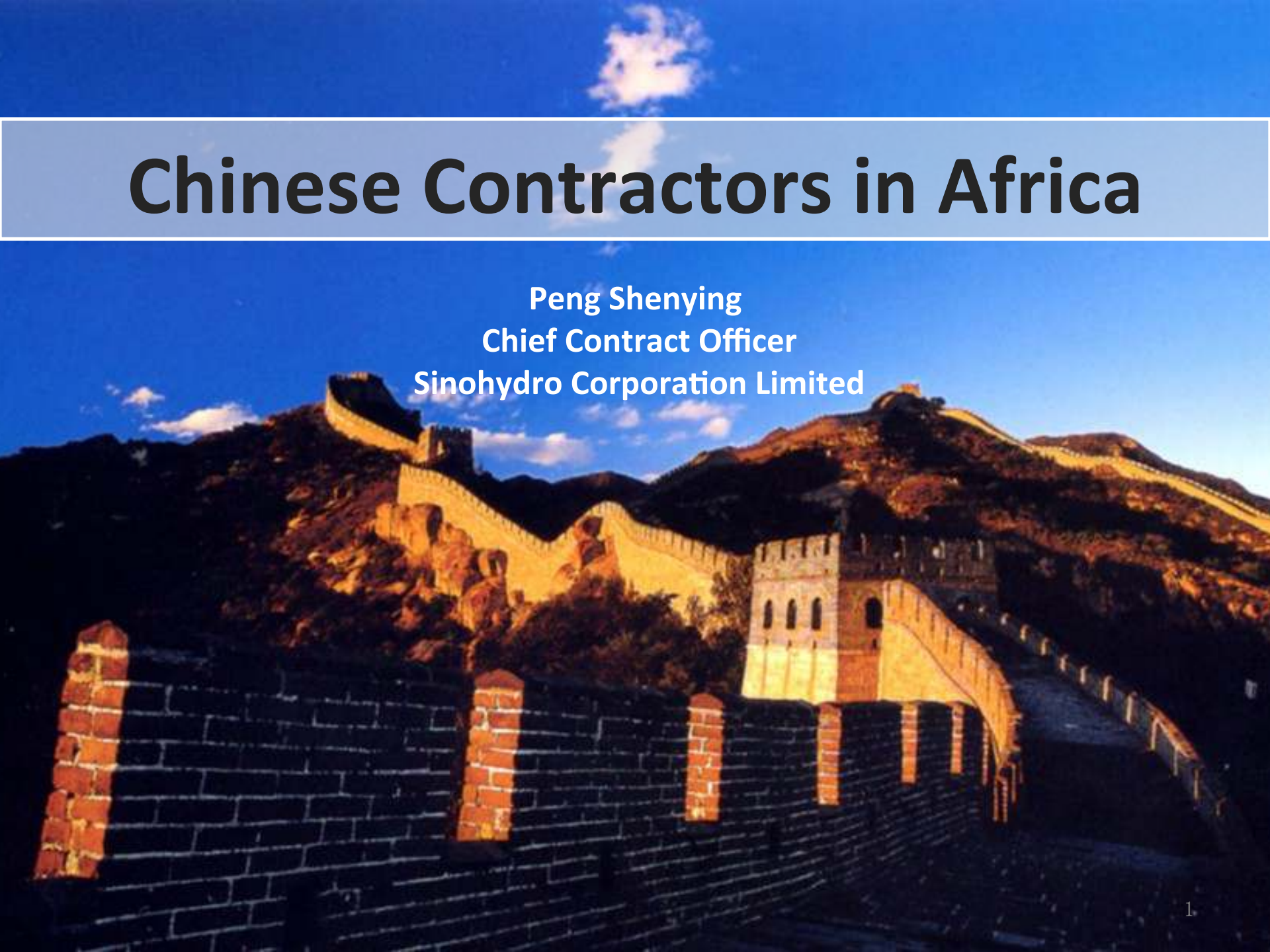


Chinese Contractors in Africa

Peng Shenyang
Chief Contract Officer
Sinohydro Corporation Limited



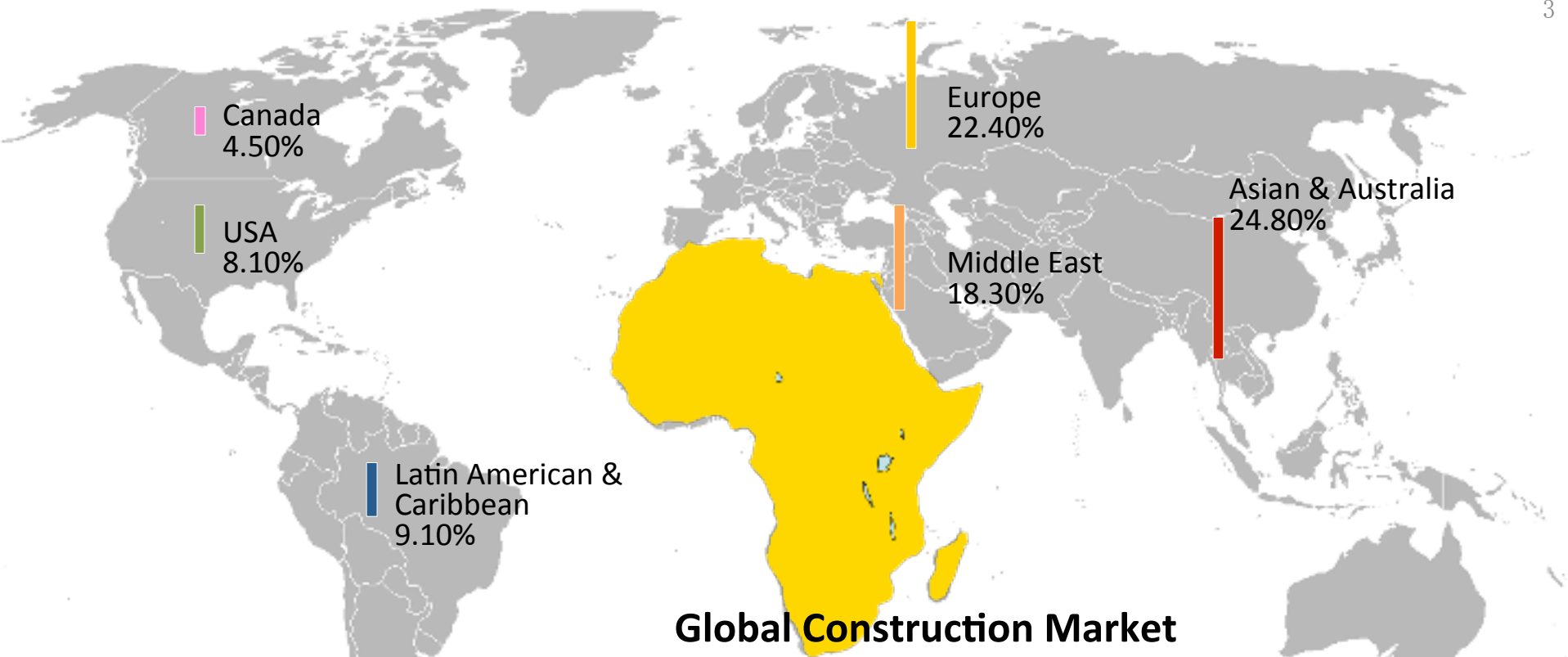
Content

**Chinese Contractors
in Africa**

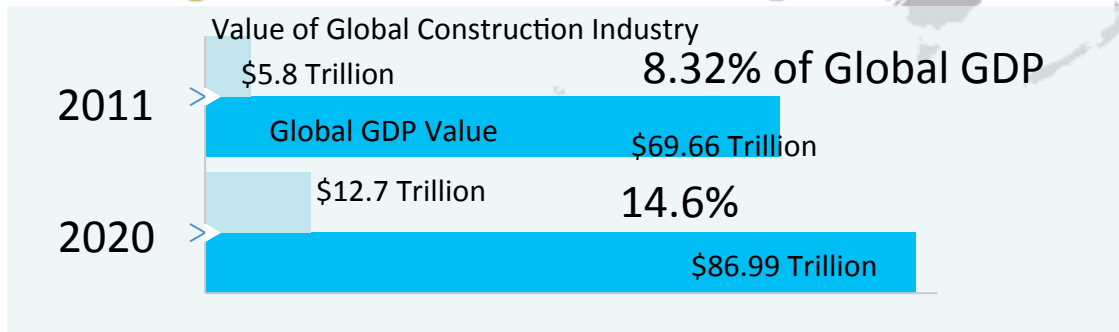
Brief Introduction to
Sinohydro Corporation

Challenges and Risks

Development and Future

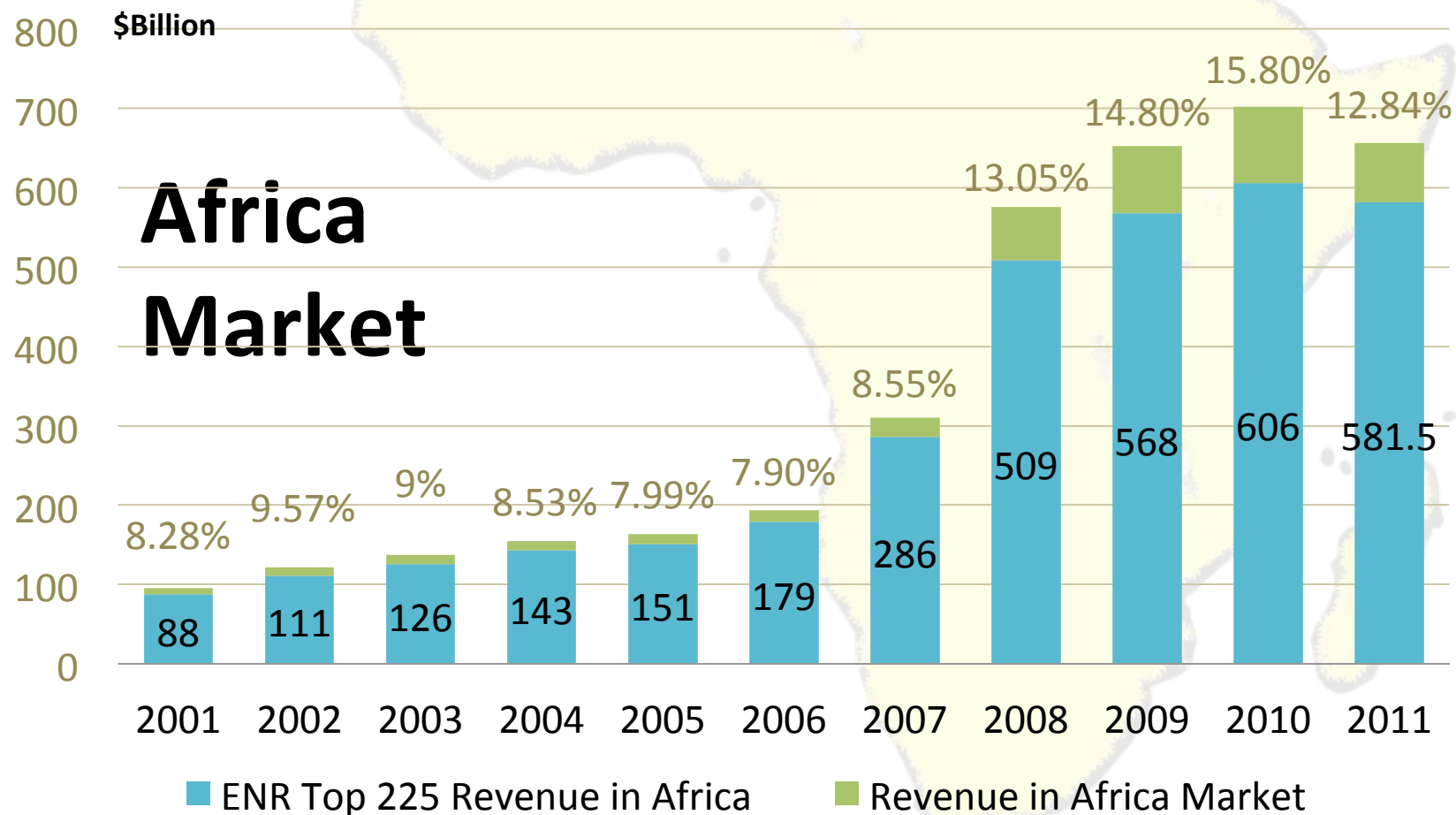


Global Construction Market



	Asia & Australia	Europe	Middle East	Africa	Latin America & Caribbean	USA	Canada
Percentage	24.80%	22.40%	18.30%	12.80%	9.10%	8.10%	4.50%
Revenue(\$bil)	112.19	101.46	83.07	58.15	41.11	36.71	20.2

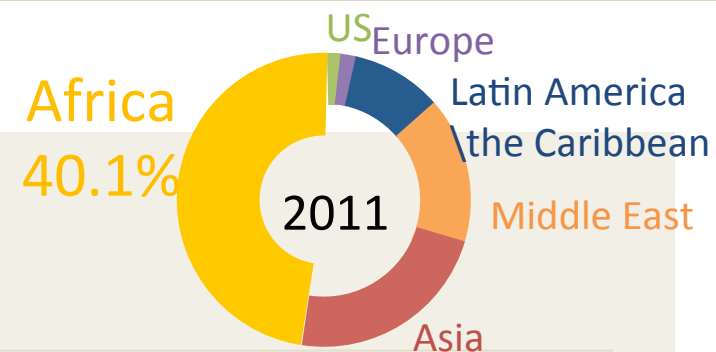
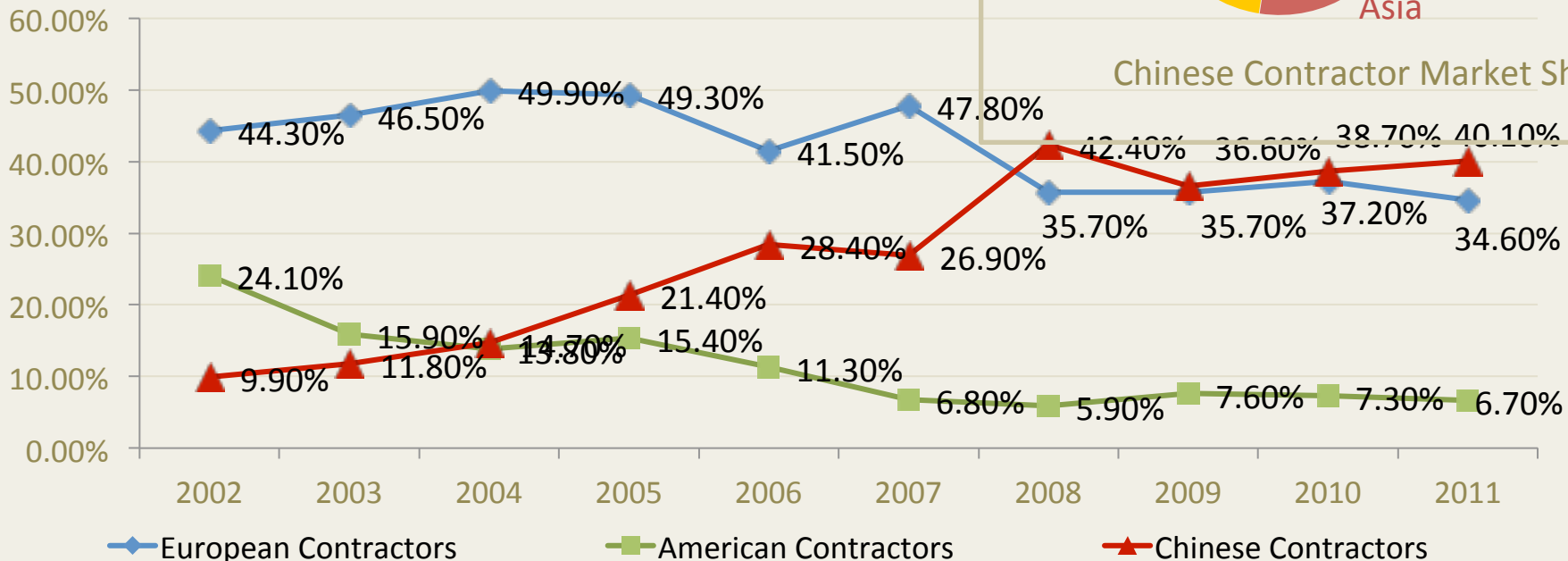
- For the past decade, the total revenue of the ENR Top 225 grew for 6 times (from \$88 billion in 2001 to \$606 billion in 2010).
- The revenue of African market weighted 8.28% of the total Top 225 revenue in 2001 and increased to 15.80% in 2010(12.84% in 2011).



Dominating Contractors in Africa

- Among the ENR Top 225 International Contractors, European, American and Chinese Contractors were taking up to 80% of the whole market revenue.

Africa Market Sharing



Chinese Contractor Market Sharing

Chinese Contractors in Africa

Business scope

- The operations of Chinese contractors in Africa vary from labour-intensive sectors like building, road pavement to capital and technology-intensive sectors like Power Generation, Transportation, Petrochemicals, Telecommunications, Mining and Sewage Treatment.



Ring Road, Ethiopia



Friendship Port Project, Mauritania

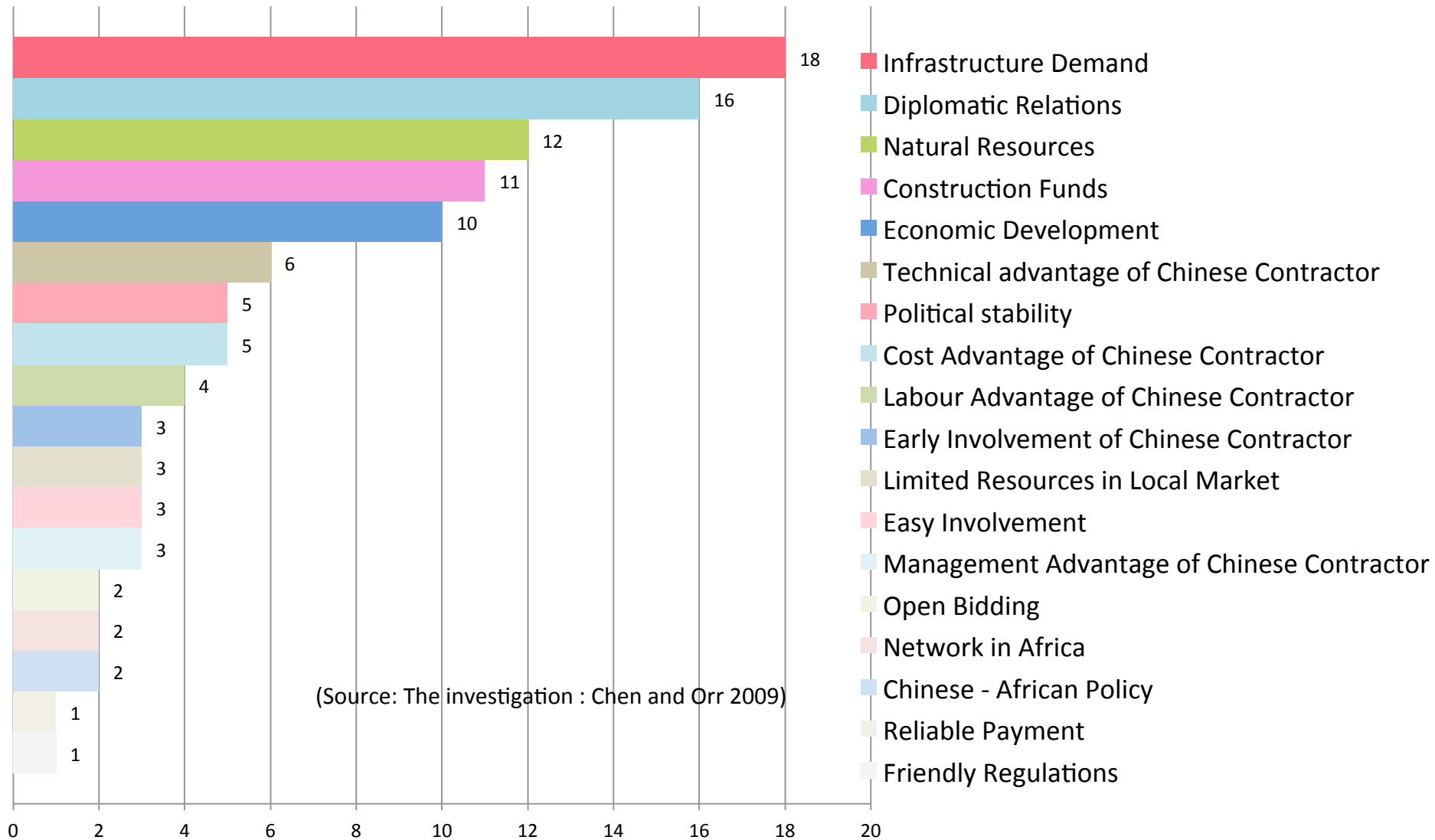


AL-JaBaLayn Oil Project, Sudan



Merowe Hydro Project, Sudan

Factors leading to the development of Chinese Contractors in Africa



Chinese Contractors in Africa

Brief Introduction of Sinohydro Corporation



S.N.	ENR Top 5 Chinese Contractor
10	China Communications Construction Company Limited
22	China State Construction Engineering Corporation
23	Sinohydro Group Ltd.
24	China National Machinery Industry Corporation
30	China Railway Construction Corporation Limited

130,000 permanent employees

19 subsidiaries

11 holding companies

70 overseas branch companies and representative offices

Ranked **23rd** in the ENR Top 225 International Contractors.



SINOHYDRO

Four main business lines



Construction & Engineering



Investment



Real Estate



**Mechanical & Electrical
Equipments**

Building a growth dynamic

311 Projects

63
Countries

Contracted value
USD 30.7 billion

SINOHYDRO is actively pushing
forward its international strategy

AFRICA



Challenges

&

Risks

Chinese Contractors

CHALLENGES & RISKS

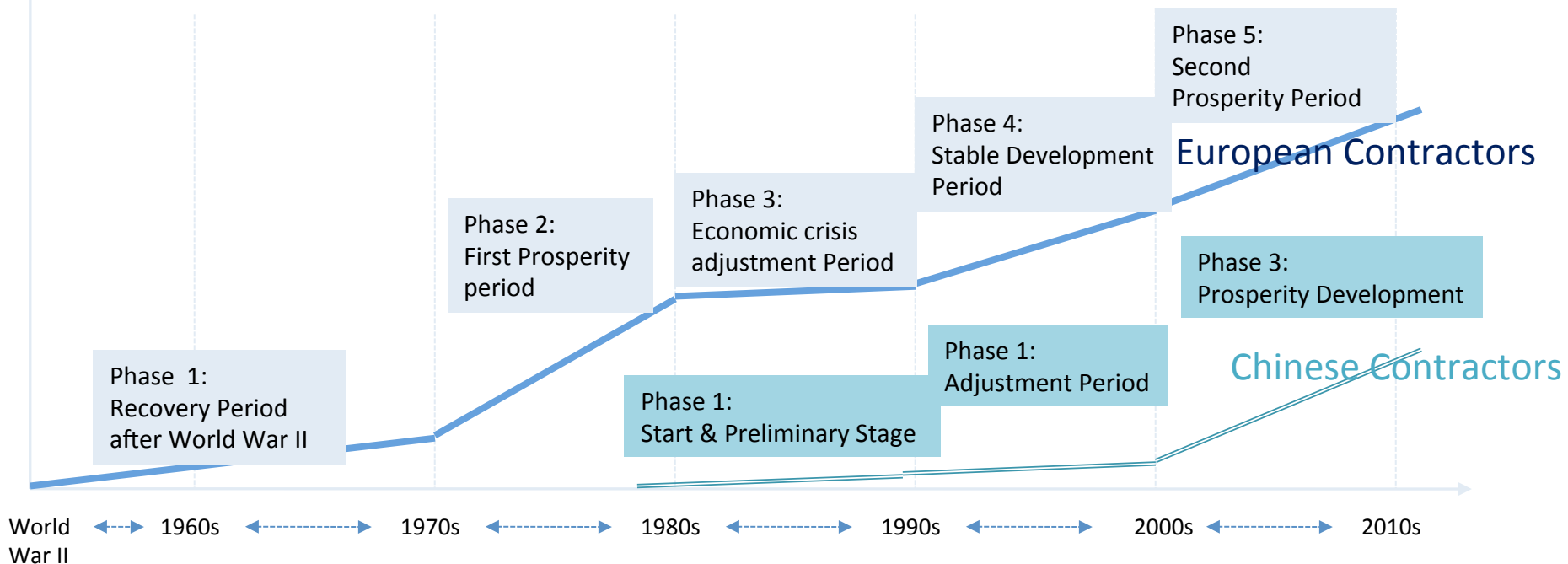
- Late Involvement
- Minority Share in Revenue
- Competitive Pressures
- Contractual Risk
- People and Property Risk
- Political Risk
- Other Affecting Factors

Challenges and Risks

Late Involvement

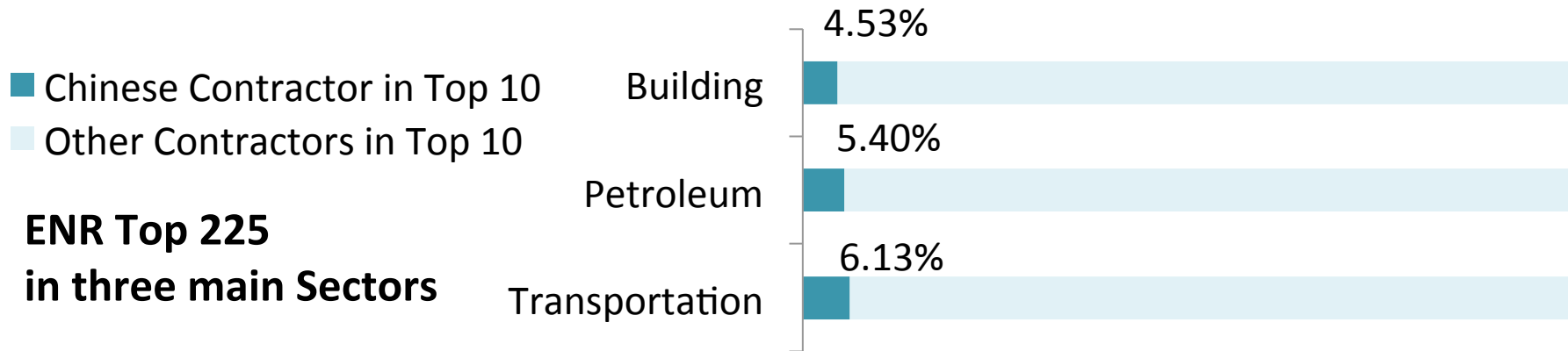
- Chinese Contractors started their international construction business in 1978 and gradually increased the market share from 2000, much later than other international contractors (those in European, American, Japanese, and South Korea). (Called as the “third echelon” in the International Construction Industry.)

International Construction Industry Development Phases
(European Contractors & Chinese Contractors)

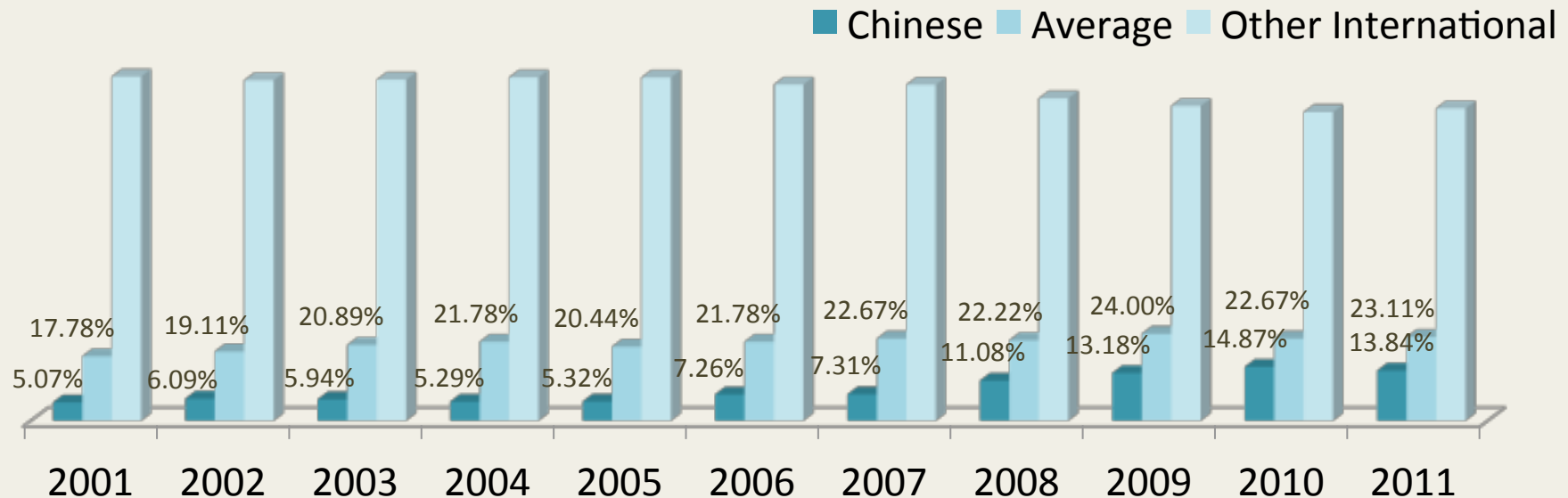


Challenges and Risks

Minority Share in Revenue



Chinese Contractors' Portion on the ENR Top 225 list

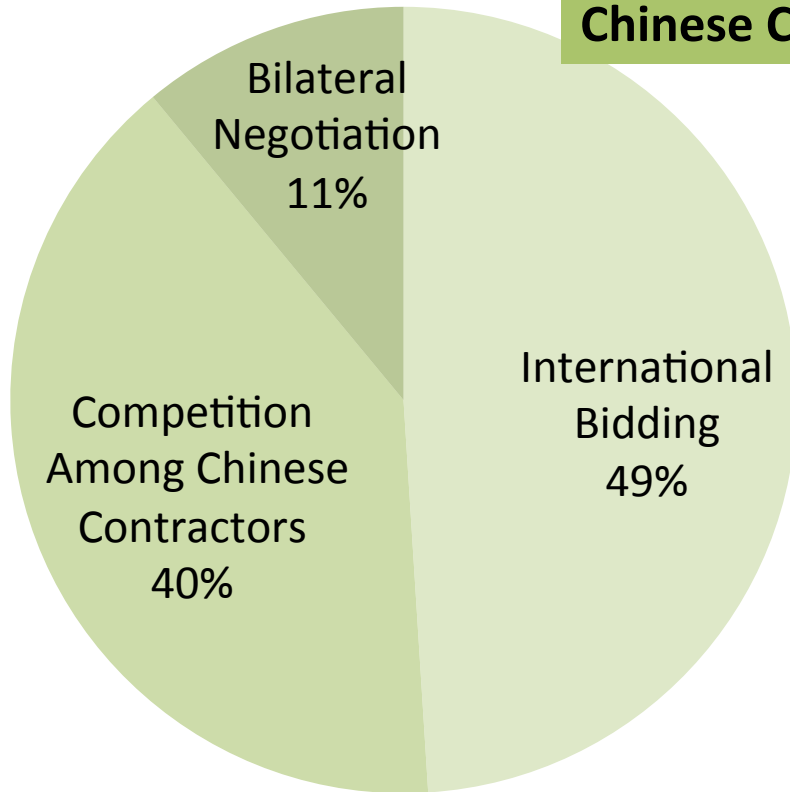


Challenges and Risks

Competitive Pressures

Procurement Mode of Chinese Contractors in Africa

Source: Chen and Orr 2009

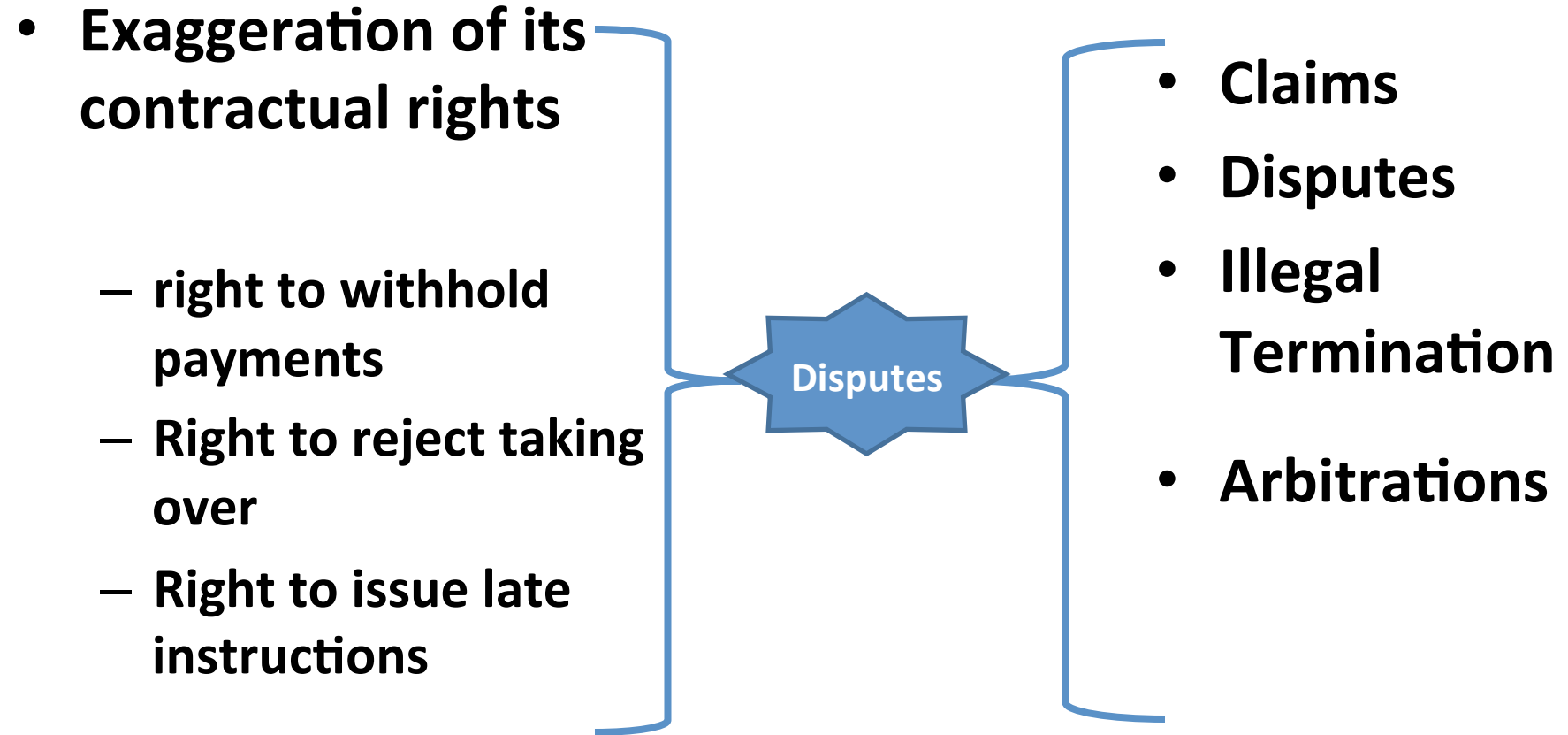


- **Worldwide Competitors**
- **More Chinese Contractors**

Both are attracted by the continuous development requirement of the infrastructure in Africa.

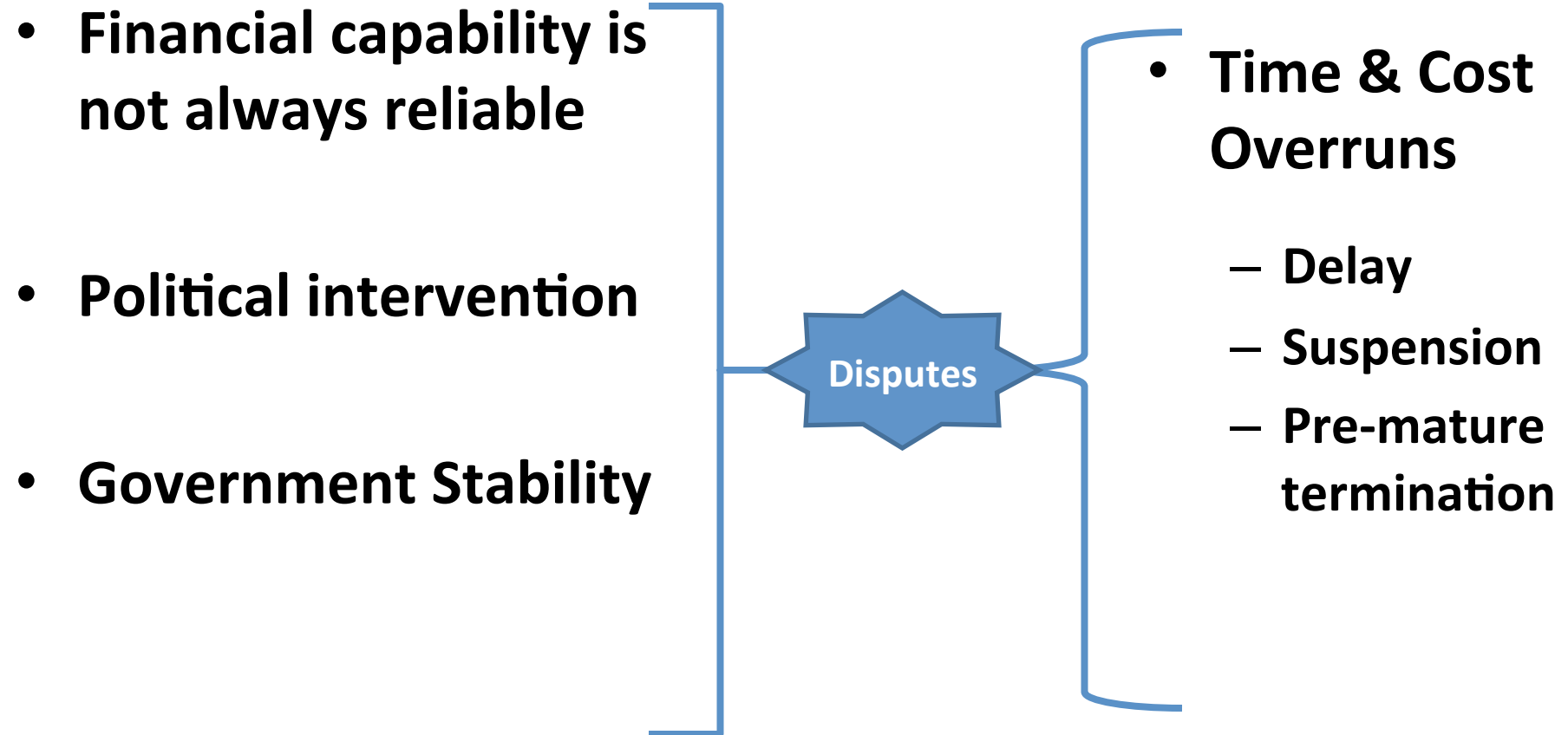
Challenges and Risks

Contractual Risks from Employer



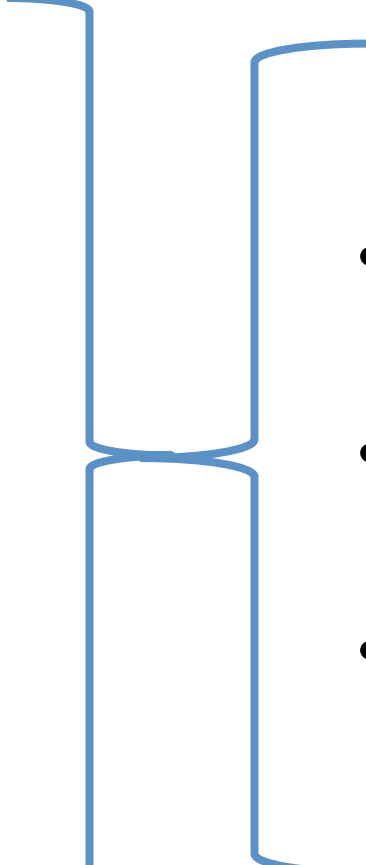
Challenges and Risks

Contractual Risks from Employer



Challenges and Risks

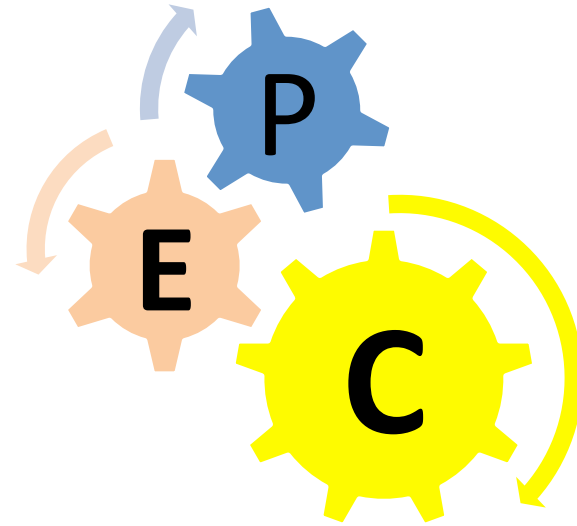
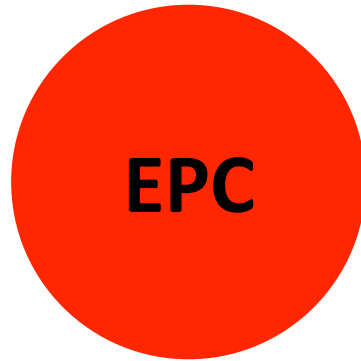
Contractual Risks from Contractor

- **Focus on market expansion**
 - **Compromised Risk Evaluation & Response Plans**
- 
- **Taken surprise by Risks Exposure**
 - **Time & Cost Overruns**
 - **Disputes**

Challenges and Risks

Contractual Risks from Contractor

- **EPC = Integrated Contract Management = Profit**



**Contractor leading
inexperienced E+P+C =**

- **Massive Risks**
- **High Costs**
- **Hugh Losses**

Challenges and Risks

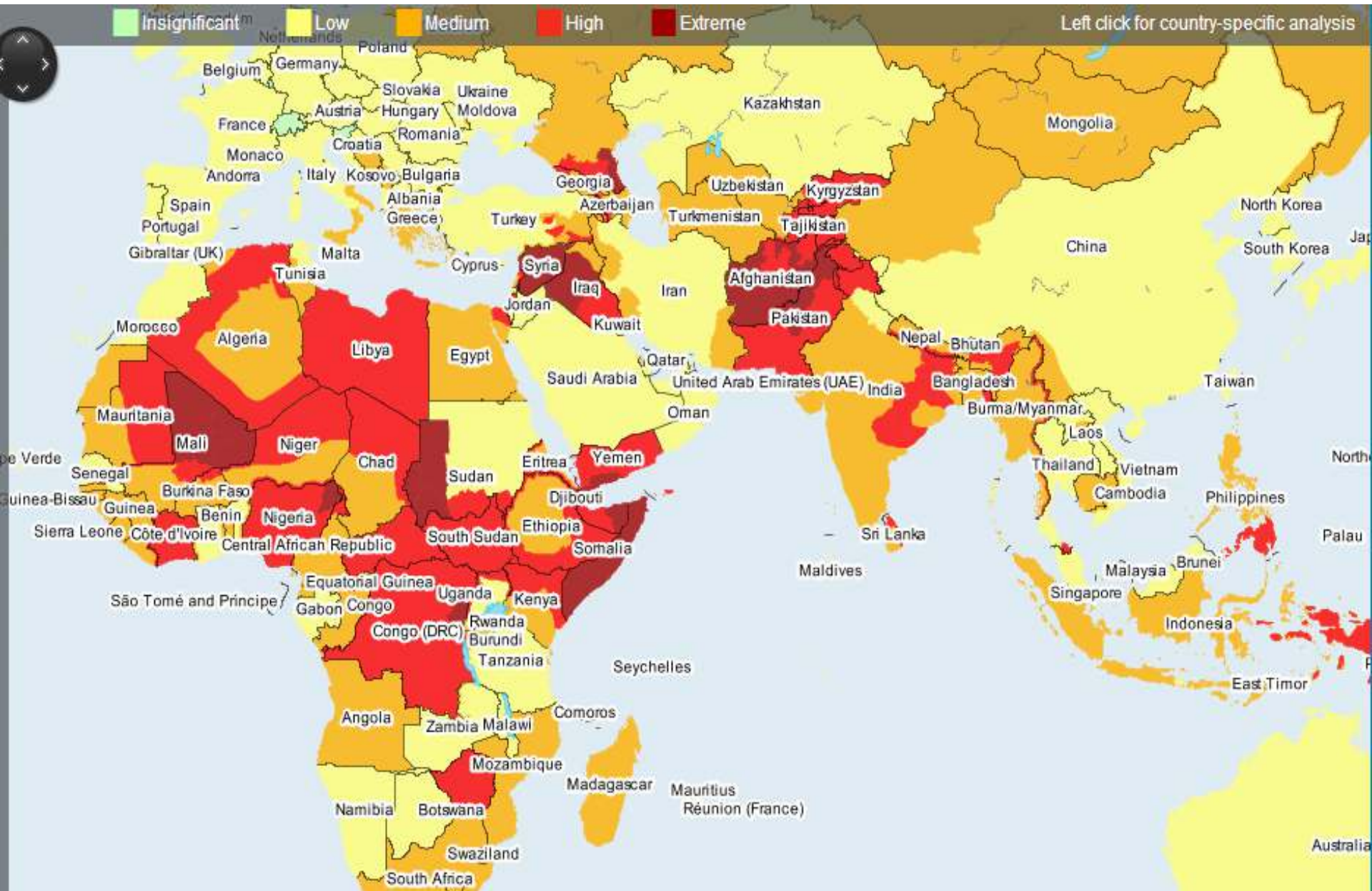
People and Property Risk

- **More Chinese Contractors go global;**
- **Large number of Chinese labours work overseas;**
- **More projects in the risky markets:**
Libya, Mali, Central African Republic, Democratic Republic of Congo, South Sudan, Nigeria, etc.

- January 28th, 2012
- Sudan
- Sinohydro Corporation Kordofan Project
- 29 Chinese staff were kidnapped



People and Property Risk – security risk map



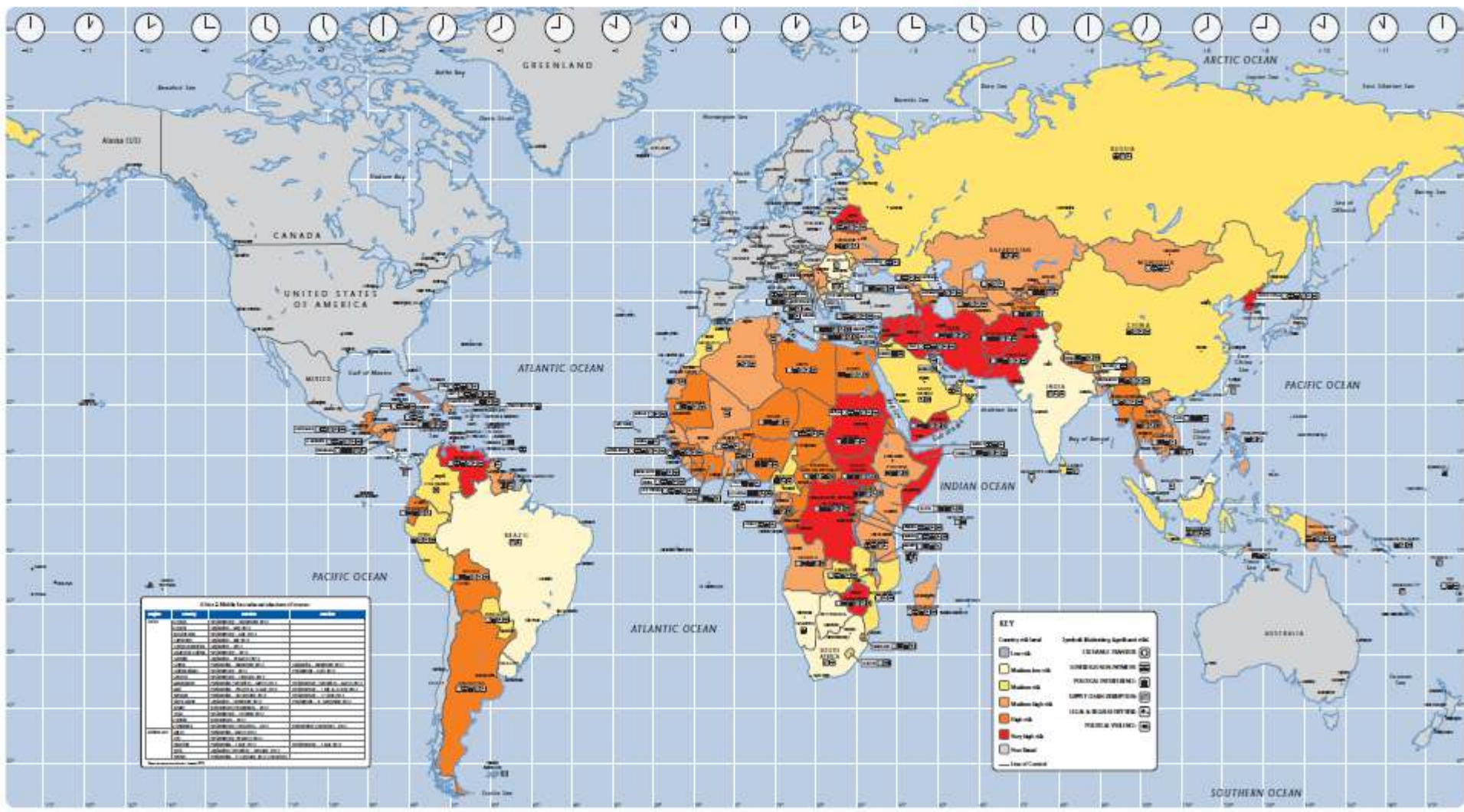
Challenges and Risks

Political Risk

February, 2011,
Civil war in Libya,
50 projects undertaken by Chinese contractors were affected
Sum of the contract value involved: \$18.8 billion.



2012 Political Risk Map



Most of the African countries are on the “High” or “Very High” risk list

Challenges and Risks

Other affecting factors

- Majority projects are construction contracts, marked with low margin;
- Local finance with bespoke contracts where risk allocation is usually one-sided;
- Chinese finance with intense competition among Chinese contractors;
- Contract management ability needs to be improved;
- Risks management ability needs to be improved;
- Localization needs to be improved.



CHALLENGE & RISK



OUR EFFORTS

Development and Future

Government Support

- Preferential International loans
- Commercial Credit , including buyer's & seller's credit

Financial Support

Market Oriented

Government Policy

Promotion by Government



- Chinese funds, including interest-free loans, soft loans, International Development Aid, etc.
- Permit for companies to finance overseas projects and provision of overseas investment insurance (Export Credit Insurance)

Development and Future

Continuously Improving Our International Competitiveness

- ✓ Building; Transportation; Power Station; Harbor; Railway, and etc.
- ✓ Construction; Design; Manufacture .

- Core competitiveness in Core Business
- Technique Advantage



- Well-Known Brand



- Consolidating Key Markets
- Expanding in New Market

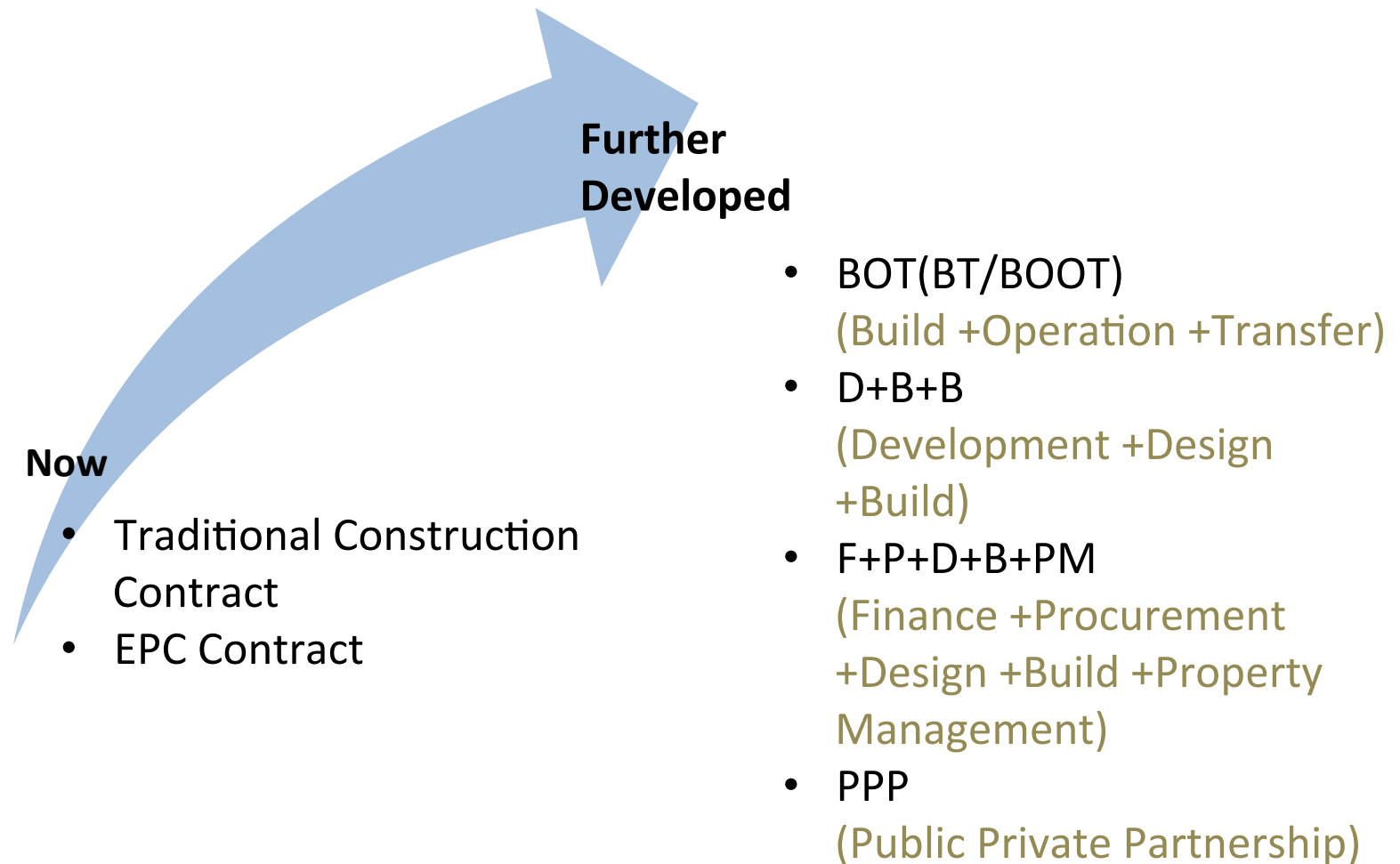
- ✓ Angola; Congo; Zambia; Algeria; Ethiopia

- Successful Delivery & Reputation

- ✓ Algeria Road Project - USD 6.25 Billion (CITIC&CREC)
- ✓ Anaco Tinaco Railway Project - USD 7.5 Billion (CREC)
- ✓

Development and Future

Inavating New Contracting Modes



Development and Future

Adopting More Contract Management Solutions

Followings are the actions & contractual mechanism commonly adopted in contract management in Sinohydro Corporation

Self-Improvement

- Contract Management
- Claim Management

Exobrain

- Contract Advice
- Legal
- Global Network and Resources
- Project Management

ADR/ Pre-arbitral

- ADR has been widely recognized and thus accepted as an effective way of conflict management and dispute resolution

Development and Future

Bettering & Sharing Our Future with Business Partners

Mutual-benefit Concept

Chinese Contractors linked with

- Chinese Contractors

Sinohydro JV CWE in Sudan, CITIC JV CCECC in Algeria,
Sinohydro JV CGGC in Ethiopia, ...

- International Contractors

CNPC JV Turkmenistan's Natural Gas Konzern,
HQCEC JV VINACHEM

- International Consulting Company

AECOM, FLOUR, AMEC, ARCADIS, JACOBS, DAR Group, ARUP, ...

- International Risk Management Agent

Aon Corp., Marsh & McLennan, Willis Group, Lockton Cos.L.L.C,
BB&T,...

Development and Future

Localization

Localization is set as the approach for all the Chinese international contractors to improving corporate management effectiveness and efficiency with respect to adaption to local work environment, culture, religion, history, regulations, and politics.



Development and Future

Being Socially Responsible



No doubt, Africa is and will remain a booming market for international contractors. Coming with business opportunities are always risks, conflicts, disputes.

Learn from the Past Create the Future

Conflicts

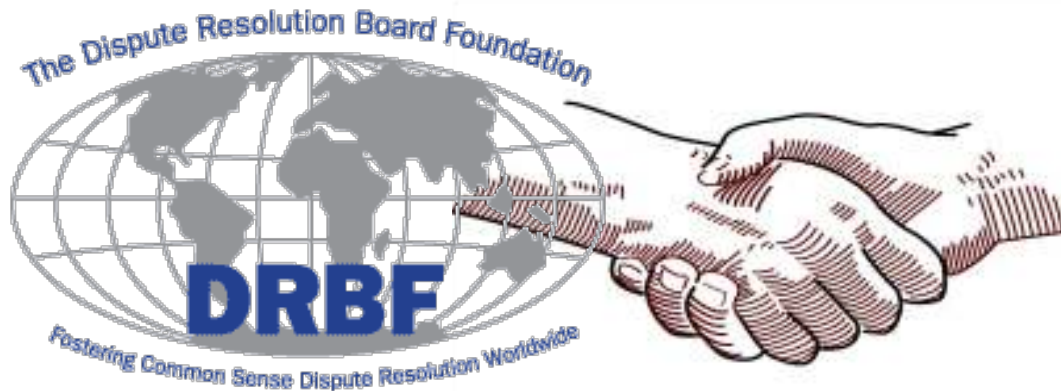
Risks

Disputes

Challenges

More overseas projects, more claims and disputes.

Looking forward to closer cooperation between
DRBF & Chinese International Contractors
to promoting the **avoidance and resolution** of disputes worldwide



**Chinese
International
Contractors**



Global Responsibility & All-win Harmony

Thank You!