



Contracting in the New Economy

Agenda

- Introduction
- The Haves and Have Nots
- Trends in Contracts
- Spectrum of the Construction Models
- Project Centric and Importance of Communication
- The Contracting Process
- Options to Risk
- Crystal Ball
- Sound Philosophies for the New Economy
- Questions



Introduction

- Infrastructure is the New New Deal (New Delivery Models)
- Global Marketplace
- Lenders Direct Terms
- Surety Balance Sheet Trading
- Balance Sheet Trading
- QA/QC
- Best Practices
- Best in Class Contracting
- This will continually evolve



The Haves and Have Nots

Haves

- Large backlogs (longer jobs; operations)
- Infrastructure players
- Significant margin
- Overhead coverage extending out 48 months
- New solutions - arrows in the quiver (aka barriers to entry)

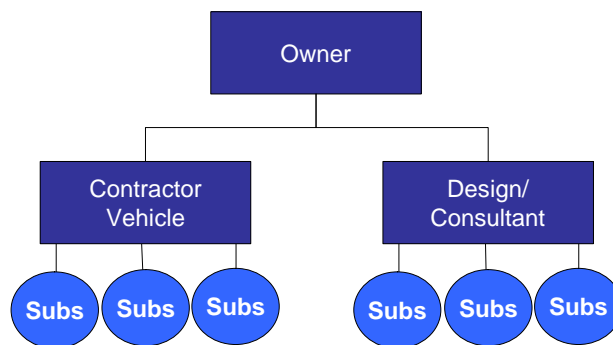
Have Nots

- Short term jobs
- Commercial and Industrial players
- Backlogs in need of replenishing
- Diminishing margins – more bidders
- Traditional solutions

Trends in Contracts

- Newer forms of contracts are being seen
- Traditional Owners are leaving the scene
- Technology is changing the availability of contracts
- What may be good for one job may not be good for another

Traditional Model



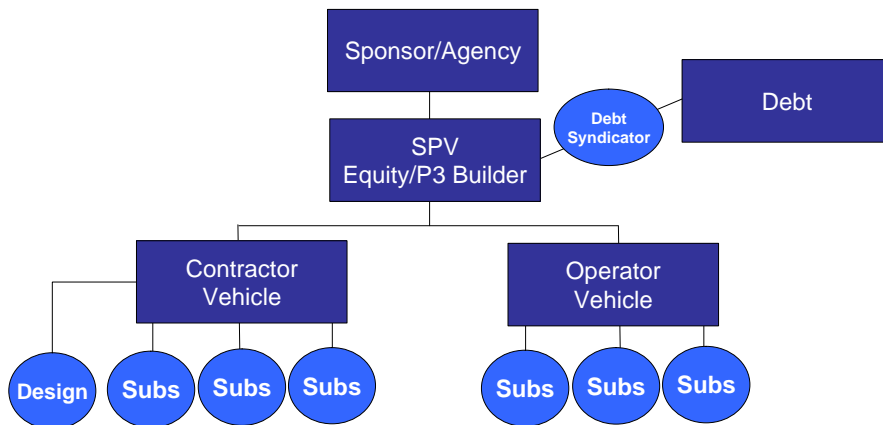


Traditional Model

- **Advantages**
 - Large Instances of legal precedents
 - Level playing field
 - Low qualified price
 - Attract the largest spectrum of bidders
 - Political acceptance
- **Disadvantages**
 - No control over sub-trades
 - No dispute solutions
 - Too slow
 - Funding
 - Huge Infrastructure Deficit



Design Build Finance Operate and Maintain Model (PPP Model)



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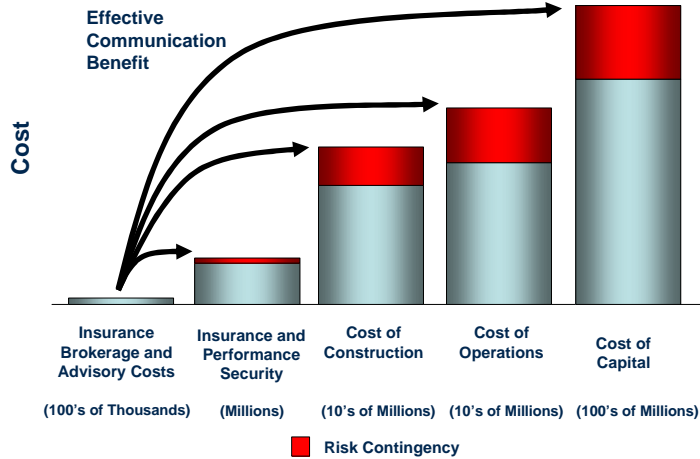
- **Advantages**
 - No equity
 - No ownership
 - Contingent liabilities eliminated
 - No need for infrastructure
 - Better on-time, on-budget, as per specs
 - Revenue stream is only variable
 - More "skin in the game" for contractors
 - Lifecycle (Value for Money)
 - Greater share valuations
- **Disadvantages**
 - No immediate ownership
 - Limited proponents
 - Very specialized
 - Understanding protocol
 - More risk to contractor
 - Risk = Margin

Project Centric Approach



- More transparency on risks
- More up front discussion on risk
- Limit construction and operation surprises
- Good for project – usually good all stakeholders

Effective Risk Communication is VITAL



The Goal

- On time
- On budget
- As per specification
- On Time has become paramount
 - New solutions must address this risk (liquidity is key)



The Contracting Process

- Identify the high-risk clauses
- Decide if anything is a deal-breaker
- Negotiate to the extent possible
- Business decision to proceed



Options to the Accepted Risk

- Transfer
 - Insurance
 - Contractually
- Manage/Controls
- Finance
- Assume



Risk Transfer

- Insurance
 - policy has exclusions
 - problems generally are generally not black and white
 - guarantee vs. indemnity
- Contractually
 - person who accepts risk must understand the risk
 - person who accepts risk must be able to afford the risk
 - person who accepts risk must be able to qualify
 - if the above do not occur, you have not transferred property



Risk Management/Risk Controls

- Everyone is aware
- Programs and goals are established
- Team effort to avoid risk
- Risk Controls
 - Best practices
 - QA/QC
 - Safety
 - Transparency solutions (software)



Risk Financing

- Too rare an occurrence in construction
- Thought process is contrary to competitive nature of business
- The new model quantifies risks more intensively
- Quantification leads to the contingencies



Risk Assumption

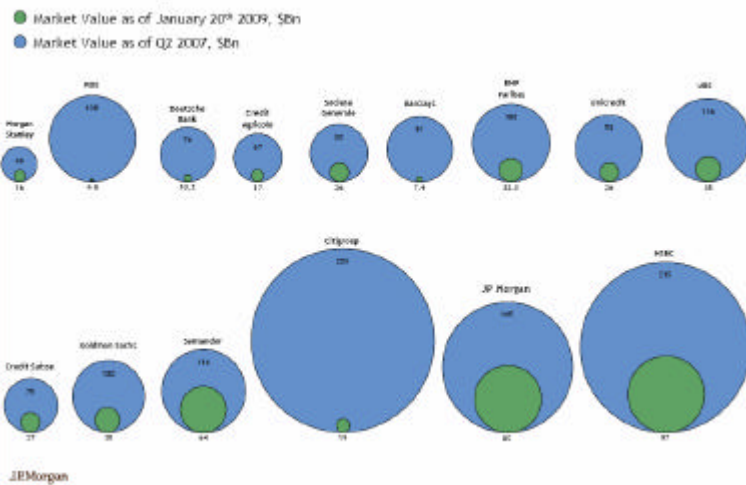
- Too often the case in construction
- "Let's pass it down and see what happens"
- Under new model the risks are clear

What Do We See Happening

- Large contractors have significant backlog and margin
- Small to mid-sized contractors will see more competition (longer bid lists)
- Mega Projects will continue to dominate (credit markets will impact this area)
- Lifecycle construction will continue to gain traction
- He who has the most “arrows in the quiver” will receive best terms
- Contractors in lifecycle deals will play greater role in equity/debt negotiations

Credit Markets in Disarray

Banks: Market Cap





Recent Headlines

- "Montenegro to guarantee \$2B roadway"
- "Babcock & Brown shut North American PPP group"
- "RBS exit project finance lending"
- "Port Mann ends P3 procurement"



Recent Canadian Headlines

- 5 Short listed for P3 Schools
- Quebec Care Home reaches Financial Close
- RFP issued for S. Fraser Road
- Niagara reaches Financial Close

Sound Philosophies for New Economy

- Equitable allocation of risk is key
- Read all contracts (greater clarity in contracts)
- Peril/Risk driven approach (not product driven)
- Ability to negotiate becomes paramount
- Know all available solutions to manage risk (arrows in the quiver)
- Project-centric
- Help project stakeholders continuously improve best practices
- Communication of risk is vital to achieving best terms and conditions
- Barriers to entry are being built and shareholders will benefit
- Anyone can build these barriers (size doesn't matter)

