

E&C Governors Meeting
Preview for Rice Forum



What Have We Done and
Where are We Going?

Meeting Agenda

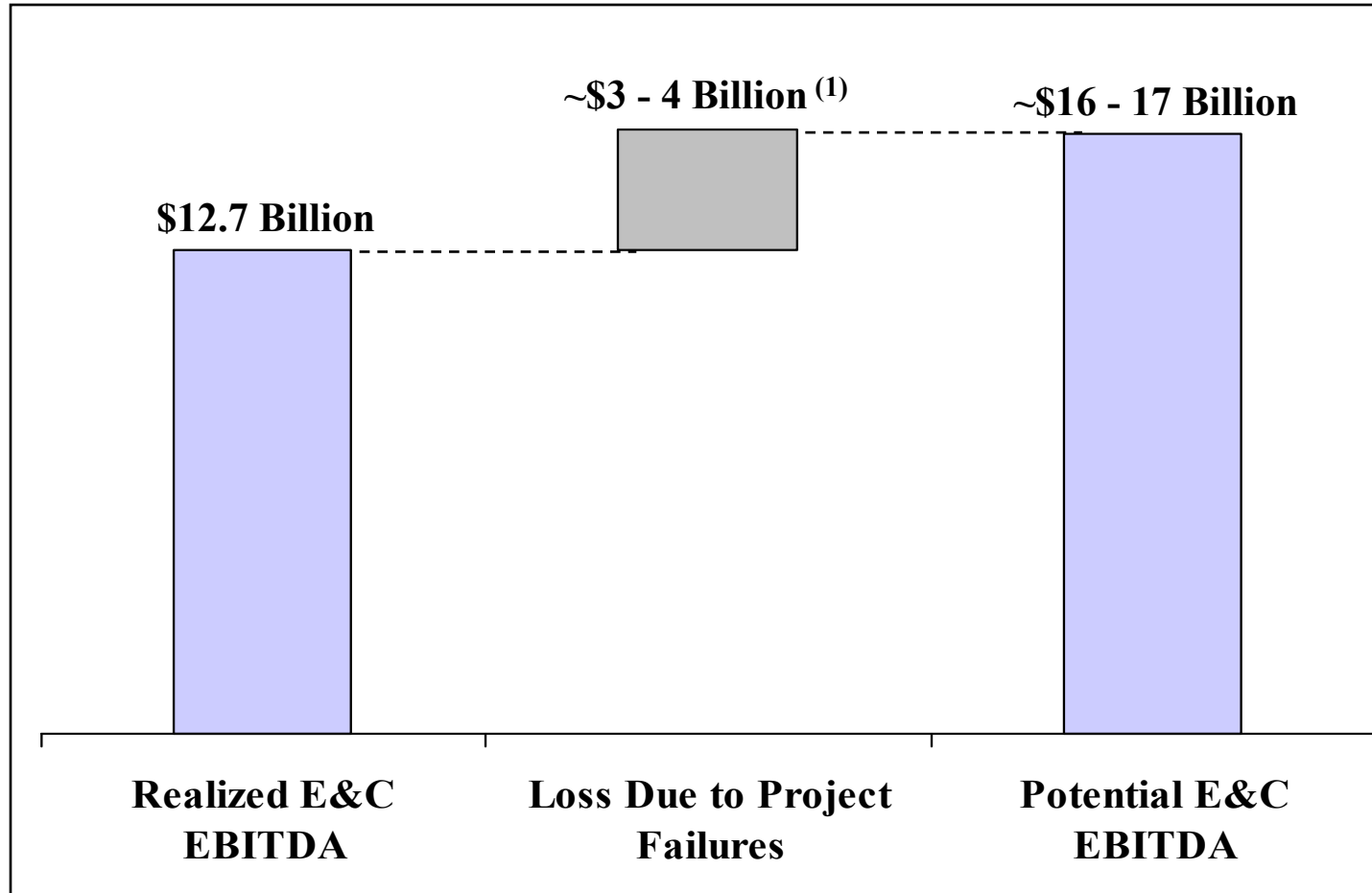
- ECRI vision
- Formation of ECRI
- Focus areas during 2005
- Examples of work product
- Plans for 2006
- What is needed to proceed

OTHER SESSIONS INCLUDE

- Do We Have the Right Qualified Resources?
- Supplies and Commodities
- Anti-Corruption Principles

One of the first findings was that “Undermanaged” project risk alone is costing E&C industry ~\$3 - 4 Billion annually in profits

2002 Global Realized versus Potential Profits



Key Observations

- \$200 – \$270 billion industry wide revenue would be needed to make up for lost profit
- Clients' exposure on a similar order magnitude

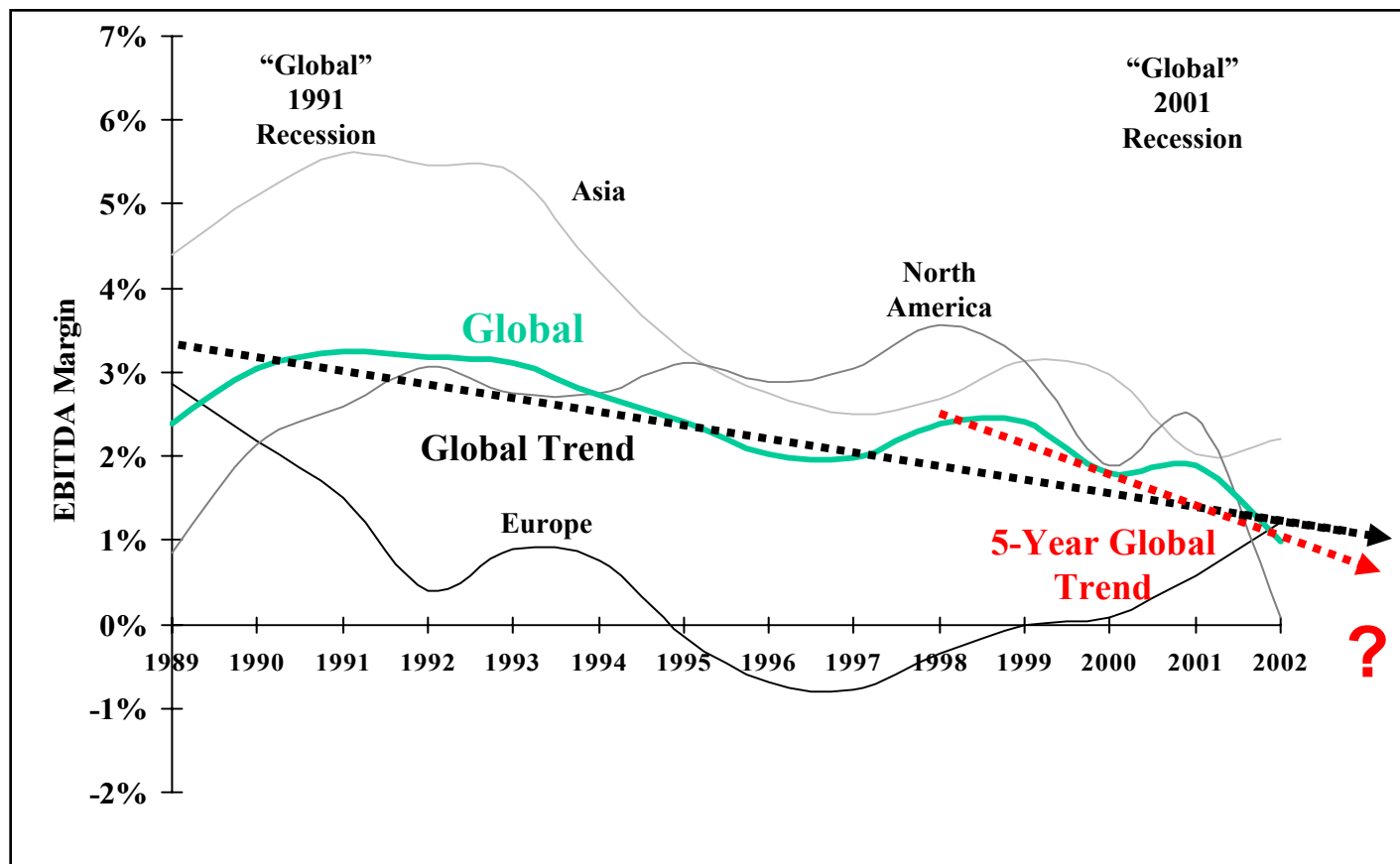
Source: Datamonitor, Factset

Engineering News Record and industry expert estimates of project failure rates

Note: 1) Analysis based on 2002 data. Cost of project failure is the cumulative variance between estimated profits and realized profits. It includes margin shortfalls which could be addressed by improved risk management for an estimated share of 20% - 25% projects. EBITDA margin of 1.5% is used to describe average project profitability

Riskier business models and over-emphasis on new orders have contributed to declining profitability, which has driven shareholder value destruction

Global E&C Industry Profit Margin



Key Observations

- 60% EBITDA decline in 12 years
- Structural issue, explained by “business cycles”
- Europe has improved (in the five years), but still in negative territory
- Regions appear to be converging, reflecting globalization

Source: 1) Factset. Includes the 38 publicly traded companies in North America, Europe and Asia

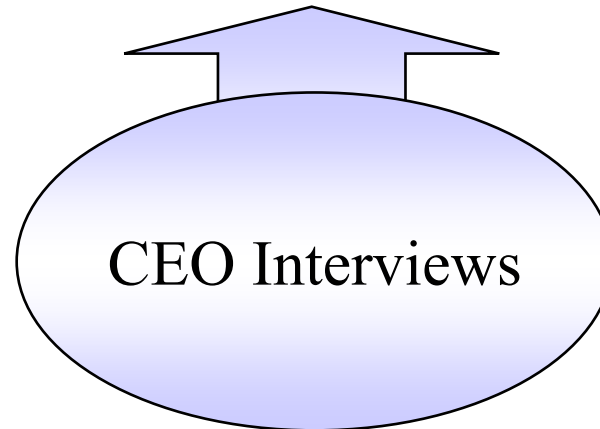
Notes: 2) Profit margin is found by company’s operating margin/net sales

3) Global trend is found from a composite of all companies weighted by market share

A consensus vision for the E&C “Risk Institute” has emerged from a large number of discussions with the E&C Governors

Vision

“Institutionalize sound risk management in the Engineering & Construction Industry to improve performance and predictability of large capital projects, consequently enhancing the long term health of the E&C community and the value to its clients”



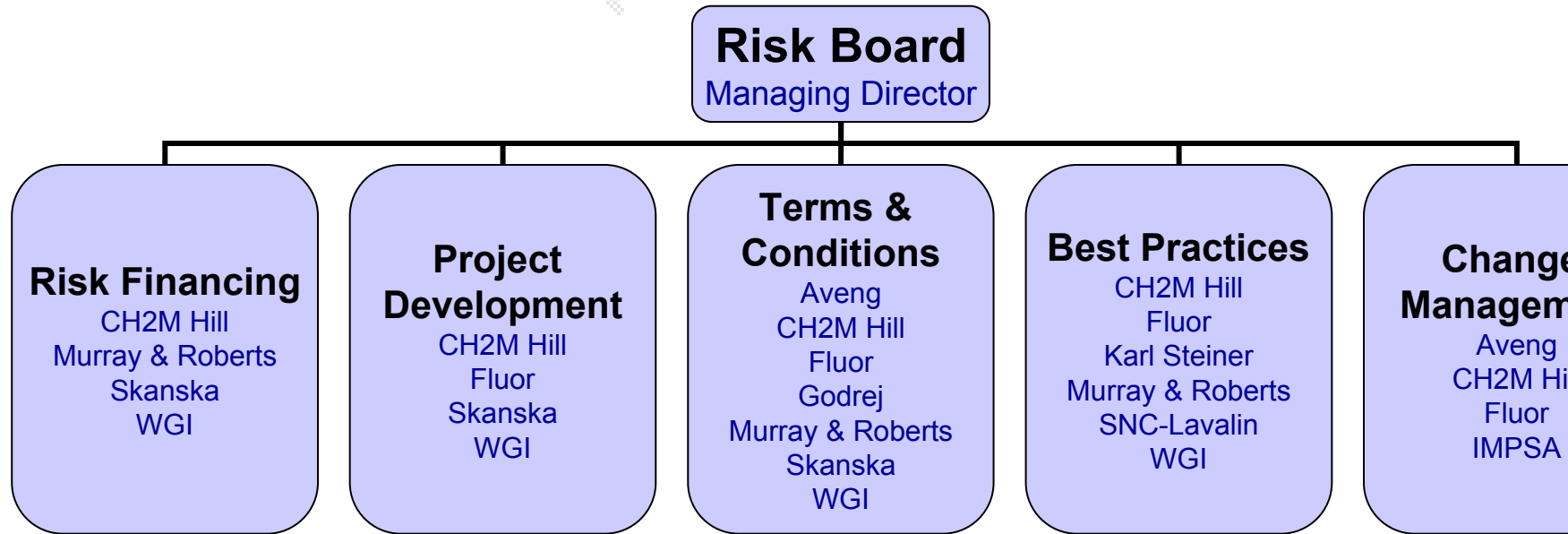
Current ECRI Sponsors (**more information at www.ecrionline.org**)

- CH2M Hill
- Lahoud Engineering
- Heijmans
- Godrej
- Peremba Group
- Aveng
- CCC
- SNC-Lavalin
- Corporacion IMPSA
- Washington Group
- Fluor
- Skanska
- Hochtief
- Hindustan Construction
- Obayashi
- Murray & Roberts
- Karl Steiner

Operations Beginning July 2005

- Risk Management Process
 - Established Global Task Teams and began their work on the following immediate focus areas approved by Sponsors
 - Risk Management Guidelines
 - Risk Management Process Criteria
 - Contractual Guidelines
 - Commercial Guidelines for different types of payment structures
 - Project Finance/Development Criteria
 - Project Development Risk
 - Change Management Guidelines
 - Established web-based clearinghouse of risk management information www.ecrionline.org
- Risk Financing
 - Established Insurance and Bonding Best Practices
 - Began dialog with Insurance/Bonding industries
- Risk Allocation
 - Began planning Joint Risk Management dialog with clients

Organization – Global Task Teams



WNZ1

Matt:

This is just to show the names. Trust you will generate a more attractive format.

William Zelle, 1/5/2006

Institute Deliverables

GENERAL	
Index of Deliverables	Completed
Institute Future Vision	Completed
Individual Sponsor's Risk Management Future Vision	Completed
Project Risk Management Guideline	Draft

CONTRACT TERMS & CONDITIONS	
Contract Best Practices: Critical Issues	Completed
Terms & Conditions Criteria: Project Execution/Commercial	Draft
Survey & Analysis of Model Contracts	Draft
Contract Issues for Different Commercial Structures and Different Scopes of Services	Not Started
Glossary of Defined Contract Terms	Not Started
Format for Contract Summary for Taskforce	Not Started

RISK FINANCING	
Risk Financing Best Practices Critical Issues-Insurance	Completed
Risk Financing Best Practices Critical Issues-Bonding	Completed
Review of Potential Duplication of Contractor/Owner Insurances	Completed
Survey of Trends in Insurance, Surety, Security Requirements	Draft

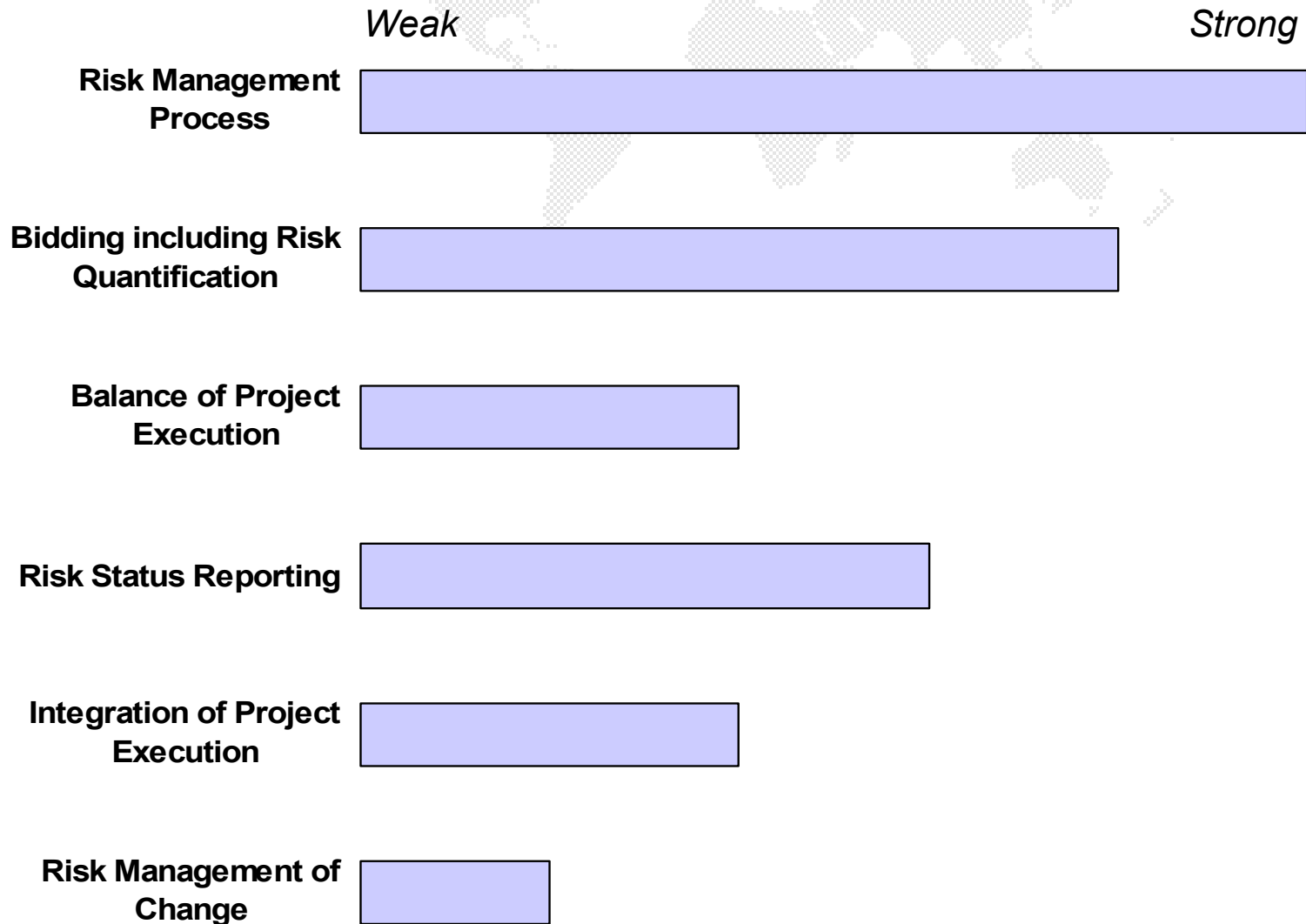
Institute Deliverables

CHANGE MANAGEMENT	
Inventory of Risks Associated with Change	Draft
Change Definition Table	Draft
Criteria for a Project Change Management Process	Draft
Process for Assessment of Change Impact	Not Started

BEST PRACTICES	
Criteria for a Project Risk Management Process	Completed
Risk Criteria Questionnaire	Completed
ECRI Risk Breakdown Structure	Draft
ECRI Glossary	Draft
Best Practices for Risk Identification	Not Started
Best Practices for Risk Event Contingency (Risk Quantification)	Not Started

PROJECT FINANCE/DEVELOPMENT	
Project Development Best Practices	Completed
Inventory of Additional Risks for Development/Financed Projects	Completed
Project Development Early Decision Screens	Completed

Risk Management in the E&C Industry



Feedback from the E&C Industry indicates that despite widespread existence of written risk management processes and procedures, actual risk management declines dramatically as a project progresses and is often not well integrated with project execution or applied to contract changes when it is most needed.

Plans for 2006 and Beyond

- Continue development of deliverables and begin:
 - Risk event contingency
 - Change impact
 - Joint ventures
- Broaden ECRI sponsorship by E&C industry
- Joint risk management discussions with owners*
- Identification & insight of industry-wide emerging risks*
- Forums with insurance and bonding firms
- Liaison with PMI, APM, CII, etc.
- Promote effective risk management training in the E&C industry

* - supported by World Economic Forum

Potential Future Institute Activities

- Risk Management Process for Portfolio/Enterprise Risks
- Risk Management Process for Ownership Projects (BOO), (O&M) etc.
- Investigate Methodology for Certifying E&C Companies' Risk Management Processes

What have we done and where are we going?

- Established global institute to improve risk management performance in our industry
- Developed excellent and accessible risk management products
- Now ready to reach out to broader audience of contractors and clients