GLOBAL PARTNERSHIPS REPORT 2016

The three most important trends of the changing economy: inward investment, cleaner energy and partnerships that truly help societies

EXPLAIN THE MARKET

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DEMAND GROWS FOR NEW CORPORATE BEHAVIOUR AFTER DAVOS 2016:

NEW EVIDENCE REVEALS GLOBAL DRIVE FOR SUSTAINABLE DEVELOPMENT

The central theme at the World Economic Forum in Davos was 'a Fourth Industrial Revolution' – a major topic of discussion was the complexity of technological advances and increased automation. The world is fast moving towards a future where the power of 'big data' is enabling organisations to deliver highly contextual experiences for customers with extremely diverse needs. The scale of growth in data driven services and mobile technology is converging with youthful populations in parts of the world such as Africa to create new opportunities for growth. As millennials transition into positions of power both as customers and corporate decision makers, the themes important to them are beginning to set the agenda for companies and governments. Responding to the demands of an on-demand economy while proving a real commitment to sustainable development have become essential ingredients needed now to deliver growth in the medium term.

However, the speed of globalisation and the complexities of cross-border trade and geo-political relationships are demanding closer working relationships between nations and corporations than ever before. This is driving demand in countries with developing legal and governance infrastructures for advisory services that offer specialist industry knowledge and experience, integrated working practices and more pragmatic tools.

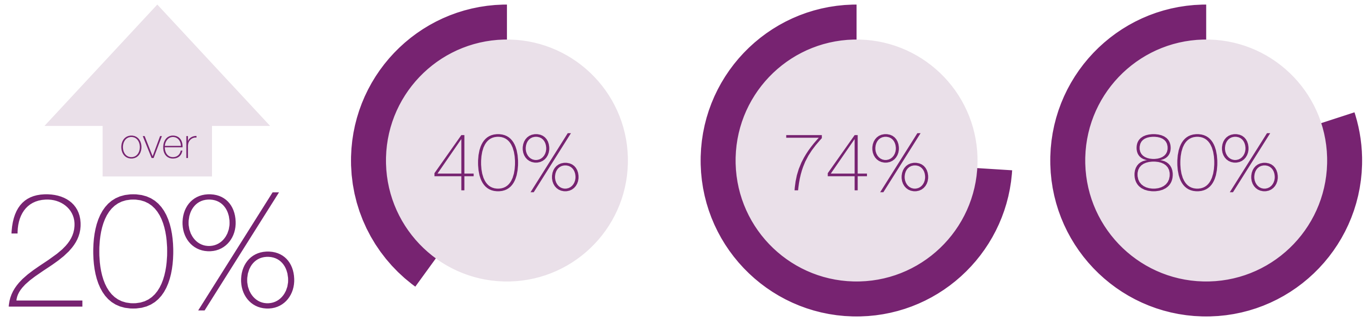
This mixture of geo-political concern and a desire to shift focus to meet the demands of customers and citizens with different priorities is reflected in the most recent PwC Annual CEO survey. The findings reveal not only the extent of the support and expertise leaders are looking for to overcome increasing economic complexity, but crucially, the survey also highlights a new commitment to treat societal impact as a core priority. The results of the 19th PwC Annual CEO survey launched at Davos highlighted that nearly a quarter of global companies have shifted the focus of corporate activity towards the impact on society. The research with over 1,400 top leaders across 83 countries, reveals 40% are concerned about access to affordable capital impacting growth, 74% of CEOs are concerned about geo-political uncertainty, and almost 80% are worried about over regulation.

While global commodity prices and market volatility continue to cause anxiety, investment in collaborative corporate policy development on issues of global importance and problem solving partnerships are increasing. New research by non-profit group Influence Map reveals that Paris COP21 has triggered an unprecedented change in corporate behaviour in support of clean and green corporate activity. The findings suggest the unprecedented business presence at COP21 has produced a "significant change in corporate behaviour". The report also called for trade associations to behave differently in order to support green and renewable projects.

Similarly, experts from the global investments industry have declared that a renewed interest in good corporate behaviour will be one of the most important factors in 2016. The Head of Sustainable Investments at Royal London Asset Management told Investment Week in January 2016 that along with growing demand for digital and physical infrastructure, a renewed interest in good corporate behaviour would be a defining theme of 2016 and beyond.

Societal impact: from peripheral to critical

Source: 19th PwC annual CEO survey, January 2016



Of companies have shifted corporate focus towards impact on society

Concerned about access to affordable capital impacting growth

Concerned about geo-political uncertainty

Concerned about over regulation

NEW CHALLENGES NECESSITATE NEW PARTNERSHIPS WITH THE WORLD

China is changing rather than failing. Overall domestic consumption is growing and the service sector is growing rapidly. It is entirely normal for the growth rates of any country to slow as it develops – and China has grown very quickly in recent years based on an export orientated strategy. It is now getting to grips with a necessary painful adjustment to broader channels of growth. The volatility caused by China's changing relationship with the world is understandable and manageable, but only by building the right type of global partnerships.

China accounts for a quarter of the world's economic growth and is currently managing an economic transition and looking for new types of business partnerships. The country itself is set to grow more based on services and new sectors. This means dealing with surplus industrial capacity, helping workers transition to new service industry jobs – and crucially, communicating and partnering in a different way with global partners.

Inside China things are also changing. The trend towards closer collaboration and integrated problem solving is also helping overcome domestic challenges. Despite a positive overall picture across the Chinese service sector, for many policy makers the domestic property market has become the next challenge to sort out. New joint ventures and partnerships are forming to negotiate with governments and business partners. Despite property prices bouncing back in the biggest cities such as Beijing and Shanghai, the high cost of land is making life difficult for developers. In some large cities the price of land has increased over 10% since this time last year and many developers are looking at new ways of working together to stay ahead of the game. By circumnavigating the public market and forming joint ventures, bidding power at government auctions is dramatically improving chances of securing building plots. The majority of China's biggest land sales are now bought through partnerships and this trend has increased steadily since 2014.

With this squeeze on profit margins set to continue, the ability to partner effectively is becoming the most important survival factor in the Chinese property market. The ability to integrate with big developers, state governments and also collaborate with provincial governments necessitates an agility that is perhaps less important than five or 10 years ago.

China is changing the way it partners. It is no longer just about channelling benefits back to China. A key example is the way China is nurturing and expanding its interests across Africa. The world's second largest economy is moving towards a new type of partnership with Africa – as both parties increasingly require critical components from the other. China needs energy and resources from a huge developing power like Africa as well as access to new growing markets. In return, Africa demands more than just capital investment. Africa requires access to technology infrastructure, problem solving expertise and a long term commitment to help manage large projects that stimulate jobs and local businesses. Huge Chinese funded infrastructure projects in countries even without significant foreign debt like Algeria are signalling a new and better way of problem solving.

Ongoing China to Africa investment

2014 — 2016 — 2018

US$32 MILLION
Loans from China to Africa


Zambia power plants


Mines in Congo


Rail infrastructure in Equitorial Guinea

40%
Concerned about access to affordable capital impacting growth

The example of Algeria highlights nations and partners looking beyond a singular deal to build sustainable long term economic growth. The recent announcement of several infrastructure projects, including a new US$3.2 billion port in Cherchell, heralds the first time Algeria has actively looked for foreign funding in over a decade. Chinese businesses are already well-established in Algeria, especially in housing and construction, and in one flagship project, Chinese firms are helping to build a huge new mosque worth US$5 billion in the capital Algiers. Now Chinese banks will fund the port in Cherchell, east of Algiers. This mega-port of 23 docks will be capable of processing 26 million tonnes of goods per year, according to a source at the transport ministry. The port will be funded by China with China's Shanghai Ports Group managing the day to day project.

This project also presents a marked difference between the type of partnering required now as opposed to 10 years ago. In 1994, Algeria signed a debt restructuring deal with the IMF, but the terms and tone of the relationship made life unmanageable domestically. Countries like this are rightly sensitive to what a genuinely collaborative problem solving partnership needs to feel like. The demand is for partnership and mutual growth as opposed to imposition and bail-out.

Imposition and bail-out versus partnership and growth. The Algerian example of a new approach to partnership.

1994

- Debt restructuring with the IMF
- Closing state run firms
- Increased unemployment
- Currency devaluation (40%)
- Social unrest

NOW

- Chinese diversified infrastructure projects:
  - US$5 billion mosque
  - US$3.2 billion mega-port
- Integrated planning with the largest trade partner (Africa)
- Mutual long term commitment to growth

AMBITION FOR RENEWABLE ENERGY UNFETTERED BY MARKET VOLATILITY

Dealing with market volatility is a global issue. Since the start of 2016, drops in the Dow Jones index, Nikkei and the FTSE100 have highlighted that many economies around the world are operating with a GDP level that is well below potential. Oil producing countries have been selling financial assets in order to mitigate the impact of falling oil prices. This has had a destabilising effect on the markets and the challenges of surviving and thriving amidst a climate of market volatility are particularly pronounced in Africa.

Advancements in technology in all types of energy are leading to cleaner solutions. The potential of new technologies is rendering the “clean v dirty” energy debate a moribund point. The scale of the challenge ahead requires much bigger ideas about how to work together to ensure all forms of energy become as affordable, secure and as clean as possible.

Sustaining growth while simultaneously reducing economic dependence on volatile oil prices places huge pressure on developing nations. Creative and sustainable debt restructuring and use of macro financial instruments are helping many African nations to partner their way to growth. Similarly, large scale infrastructure projects are attracting expertise and investment from around the world.

The recent development of the Chad-Cameroon pipeline by the Cameroon government serves as an example of this. This project also highlights how partners can work together to deliver something tangible that makes a difference to the lives of local citizens.

HFW case study

HFW’s work to advise the Cameroon Oil Transportation Company (COTCO) provides a useful blueprint for the power of influencing the right way. The €75.3 million pre-financing for the development of the Chad-Cameroon pipeline to the Lom Pangar Hydro Power project enabled COTCO, the operator of the pipeline, to complete modification work on several kilometres of pipeline, making it possible for the Cameroon government to build a dam reservoir at the confluence of the Lom and Pangar rivers to provide electricity to the rural eastern region of Cameroon.

Governments across Africa are facing a number of economic challenges in 2016. The impact of the decline in commodity prices has brought the challenge of sovereign debt into sharp focus. The shift towards international capital markets and new bilateral lenders, including China, has brought with it increased complexity and the demand for more strategic support with restructuring negotiations.

Many African countries remain locked in the process of negotiating payment terms with the hope of easing economic constraints sufficiently to sustain long term economic growth. As commodity markets creak, the fear of a sovereign debt crisis remains. Negotiating sustainable long term resettlements requires genuine partnership, which is exemplified by the Seychelles renegotiation of 100 loans from 27 creditors. The deal involved a complex 45% write-off agreement and securing terms from 2018 over a 20-year period with a five-year grace period.

HFW case study

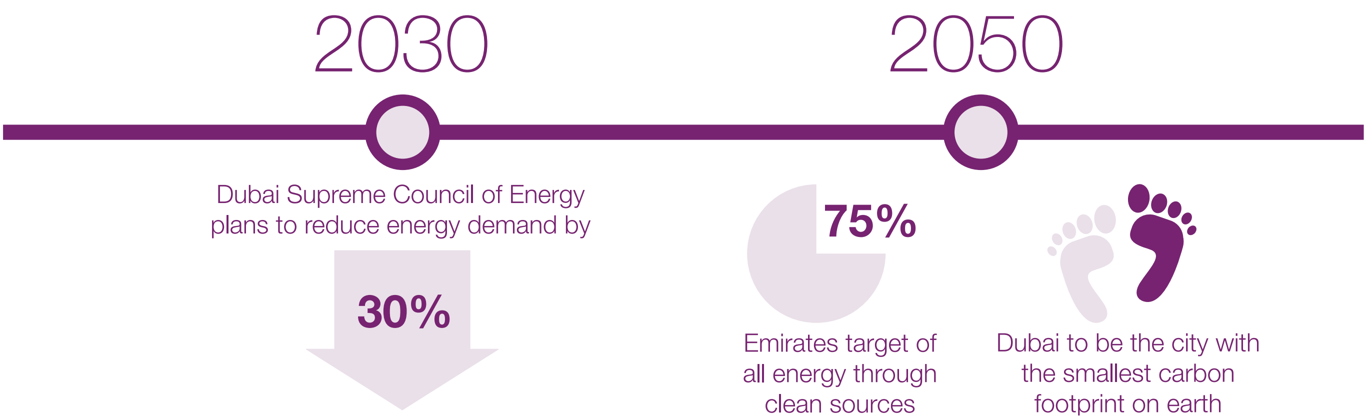
HFW's work on behalf of the Republic of Niger secured the restructuring of a sovereign debt deal which delivered improved payment terms from its foreign lender in exchange for reduced interest and a write-down of capital.

The debt restructuring deal saw the total owed reduced from US$183 million to US$20 million and required an immediate payment by the Government of Niger of US$5 million. The remaining US$15 million is payable over the next 20 years.

The deal has helped Niger enhance long term financial planning including the approval of mining agreements between it and mining exploration companies to search for gold and base metals in the Sahara and other areas of the country.

It also adopted a new Economic and Social Development Plan for mining and oil and gas, setting out a clearer and more transparent government policy towards investors.

Scale of Middle East ambition provides partnership opportunities



Dubai's Mohammad Bin Rashid Solar Park is one of the world's largest solar energy projects and aims to generate 1,000MW of power by 2020, increasing to 5,000MW by 2030, with total investments of US$13 billion. The park is expected to reduce the carbon emissions of the UAE's most populous city by 6.5 million tonnes annually. Over 100 green car chargers have also been installed to make electric car charging easier right across Dubai.

Saudi Arabia has also been playing a leading role in driving forward hugely ambitious renewable energy projects in recent times and this trend looks set to continue. More than US$100 billion in Saudi renewable energy projects were recently announced at the World Future Energy Summit in Abu Dhabi, UAE. The Kingdom's energy demand is expected to grow by 45% from 69 gigawatts in 2014 to 100 gigawatts in 2040. According to a recent report by

Frost & Sullivan Research this amount is nearly as much as the rest of the GCC combined. To help deal with energy demand Saudi Arabia plans to spend US$109 billion to install 54 gigawatts of renewable energy by 2040. By 2020, the Kingdom's projects alone will account for 70% of the total value of the GCC's renewable energy projects. One of the development areas enjoying the strongest growth is solar power. Saudi Arabia has set a target to install 41 gigawatts of solar power by 2040.

Australia also remains at the forefront of global innovation in renewable energy. Australia's Renewable Energy Target is expected to create more than US$28 billion worth of investment before 2030. Although the commitment is long term, the opportunities exist in the near term also. Between 30 and 50 major projects are planned to be built within the next five year period alone.

Meanwhile in Europe, France has just announced solar panels will be installed on 620 miles of roads in the next five years. If successful, this project could supply five million people (8% of the country's population) with electricity. The French government has also been working to lower solar feed-in tariffs driven by the need to counter inflation in the photovoltaic sector.

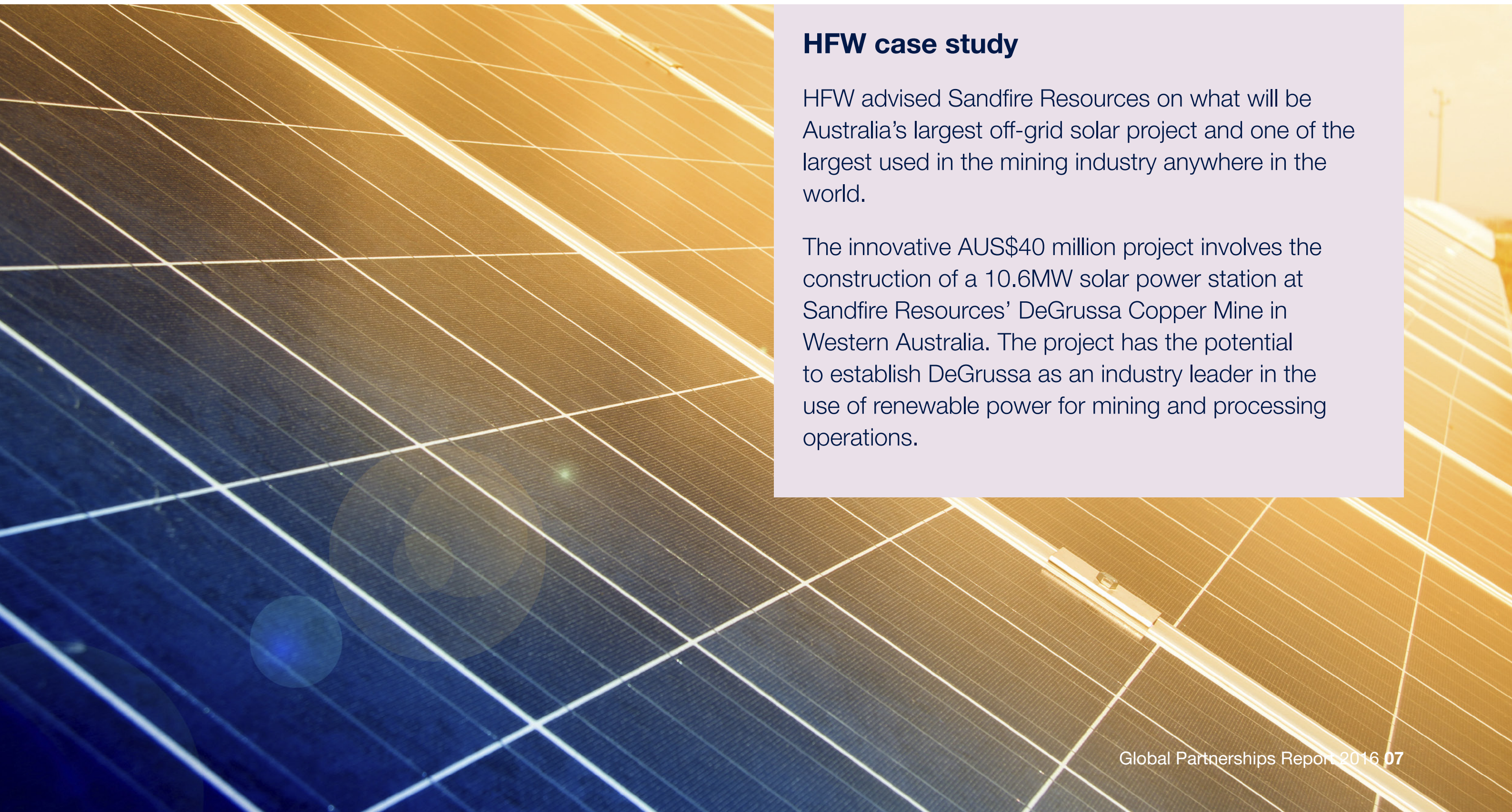
France has also joined forces with India in launching a new international solar alliance with the goal of bringing clean and affordable energy within reach of all citizens. The Indian government estimates that over 100 countries already rich in solar energy will become part of the alliance. China and the US are also involved in the alliance that aims to mobilise US$1 trillion of investment in solar projects by 2030.

However, while much focus is on the future development of renewable energy, traditional energy sources continue to play a huge role in meeting the demands of the world's population.

Investment in making these traditional energy sources clean will remain an important priority for developed nations. With coal supplying over 40% of global electricity demands, China and the USA are leading the efforts to dramatically reduce the harmful effects of coal production.

The GreenGen facility in Tianjin is one of the most advanced global efforts to develop carbon capture and storage technology (CCS) on a grand scale. Many leading environmental researchers and campaigners now consider CCS as critical in helping to avert future climate change disasters.

The GreenGen project is a prime example of global partners collaborating to solve commercial challenges with huge societal consequences. The facility is built by a Chinese state owned utility company in partnership with US firm Peabody energy, the world's largest private coal company.



HFW case study

HFW advised Sandfire Resources on what will be Australia's largest off-grid solar project and one of the largest used in the mining industry anywhere in the world.

The innovative AUS$40 million project involves the construction of a 10.6MW solar power station at Sandfire Resources' DeGrussa Copper Mine in Western Australia. The project has the potential to establish DeGrussa as an industry leader in the use of renewable power for mining and processing operations.

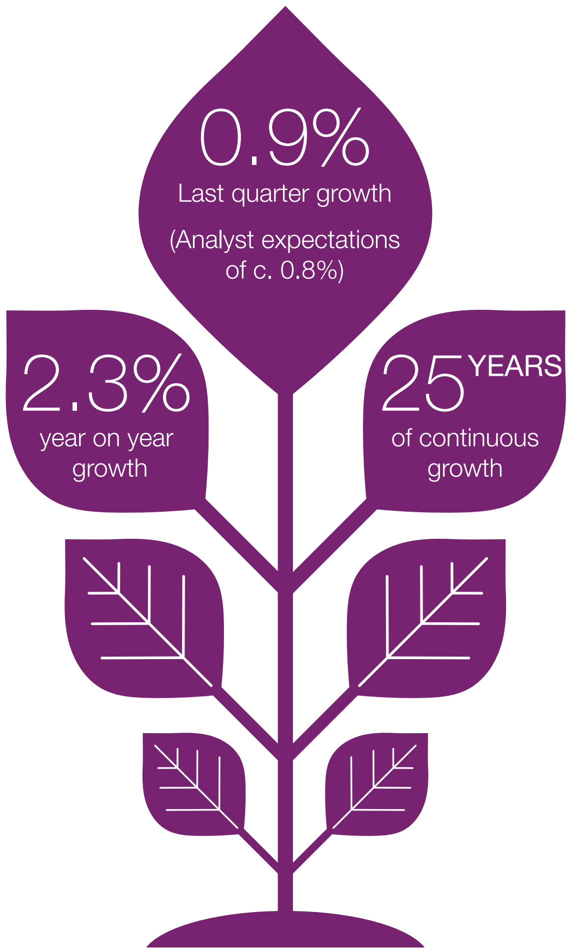
BROADER GROWTH DRIVERS AMIDST DEEP ROOTED INTERDEPENDENCY

Despite the tough markets around the world, Australia has taken a deliberate strategy of diversifying beyond a reliance on resources, but at a careful and gradual pace. Export volumes remain relatively healthy and recent increases have helped prop up overall economic growth. The Australian economy grew more than expected in the third quarter of 2015 based on a dramatic increase in mining output. Despite overall growth figures not significantly outperforming the rest of the developed world, the country has enjoyed relative stability and is now in its 25th year of continuous growth.

Similar to China, the Australian economy is in the midst of a strategic transition from export orientation to a focus on domestic growth drivers. Low interest rates have accelerated growth in consumer demand and the home property market, which remains at a healthy growth rate of over 10%. Meanwhile, activity in the services sector has been gathering pace.

Australia is proving consistently effective at attracting investment in the fast growing agri-tech market. Investments in Australian businesses based on producing environmentally safe products to help the global demand for food are growing. January 2016 has already seen US investment in Queensland based bio-pest control firm AgBitech, while partnerships in renewable energy and mining have also been growing over the last 12 months.

Australian growth



A decline in China's demand for Australian exports does create a major risk to future economic growth. However, positive growth in the consumer spending and services sectors provides encouragement for the medium term as Australia continues to build on the success of resources while also broadening its growth strategy.

The success of this strategy is evidenced through the scale of Australia's commitment to developing prosperous partnerships with the developing world. Australia is one of the largest foreign investors in several African countries. Government trade organisation Austrade estimates more than 150 ASX-listed companies are involved in 500 projects across 38 African countries. This represents the largest number of Australian resource projects in any region outside Australia.

Across Asia, partnerships and integrated working practices such as the ASEAN Economic Community are helping drive growth supported by trade agreements such as the Trans-Pacific Partnership. Growth in corporate activity has seen dramatic change in the region since the turn of the millennium. In the list of Fortune 500 companies there are now 190 Asian businesses which is almost double the representation of 16 years ago.

GOVERNANCE AND COHESION

Anti-bribery and anti-corruption is firmly on the boardroom agenda and strategies on corporate governance and compliance can help manage risks to businesses.

Despite the fact that many countries have strengthened and widened the scope of their national anti-corruption legislation, a 2013 study by Ernst & Young revealed that nearly half of workers across Europe, the Middle East, Africa and India think bribery and corruption are acceptable ways to survive an economic downturn. While there remains no international anti-corruption law, the UK's Bribery Act 2010 and the USA's Foreign and Corrupt Practices Act have played an intrinsic part in tackling the issue of bribery and corruption on a global basis, across businesses and sectors. In addressing the issue, many businesses have focussed on governance and compliance, including in areas such as leadership, effectiveness, accountability and human rights.

In a wider context, the importance of governance is emerging as nations get to grips with a transitioning global economy. For investors interested in developing markets, due diligence on the governance strategies of individual companies is well advised. At the same time, companies seeking to raise capital through a stock market listing are often required to meet strict governance guidelines. Companies with good corporate governance strategies perform better in terms of shareholder returns than those without and these policies are being driven from the board level down. However, without one international standard to tackle bribery and corruption, ongoing developments in national regulations create significant challenges for companies seeking to compete in a global market place.

In 2015 the anti-corruption group Transparency International surveyed over 40,000 people across 28 countries in Sub-Saharan Africa. The results highlighted the extent of the challenge, but also revealed success stories of recent developments in legislation and regulation. One in five Africans claim to be affected by bribery, but anti-corruption measures are having a tangible impact on the confidence of the business community and the survey revealed that in a number of nations, corruption is on a long term downward trend. Africa is seen as an attractive emerging market as a result of better infrastructure and technological improvements and is an example of how technology can be utilised to improve decision making and governance.

China has underlined its commitment to improve global economic governance by proposing its five development philosophies at the 18th Central Committee of the Communist Party of China held in October, 2015. Since then the development philosophies of 'innovation', 'coordination', 'green' and 'open and sharing' have triggered President Xi to visit five countries in Africa and Asia. The Paris Conference on Climate Change and the Second World Internet Conference have also seen China represented by the highest levels of government.

THE FUTURE OF PARTNERSHIPS

The global economy is correcting in a way which requires a fundamental shift in corporate behaviour. Partnerships are now more critical than ever before and the requirements for success apply to every nation dealing with the consequences of the correction. The challenge of delivering practical expertise that effortlessly spans countries, languages, cultures and government structures is a significant challenge for advisory organisations over the coming years. More importantly, those governments and companies who pay for support will need to be more discerning than ever before about how to ensure real value.

Countries with developing legal and governance infrastructure require advisory services offering specialist sector experience, integrated working practices and more pragmatic tools

The economic landscape of the world is changing. China's relationship with the world is changing. New types of partnerships and new a new corporate behaviour is needed to enable a sustainable future.

Three areas are emerging where political will, investor confidence and opportunities for new partnerships all converge:

1. Inward investment in developing nations: The World Bank estimates that Africa needs an extra US$90 billion a year for infrastructure alone. Consumer demand is growing, and private equity firms are flocking to the continent.

   There is evidence that large funds are changing behaviour and instead of focussing on buying businesses worth more than US$100 million, investors are showing more imagination and faith in the long term growth of Africa. Almost 50% of all firms bought by private equity funds in 2015 were worth less than US$10 million.

2. Investment in infrastructure and renewable energy: Renewable energy is a powerful driver for growth. Nations in which political impetus matches scope for development are generating huge opportunities for outside partnerships. Saudi Arabia continues to drive forward hugely ambitious renewable energy projects with more than US$100 billion of planned investment over the next two decades. Similarly, Australia plans to generate US$28 billion worth of investment before 2030. Thousands of projects across the world are going to require technology partners, advisory services and a vast array of new skills in the next decade and a significant number are scheduled to be commissioned before 2020. Meanwhile, traditional and now much cleaner energy sources continue to fuel much of the developed world.

3. Partnerships with societal benefit: Global governance is improving, the political world is watching and the societal consequences of all investment activity is being measured and evaluated with closer scrutiny than ever before.

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About Holman Fenwick Willan

Holman Fenwick Willan (HFW) is an international law firm with over 450 lawyers advising clients on legal issues relating to all aspects of international commerce, including energy and natural resources (on and off-shore), commodities, construction, mining, aviation, distribution and the associated logistics of moving commodities around the globe, and shipping, as well as corporate and finance, risk management, regulatory compliance, insurance and reinsurance and dispute resolution.

HFW's corporate practice is serviced by over 60 lawyers based in offices across the globe working with a range of clients from state-owned entities to large multinational corporations. The team advises on the full range of corporate transactions, including public and private M&A, joint ventures and strategic partnerships, reorganisations and restructurings, governance issues, regulatory compliance, fundraisings and capital markets work.

The experienced and close-knit team of 29 partners works across the firm's practice and sector groups to deliver comprehensive transactional support to clients on challenging and complex matters, as well as assisting with the day to day requirements of their business. The team provides clients with a highly personalised service, supporting them on a range of domestic and cross-border transactions globally.

About ExplaintheMarket

Guy Shone, CEO of ExplaintheMarket, is one of the UK's leading business commentators. He appears regularly on BBC News, BBC Breakfast, BBC World, BBC Radio 2 and BBC Radio 5 Live. He has also appeared on BBC Radio 4's today programme, Sky News and ITV News.

Guy is the former City & Business columnist for the Metro newspaper reaching over three million readers every week. He now runs the global research business ExplaintheMarket.

Guy spent most of his 17 year career in the City. His previous jobs were the Head of Research for global investment group Old Mutual plc and Research Director for the government backed Money Advice Service. In 2012, he was commissioned by the UK government to produce the largest study ever done into the financial behaviour of UK families.

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