



Nassef SAWIRIS

One of Egypt's largest corporations, Orascom Construction Industries has grown from a small family-run business to one of the world's largest construction firms in just 50 years. Primarily targeting large scale infrastructure opportunities in North Africa and the Middle East, they have recently diversified their portfolio of work to include power projects and fertiliser plants.

Fertile construction

TOGY talks to

Nassef SAWIRIS, Chairman
ORASCOM CONSTRUCTION INDUSTRIES

The Oil & Gas Year: *In January 2008 Orascom Construction Industries divested its cement business. This was a very wise move given what was about to happen to global demand for building materials during the looming financial crisis. Was this a stroke of luck or did you foresee the coming storm?*

Nassef Sawiris: It was a combination of an ongoing investment strategy and a straight swap for the company. Our shift away from the cement business was part of our larger move to increase our stake in the burgeoning fertiliser sector.

Prior to the divestiture, we were already involved in the fertiliser industry. The sale of our cement business simply allowed us to increase our exposure to fertilisers a few months after that transaction.

Currently our two operating assets are the Egyptian Fertilizer Company and the Egyptian Basic Industries Corporation. We then have a 51 percent-owned joint venture in Algeria called Sorfert and finally a plant rehabilitation project in Nigeria. In terms of fertiliser production capacity, we will be among the world's top 10 by 2010.

TOGY: *With assets in Nigeria, Algeria and Egypt, is the Middle East and North Africa region capable of sustaining further fertiliser projects?*

NS: Yes, over the next few years the region is going to be the most significant fertiliser producer. Over 50 percent of the world's reserves in phosphates are in Tunisia, Nigeria and Egypt, coupled with abundant and growing natural gas reserves. Sulphur is a byproduct of refinery activity and it can also be used to produce sulphur-based fertilisers. Fertiliser consumption in Africa is growing, and the market is estimated to be at only one tenth of its potential size.

TOGY: *Exploration companies want to export as much gas as they can. Their demands however have to be tempered with rising domestic demand from fertiliser projects such as your own and also an energy hungry population. Can a viable solution that satisfies all parties be found?*

NS: I think these so-called problems actually compliment each other. Having a strong domestic market is always good news for an oil and gas exploration company because it saves them from having to invest in capital-intensive LNG facilities or pipelines. It also gives them security to know that there is a rising domestic demand. It also makes Egypt a very attractive area for exploration companies if the infrastructure and the local domestic market is there.

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TOGY: *The removal and then the reinstatement of free zone status for energy intensive industries have proven to be a controversial move. What affect did that change have on your own operations?*

NS: First of all it has increased our tax base. It affected the bottom line and that was a shock for the end of 2008. This being said, the free zone system was not logical and the tax breaks weren't sustainable in the long run. However, it was the retroactive removal of the tax breaks that we protested. We would have preferred a phased approach to free zone removal. Aside from this incident, the tax regime in Egypt is stable and reasonably priced with corporate tax at a steady 20 percent. It definitely wasn't positive



Egyptian Fertilizer Company Ammonia Plant

for external investors because it was perceived as the regulatory body renegeing on a commitment. A tax regime change is not, however, the same as breaking a contractual commitment. Egypt has not renegeed on contractual commitments or payment obligations before or since and revising a tax regime is something that happens all over the world.

TOGY: *The EAgrium issue brought growing environmental awareness and citizens' rights in Egypt to the fore. Do you think that the EAgrium debacle has subsequently harmed Egypt's attractiveness to foreign investors?*

NS: Environmental awareness is increasing globally. With instant access to information people have become more active in protecting their neighbourhoods and environmental awareness in Egypt is simply part of that global trend. Egypt should follow similar environmental guidelines to OECD countries and market itself as an ideally located reservoir of human and natural resources; rather than as somewhere that is environmentally lax.

Every country is firming up its environmental awareness and regulation. We work in Algeria and the regulations there are the same as in Egypt. It also doesn't make any sense for someone to use technology that is less environmentally friendly for a plant that is being built in the 21st century.

TOGY: *So far Egypt has three build-own-operate-transfer power plants. As a company with considerable experience in the construction of such entities, do you expect public-private partnerships (PPPs) to become the norm in Egypt?*

NS: We are involved in the construction of power stations with a total capacity of more than 4000 MW. In the future, private investment in power station construction is going to become a larger part of this industry. Our aim is to

increase our participation in some of these opportunities alongside international partners.

The government has stated that Egypt needs 12,000 MW of generating capacity in the coming years and private sector investment will be paramount in the effort to achieve that goal. The first energy PPP for a renewable 250-MW wind project is now open for bidding and we are participating.

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TOGY: *Waste water is one of the biggest, most promising PPP developments in Egypt. Having won the first tender for this, how crucial is this project as a test for future private investment in key infrastructure projects?*

NS: All eyes are on this flagship wastewater project as its success, or failure, will determine the future of project financing in Egypt. This being said, we are the largest infrastructure contractor in Egypt, hence we have to participate in these projects with whatever mechanism the government is putting forward. If they make an opportunity for long term investors to participate, we will also align ourselves with global partners in order to take part. Whatever form it takes we are committed to the infrastructure investment program.

We look at each opportunity as it comes, but if Egypt is going to increase its building programme it will have to rely on the international

markets for financing of projects such as large power plants and major domestic infrastructure projects.

TOGY: *As well as conventional power plants, Egypt has an ambitious alternative energy strategy. What are your expectations for involvement in this and the proposed nuclear power programme?*

NS: We are participating in discussions about various aspects of renewable energy and nuclear. We are also positioning our company to build Egypt's largest solar power plant to date. On top of this we are participating in the forthcoming wind farm proposal and we have had preliminary discussions on the nuclear front as well. The first milestone on the road to nuclear power was to bring in an international consultant, which we did in June 2009. This has resulted in an order for engineering and project management of Egypt's nuclear programme, however it will take years to come to fruition. There are opportunities and we might see some of them begin to crystallise as early as 2010. We are well placed to do the civil engineering for this project and we are ready to work with technology partners on a nuclear power station.

TOGY: *Many countries are currently looking at the nuclear option for power generation. Such a strain on resources is likely to push up the price of Egypt's*

own plant. In this environment can Egypt afford to become a nuclear power?

NS: This is something that will be determined at the time. The steps that Egypt has taken to diversify itself in power generation are wise ones. The question I put forward is, "Can Egypt afford not to be a nuclear player?"

"As we go international we want to start with the countries where we have the largest market share in construction because that is where we can add the most value."

TOGY: *Having first entered the cement and fertiliser business as an EPC contractor, OCI later built significant holdings in both. As a company that seems to "collect" core competencies, could power generation become the third "core" branch of your business?*

NS: We believe in economies of scale and utilise repeat business to achieve those economies of scale. We are indeed focused on increasing our competitiveness in power generation but look to infrastructure in general as a core competency business. We like the stability and the resilience of infrastructure projects in general as opposed to participating in housing or commercial construction. Whether it's power, wastewater, water, roads or a metro – we prefer those kinds of jobs to energy. They are more technically demanding; hence the value of energy favours companies with sophisticated management and strong human resources.

TOGY: *Ongoing conflict between Ukraine and Russia over the gas supply has forced European nations to pursue alternatives for their future energy needs. What effect will this have on Egypt, the region and Orascom?*

NS: This situation makes the region where we operate more attractive as an alternative source for European energy. Whenever Egypt and Algeria's export potential or economies grow, we dramatically benefit from that growth as a major player in those markets. Whatever is good for the region is good for us.

TOGY: *Where will you take Orascom in the next five years?*

NS: We want to ensure that within five years the company will have cemented its leadership in the infrastructure business and positioned itself with a wider portfolio of products. In the fertiliser business we are looking at concessions and investment that will stabilise our earnings and our cash flows. As we go international we want to start with the countries where we have the largest market share in construction because that is where we can add the most value.

The ammonia plant of the Egyptian Fertilizer Company

