

Fan Jixiang
Chairman of the Board,
Power Construction Corporation of China

Mr Shen Decai,
General Manager, Sinohydro Resources Company

17 December 2012

**Briefing on the Risks Associated with the
Pak Lay BOT Hydropower Project in Lao PDR**

Dear Mr Fan and Mr Shen,

We are writing to share a political and environmental risk briefing with Sinohydro Corporation on the Pak Lay BOT Hydropower Project in Lao PDR.

Background

On 11 June 2007, Sinohydro signed a Memorandum of Understanding (MoU) with the Government of Lao PDR regarding Pak Lay BOT Project. The scientific and political context for mainstream Mekong dams has changed dramatically since the MoU was signed. Dam building on the Lower Mekong River mainstream has been found by scientists as both environmentally and socially devastating. The Cambodian and Vietnamese governments have expressed concern that the dams will have an adverse impact on their people and national economic interests, and have requested a delay in decision-making on whether to build mainstream dams to allow time for further scientific transboundary and cumulative impact studies to be completed. Countless numbers of communities have spoken out against the Lower Mekong dam projects. As a result, Sinohydro's continued involvement in the Pak Lay BOT Hydropower Project poses significant business risk and is cause for concern.

Key Issues:

Project's Environmental impacts

Pak Lay Dam is part of the upper cascade of six dams proposed by the Government of Lao PDR for future development on the Mekong mainstream. The social impacts of these six dams together (Pak Beng, Luang Prabang, Xayaburi, Pak Lay, Sanakham and Pak Chom) are particularly serious, with an estimated 76,290 people to be resettled. The Lao Dams Optimization Study found that Pak Lay Dam alone would result in the resettlement of 6,129 people. The six dams, including the Pak Lay Dam, would transform the aquatic ecosystem from a free flowing river to a series of reservoirs and result in the biggest loss of connectivity between the South

China Sea and the Upper Mekong. If all are built, the six dams would also form an impassable 800 kilometer barrier for long distance migratory fish species. While the studies for Pak Lay Dam propose that fish ladders be built as a form of mitigation, no fish ladder has ever operated successfully above a dam height of 30 meters in the world. The proposed height of Pak Lay Dam is 35 meters. As a result, studies commissioned by the Mekong River Commission have concluded, the six dams would result in the extinction of about 20-30% of current aquatic species.

Project is Inconsistent with Sinohydro's Sustainable Development Framework

We welcome Sinohydro's commitment to international best practice, including the World Bank's Safeguard Policies, in its Sustainable Development Policy Framework. The Pak Lay BOT Project is so far not in compliance with best practice in a key aspect. With respect to projects on international rivers, the World Bank Safeguard Policy on International Waterways (B.P 7.50) requires that developers of projects on international rivers provide information, including project details to downstream countries. Riparian nations should be given the opportunity to provide input into the design process before key decisions are made. This obligation includes the requirement to disclose sufficient technical specifications and details of the project (benefits, impacts and timeline) to enable riparian nations to determine whether the project has the potential for causing harm through water deprivation or other impacts. Based on the information provided, the consent, support or no objection by riparian nations should be a pre-requisite to construction. Finally, should the Government of Lao PDR and Sinohydro fail to provide information to downstream countries prior to commencing construction, this would also make the Pak Lay BOT project illegal under international law. The 1995 Mekong River Agreement, signed by all Lower Mekong countries, requires that all mainstream Mekong hydropower projects undergo a formal process of prior notification and consultation.

Sinohydro's environmental policy commitments also extend to its contractors. The company's commitment to open and transparent dialogue with key stakeholders in its international business has so far not been met by the contractor it has engaged to prepare the project's Environmental Impact Assessment, the National Consulting Group. The National Consulting Group has withheld project information making it impossible for local NGOs to engage in any meaningful dialogue with Sinohydro and its contractors.

Corporate and Legal Risks

The governments of Cambodia and Vietnam's strong opposition to dam building on the Mekong mainstream means that any attempts to build dams on the Mekong are likely to be subject to delays in project approvals, and attempts at legal and disciplinary action against the companies involved, including any local contractors that Sinohydro might engage. In Thailand, communities living along the Mekong River have filed a lawsuit with the Thai Administrative Court against five Thai government agencies for the signing of a power purchase agreement for the Xayaburi Dam, which is currently being reviewed by the court. Two other Thai government agencies are currently examining the project's violations of Thai people's constitutional rights. Sinohydro and its contractors may become the focus of similar legal actions aimed at obstructing the project progress and/or financial viability. At the inter-state level, Cambodia has stated that it may

consider taking international legal action against the Xayaburi Dam in forums such as the International Court of Justice. Such proceedings would take years to be completed. If Sinohydro proceeds with Pak Lay Dam, the company will also be open to compensation claims from the communities and industries impacted by the Pak Lay Dam, which may be expensive and extremely time intensive to resolve. In addition to the community compensation claims, the claims from the Cambodian and Vietnamese governments could be so large that they could affect the feasibility of the project

In light of the above legal risks, Pak Lay may become a source of shareholder concern and basis for stock devaluation due to a perception that Sinohydro will be unable to recoup costs or complete the project on time.

Reputational Risks

By continuing to develop the Pak Lay BOT Project, Sinohydro risks causing significant damage to its international reputation. There has been extensive scrutiny by Chinese, regional and international media on the proposed Mekong mainstream dams, including by the BBC, Washington Post, New York Times, Al Jazeera, Reuters, Associated Press, Wall Street Journal, and the Financial Times. The media could focus on Sinohydro's role in developing the Pak Lay Dam BOT Project, which goes directly against the best scientific advice currently available, the recommendation to the Mekong River Commission for a ten-year moratorium on dam building, and the views of the governments of Cambodia and Vietnam. Such negative coverage could impact Sinohydro's identity as a leading global company.

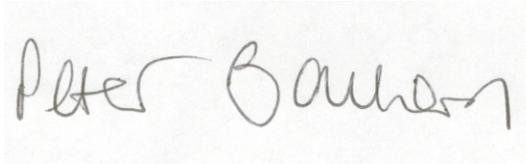
Recommendations and Suggestions

The political, social and scientific context for Mekong mainstream dams has changed drastically since Sinohydro signed the project MoU in 2007. We recommend that Sinohydro reevaluate and reconsider its participation in the Pak Lay BOT Project and conduct further investigation by:

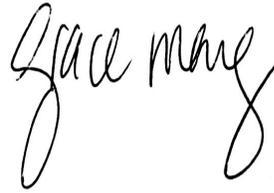
- Seeking a full briefing from the Secretariat of the Mekong River Commission and the International Centre for Environment Management on the environmental impacts of dam building on the Mekong mainstream river.
- Prior to any investment in preparatory works or construction and with the Government of Laos, obtaining the consent of the governments of Thailand, Vietnam and Cambodia for Pak Lay Dam.
- Supporting and cooperating with the efforts of the Mekong River Commission to conduct further study on the sustainable development and management of the Mekong River. These studies should be completed and fully assessed before commencing any work on the Pak Lay Dam project.
- Seeking legal advice on the financial liabilities arising including from civil action suits in Thailand, Vietnam and Cambodia.

Thank you for your attention. International Rivers and our partners in the Lower Mekong countries are available to discuss any issues raised in this letter with Sinohydro Corporation.

Yours Sincerely,

A handwritten signature in black ink that reads "Peter Bosshard". The signature is written in a cursive style with a long horizontal stroke at the end.

Dr Peter Bosshard
Policy Director
International Rivers

A handwritten signature in black ink that reads "Grace Mang". The signature is written in a cursive style with a large loop at the end.

Grace Mang
China Program Director
International Rivers

Copy: Mr Liu Fengqiu, Executive Vice President, Sinohydro Group