



# **Cadangan Penstrukturan Semula Industri Air di Negeri Selangor**

**18 March 2009**

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# Executive Summary

**The purpose of this paper is to provide a brief on the:**

- implementation strategy for the consolidation of the water industry in Selangor
- status and tentative timeline of the entire consolidation exercise

Essentially, the consolidation exercise will entail the following:

- **Consolidation of 4 existing water concessionaires on a ‘Federal – State’ partnership basis**
  - PAAB (Federal) to acquire all water infrastructure assets
  - State led-SPV (SPV) to undertake consolidation exercise
- **Migration to new licensing regime**
  - SPV to surrender existing concession rights in exchange for operating license
  - SPV to lease the assets from PAAB and operates as asset-light model
- **Funding of PAAB and SPV**
  - Matching cash-flow of the water business moving forward
  - Taking into consideration future capex and working capital requirements

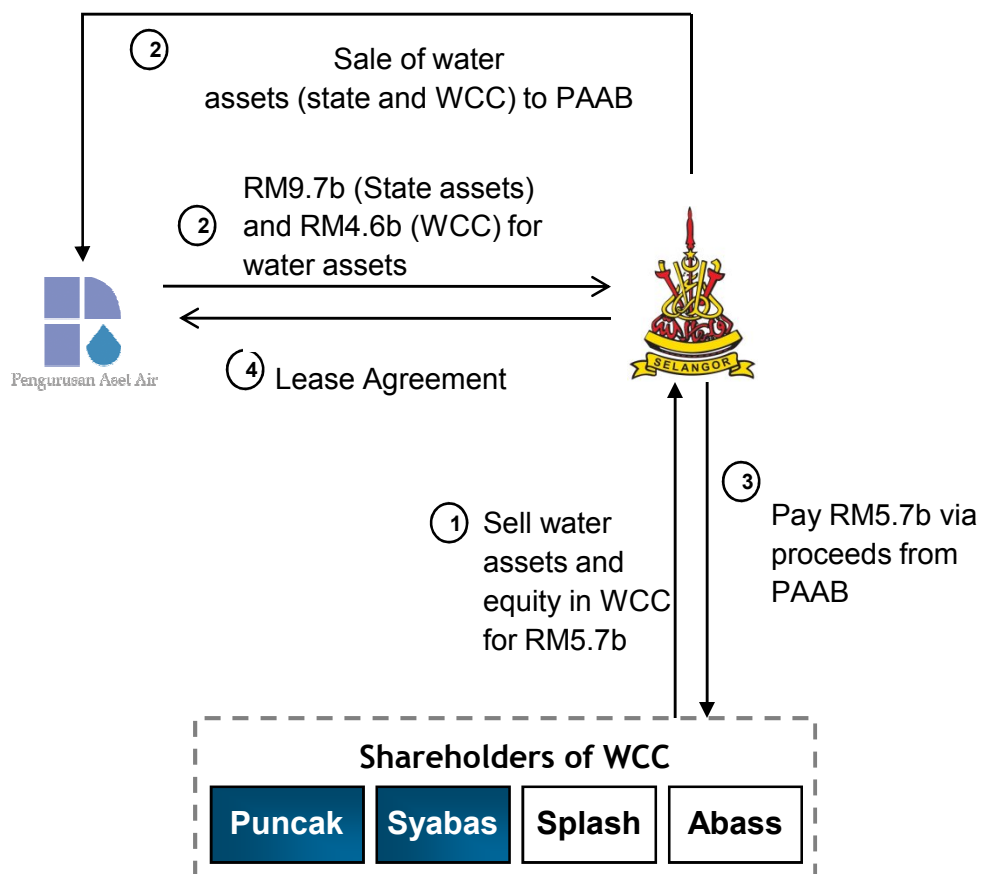
# Rationale for Consolidation

<b>Federal Government (KTAK, SPAN &amp; PAAB)</b>	<ul style="list-style-type: none"><li>• <b>Meet government aspiration for water reforms</b><ul style="list-style-type: none"><li>➤ Consolidate fragmented industry player into one (water treatment, distribution and sewerage combined)</li><li>➤ Ensure availability of long term financing to fund on-going capex</li><li>➤ Operating efficiency – licensing regime to reduce transfer profit element</li><li>➤ Reduction of water tariff compared to existing concession for the benefit of Rakyat</li><li>➤ Establish system of accountability and governance to ensure good service quality and affordability</li></ul></li></ul>
<b>State Government</b>	<ul style="list-style-type: none"><li>• <b>Asset light business model</b> – future capex spending undertaken by PAAB</li><li>• <b>Enable monetisation of State’s water assets</b></li><li>• <b>Good business proposition</b></li><li>• <b>Efficient structure in terms of execution and timing</b> – no multiple players with different cost structure and objectives</li><li>• <b>Clear commercial obligations</b> – PAAB’s lease payment at fixed percentage p.a.</li></ul>

# Rationale for Consolidation (Cont'd)

<b>Rakyat</b>	<ul style="list-style-type: none"><li>• Free water to Rakyat (first 20 m<sup>3</sup>)</li><li>• Lower tariff from current rates by 25% before 2013– average reduction of 24%</li></ul>
<b>Licensee (SPV)</b>	<ul style="list-style-type: none"><li>• Ensure State's interest in the water services industry is retained</li><li>• Fair return for licensee, commensurate with business risk</li><li>• Economies of scale to be realised from integrated functions – savings in operational costs</li><li>• Lighter balance sheet – no more heavy debts as future capex (RM20b) is co-ordinated and borne by PAAB</li><li>• Concentrate on improving efficiencies – rather than funding issues</li></ul>
<b>Vendors</b>	<ul style="list-style-type: none"><li>• Support Government's aspiration for water reforms</li><li>• Realise a return on their investment – under current challenging economic climate</li></ul>

# Asset Transfer Programme

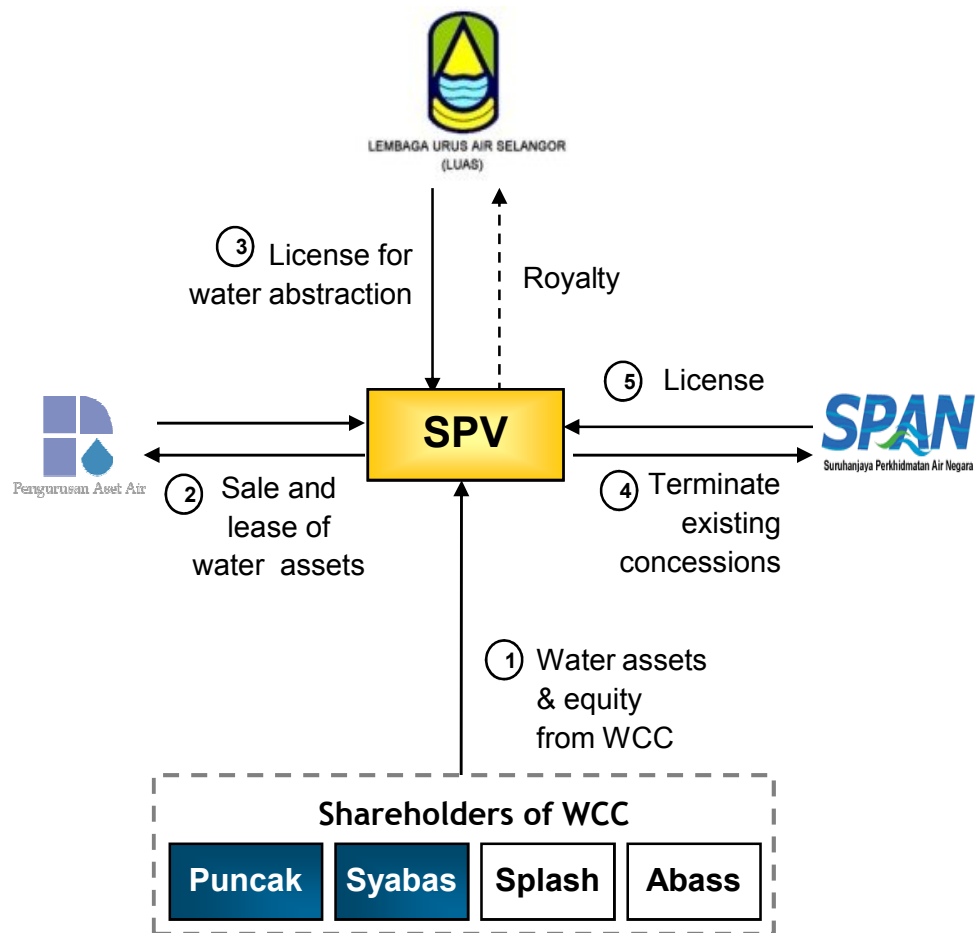


## Transaction Notes:

1. State# to acquire water assets and equity of water concession companies ("WCC") for RM5.7b cash
  2. State to sell water assets of the WCC to PAAB for RM4.6b cash  
  
State to sell its water assets to PAAB for RM9.7b cash  
  
PAAB pays a total of RM14.3b for acquisition of assets in Selangor
  3. State# to pay RM5.7b to WCC via proceeds from PAAB
  4. State# and PAAB to enter into agreement for the lease of the water assets on long term basis
- Note: All figures are subject to negotiation and due diligence conducted by the institution to be agreed upon by both parties.

# Selangor State Government or its nominee = SPV

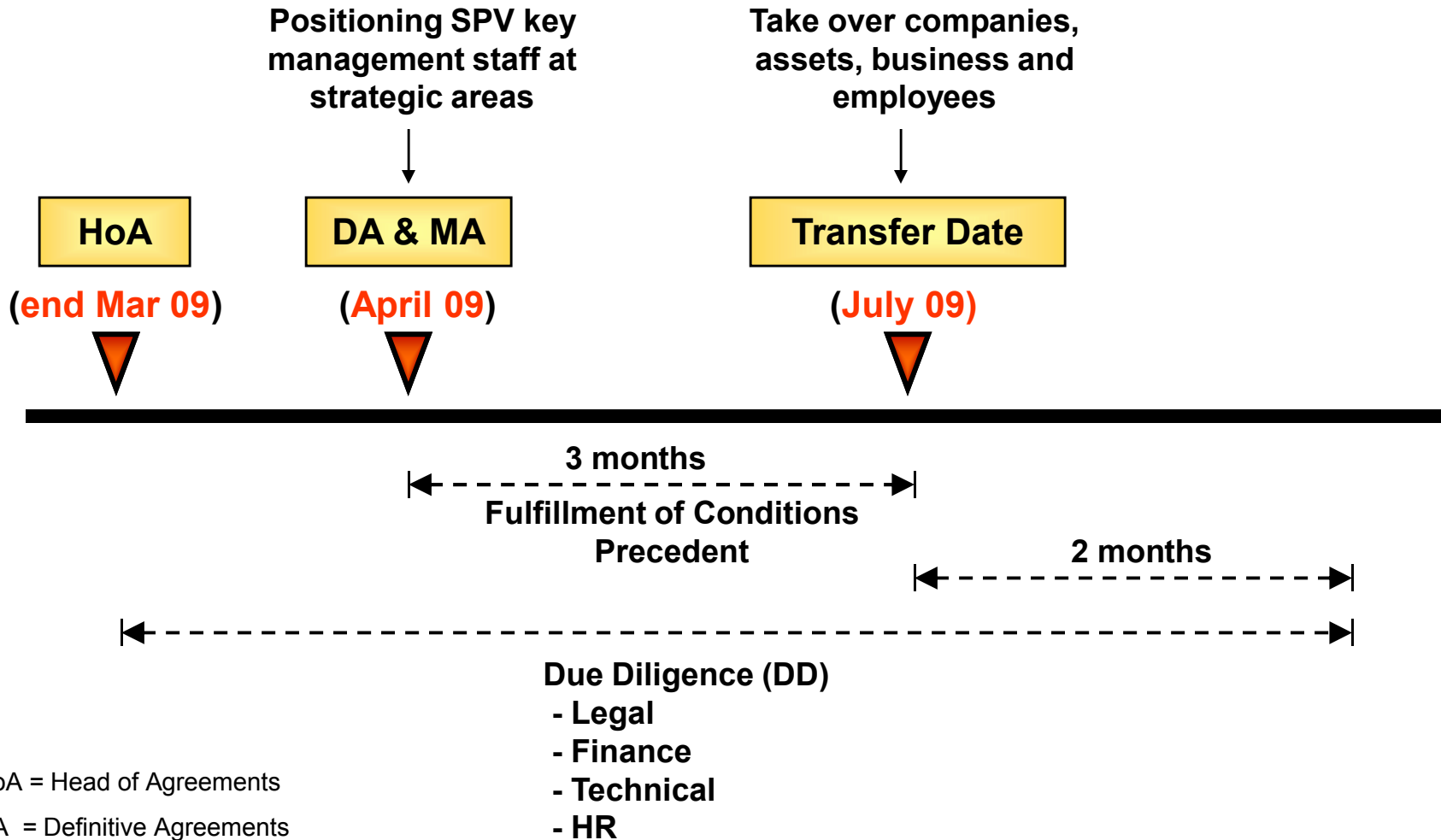
# Implementation of Consolidation Exercise



## Transaction Notes:

1. State to nominate SPV to acquire water assets and equity of water concession companies ("WCC") for RM5.7b cash
  2. Completion of asset transfer programme (see previous slide for details)
- SPV to enter into agreement with PAAB for the lease of water assets on long term basis
3. LUAS to issue long-term year license for water abstraction to SPV
  4. SPV to terminate existing concession agreements
  5. SPAN to issue new water services license to SPV under WSIA
- Note: All figures are subject to negotiation and due diligence conducted by the institution to be agreed upon by both parties.

# Tentative Timeline



HoA = Head of Agreements  
DA = Definitive Agreements  
MA = Management Agreement