

From Shanghai Municipal Waterworks Pudong Co Ltd To Shanghai-Pudong Vivendi Water Corporation Ltd

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1

Table of content

- The Bid to purchase 50% stake in Pudong Water Corporation represents in the PRC a new form of Public Private Partnership.
- The dynamic growth of the Pudong area allows such a first step.
- A bidding process which puts the main emphasis on managerial expertise.
- The first answers from the new Company were to organise a joint collective decision making process and to put in place new services and management tools.

Part I

A new form of Public Private Partnership

The differing levels of Public Private Partnership are:

- > Tariff collection
- > Assets ownership
- > Operational responsibilities

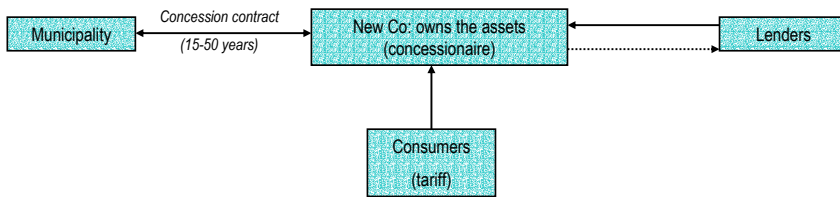
Form of the legal agreement	Tariff collection	Assets ownership	Operational responsibilities
Management & service contracts (2 to 5 years)	Public	Public	<ul style="list-style-type: none"> ■ Specific responsibilities : <u>Private operator</u> ■ General management : <u>Public sector</u>
Build-Operate-Transfer (BOT) (10 to 30 years)	Public	<ul style="list-style-type: none"> ■ Until transfer : private ■ After transfer : public 	<ul style="list-style-type: none"> ■ During the concession period: build and manage : <u>Private operator</u> ■ Then : <u>Public sector</u>
Lease contract (7 to 15 years)	Private	Public	<u>Private operator:</u> <ul style="list-style-type: none"> ■ Leases the asset ■ Operates during the lease agreement
Concession contract (15 to 50 years)	Private	Private	<u>Private operator:</u> full management responsibility <u>during the concession contract</u>
Asset sales (perpetuity)	Private	Private	<u>Private operator</u>

Recent Vivendi Water International experiences

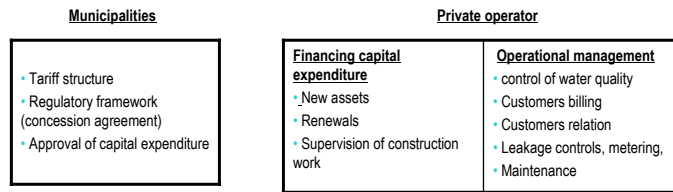
BOT	Concession, rehabilitation, asset sales	Lease contracts (Asset owned by Public Entity)		
	1997. Tianjin (China) (Rehabilitation and management)	France (water treatment distribution and waste water)	Czech Republic	Row
1998. Chengdu (China) (water treatment plant: BOT)	1998. Bogota (Tibitoc) (Rehabilitation and management)	France 3 900 contracts 8 000 municipalities	40 % of the consumers (Water treatment and distribution and waste water)	
1998. Durban (Water and Waste water) Reuse of waste water	1998. Sanepar (Asset sale) (Brasil) (Water / waste water)			
	1999. Berlin (Concession) (Water treatment and distribution)			
	2000. Bucharest (water Treatment and distribution -BOT : Crvinal)			
2001. Bruxelles waste water (Treatment plant-BOT)	2001. Tanger & Tetbuan (Full utilities concession : water, waste water, electricity)		2001. Praga (water treatment and distribution and waste water)	
2001. Ashkelon (Israel) (desalination:BOT)				
2002. The Hague (Netherlands) (Waste water treatment plant- BOT)	2002. Shanghai – Pudong (asset sales) (water treatment and distribution)			2002. Indianapolis
	2002. Rabat (full utility concession: water, waste water, electricity)			2002. Tbilissi (Georgia: International Bid organized by World Bank)
				2003. Baogi

The concession or Assets sales main legal features

■ Assets Sales/Concession – legal structure



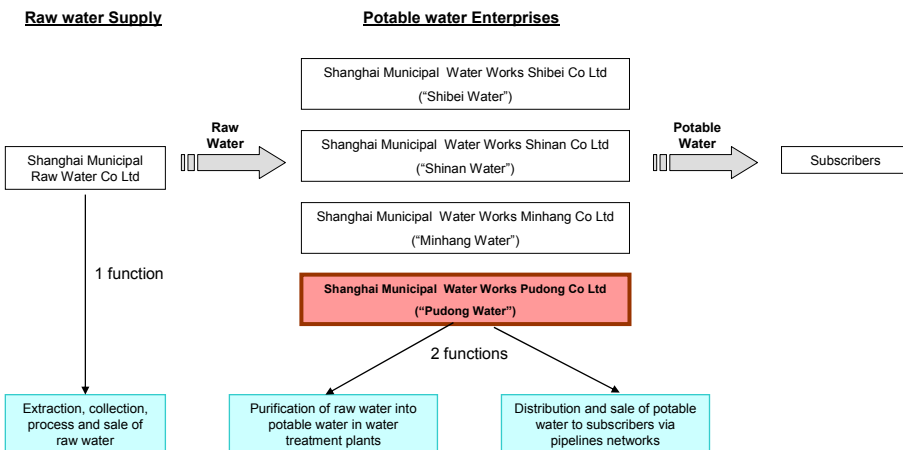
Responsibilities of the parties involved



Legal ownership and control of the Pudong Water Cooperation

1999 Shanghai Water Authority decided to split the Water Supply system in four district and newly created state owned water supply Companies

→ Key major players in the potable water market in Shanghai

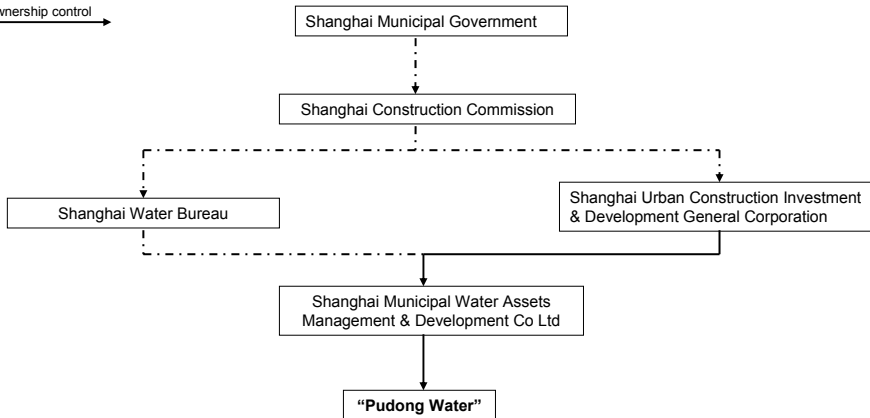


Legal ownership and control of the Pudong Water Cooperation

→ Key decision makers

Administration control

Ownership control



4

Legal ownership and control of the Pudong Water Cooperation

■ 2001

→ Shanghai Municipal Government launches an international bid for the purchase, by an international operator, of 50% stake in Pudong Water Co. The latter being granted a 50 year water operation license in the Pudong Area.

→ Form of the sale and purpose of the project:

★ approaches

★ The Pudong Water Company legal owner, Shanghai water Assets Operation and development Co Ltd, intends to set up a Sino-foreign equity joint venture (the "JV") with an offshore company, out of PRC, by transferring 50% of the shares of Pudong Co, its wholly owned subsidiary. The Chinese party and the foreign party shall share the profits, risk and losses in proportion to their contribution to the registered capital.

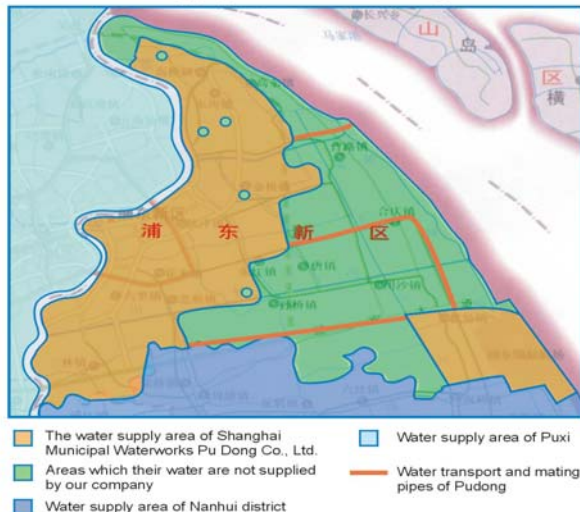
Part II Why Pudong?

- **The development of the Pudong new Area during its ten years of reform and opening up**
 - ➔ Located to the east of the Huangpu River, Pudong New Area is an important part of Shanghai, with an area of 534km² and population of 2,4 million.
 - ➔ On april 18, 1990, the Chinese government announced its program to reform and open up Pudong. The objective was to turn Pudong into a locomotive of regional economic growth, and establish Shanghai as one of the world's economic, financial and trade centers, thus bringing a new economic leap to the yangzi River Delta and the whole Yangzi River Bassin. Ten years of reform and opening-up brought significant changes to Pudong New Area.
 - ➔ Today a number of landmark buildings, including Oriental pearl, Jinmao Hyatt, Pudong International Airport, Century Avenue, are found in Pudong. Pudong also hosts several development zones namely Lujiazui Financial and Trade Certer, Jinqiao development area, Zhangjiang high-tech zone. A good investment environment is provided, and total economic output volume is increasing rapidly. In 1990, the GDP of Pudong area was 6 billion; in 2000, it reached 92 billion, or increasing by more than 14 times.
- **In 2000**
 - ★ 2.88 billion US\$ foreign direct investment in Pudong, 45% of total foreign direct investment in Shanghai.
 - ★ 9.58 billion US\$ exports in Pudong, about 38% of that in Shanghai.

5

Part II Water supply situation in Pudong new area

The water supply status of Pudong new area



Shanghai Pudong Water Supply main figures

- **Service area:** 319km²
- **6 water treatment plants:** Total daily production capacity of 1.270.00m³
- **8 pumping stations:** 340Mm³ pumped into the network every year
- **Network:** 1740 km (diameter: 75mm-150mm)
- **Water sales volume 2002:** 265 Mm³
- **Turnover 2001:** 270 M Rmb
- **Net Income 2001:** 12 M Rmb
- **Sales volumes:** 70% industrial and commercial
- 30% residential
- **Meters:** 553.000
- - Residential: 535 000
- - Industrial and commercial: 18 000

One major issue quality of the raw water resources

- There is an overall scarcity in water resources resulting from quality problems:
 - ➔ Surface water resources are located upstream of Huangpu River and Yangzi River
 - ★ Huangpu River provides 78% of raw water but with poorer water quality
 - ★ Yangzi River water intake heads of phase I and phase II were set up respectively in 1992 and 1996: the whole capacity being 1.30 million m³/day.
 - ➔ The percentage of water area meeting class II of the national surface water quality standard is no more than 1% of the whole water area.
 - ★ Huangpu River channel meets class III of the national surface water quality standard
 - ★ Yangzin Channel class II
 - ➔ In 2005, the middle and down stream of Huangpu River will meet class IV quality standard
 - ➔ From 2002, the water resources quality of 47 large cities in China will be publishing by the State Environment Protection Bureau.

Part III

An exemplary Bidding process

- Delivery of the Bidding document: February 5, 2002, signing of the sale's agreement May 22nd, 2002.

Excerpts from the Bidding documents:

- The following aspects of applicants have been examined and appraised by the Project Evaluation and Appraisal Group:
 - The price proposal for purchasing 50% of the shares of Pudong Co,
 - Detailed financial plan with respect to the project
 - Detailed technological development plan with respect to the project,
 - Detailed customer service plan, detailed social service plan and detailed supporting plan to relevant enterprises with respect to the project
 - Detailed management organization plan and detailed human resources management plan with respect to the project.

Part III

An exemplary Bidding process

- Each aspect had an evaluation weight
 - 20% for the price proposal
 - 20% for the detailed financial plan
 - 20% for the detailed technological plan
 - 20% { for the detailed customer service plan
for the detailed social service plan
for the detailed business supporting plan
 - 20% { for the detailed management organization plan
for the detailed human resources plan

Part III

An exemplary Bidding process

- Selected main issues, imposed by the bidding documents
 - The investor shall use its own find to purchase the shares by one instalment. The investment shall be in cash and the currency of purchase price the US\$.
 - The JV terms is 50 years maximum. The term of the JV may be extended according to the agreement by both parties.
 - The directors of the board of the JV shall be appointed by both parties. One party should take the seat of the chairman of the Board, while the other party takes the seat of the Vice-chairman and recommends the general manager in return. Shanghai Water Bureau will appoint a person to be an independent Director of the Board. The independent director shall vote in the following situation :
 - ★ A resolution which may affect social benefits,
 - ★ A dead lock caused by the same number of votes on important issues.
 - After the JV establishment, the water price shall be the same as that implemented by the other water supply enterprises, which are in the urban districts of Shanghai. In case that it is necessary to adjust the price, it shall follow the relevant regulations and decrees adopted by the municipality.
 - The JV shall sign a purchase contract with the raw water supply enterprise for the use of raw water.
 - The current employees of Pudong Co shall be the main employees of the JV. The original employment contracts between Pudong Co and employees shall still bind the JV.
 - The JV shall set up a Chinese Communist Party organization and an organisation of the communist Youth League of China in accordance with the documentation by the Chinese Communist Party Shanghai Committee.

Part III

An exemplary Bidding process

- Conclusion
 - May 2002: among four competitors – all of them world leading companies in the water industry – Vivendi Water is designated as the successful bidder.
 - Summer 2002: operation begins in the newly set up joint venture:

Shanghai Pudong Vivendi Water Company Limited

Part IV

The First step of the new JV

■ Organisation of a “Joint Collective Decision Process”

→ Board of directors

★ Number: 6 + 1

- 3 nominated by the Shanghai Municipal Water Assets Management & development Co Ltd,
- 3 nominated by Vivendi Water
- 1 independent Director nominated by the Shanghai Water Bureau

★ 1st Chairman of the Board nominated by the Shanghai Municipal water Assets Management Co

★ At least 2 meetings a year

Part IV

The First step of the new JV

■ Supervisory Board

→ 3 members:

- ★ 1 from Shanghai Municipal Water Assets
- ★ 1 from Vivendi Water
- ★ 1 independent: from Shanghai Water Bureau

■ Executive Committee:

→ 4 members:

- ★ President of the Board
- ★ General Manager
- ★ 2 Deputy General Managers

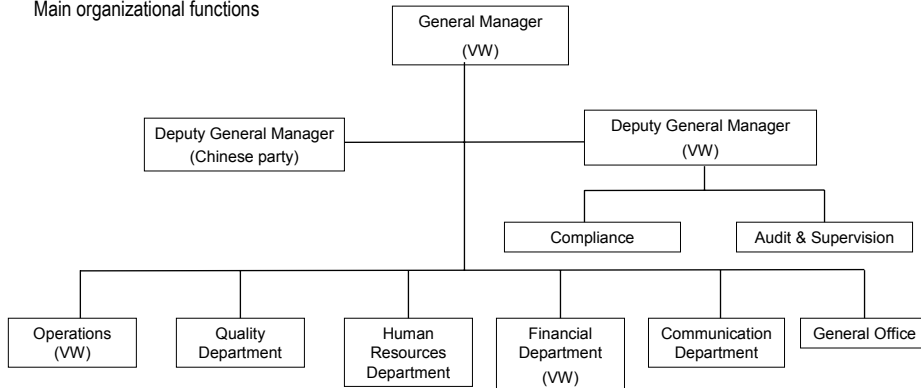
■ General Manager: nominated by Vivendi Water

■ 1 Deputy General Manager nominated by Vivendi Water

Part IV

The First step of the new JV

Main organizational functions



As for to day Vivendi Water has seconded to the JV: 4 expatriates

10

Part IV

Main technical and managerial objectives

■ Three main water's technical thrusts

→ Improved production with new treatment processes and new operating practices:

- eg: - water quality control in the plants
- creation of a central analysis laboratory
- design of a new water treatment plant

→ Improved distribution in particular the pressure and quality of water in the network

- by reducing losses over the 1740 kilometres network (formation of a team to detect leaks)
- by using hydraulic modelling and the installation of a GIS.

→ Developing a professional customer service

Improving customer services is of a major importance in the Shanghai concession contract

Part IV

Main technical and managerial objectives

→ Introduction of a real customer service system. It includes:

- ★ Modernizing and refurbishing of 3 agencies in 2003 to get closer to the customers
- ★ Introduction of a customer service Charter with commitments on:
 - ◆ Water quality
 - ◆ Call out response time
 - ◆ Warnings when work on the network may affect service
- ★ Launch of a call center at the end of 2003 so that customers can take care of most of their routine transactions (subscription, information requests, technical assistance call-outs, etc...) without having to go to the agency.
- ★ Modernisation of the IT System to make it a true customer service management tool.
- ★ Improvement of the meter reading and billing system by
 - ◆ Checking water meters and increasing remote meter reading
 - ◆ Checking the revenue collection processes

Part IV

Human resources main facts

■ A new human resources policy anchored in the local culture

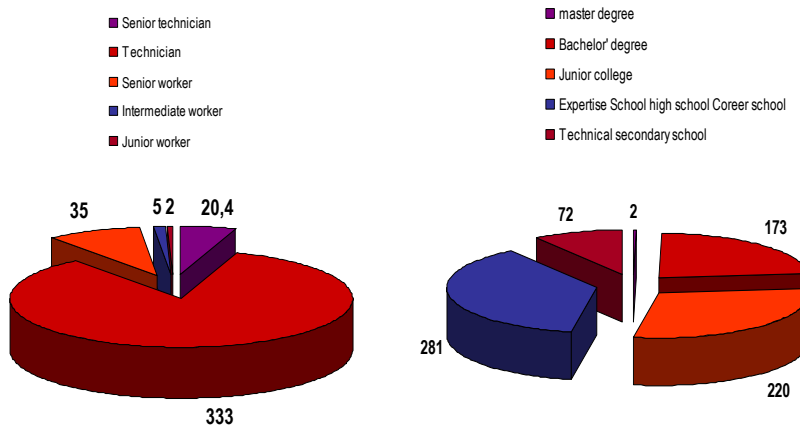
One of the key points in the Shanghai Municipality call for tenders was the operator's ability to transfer know-how while respecting country's culture and having confidence in the local management.

→ **Highlights**

- ★ 1 205 employees after JV's setup (1 396 in the former Pudong Co)
- ★ Generic labour contracts: open to changes
- ★ Seniority: 40% of staff above 40 years old
- ★ Heterogeneous skills level
- ★ Average salary: 33 000 Rmb/year in 2001

→ **Main features of the company human resources**

Part IV Human resources main facts (II)



Part IV Human resources main facts

- Based on the main features of human resources, a local skill development approach is being implemented
 - ➔ A special program to transfer employees from public to private sector: it guarantees job security for all personnel employed at the time of the transition,
 - ➔ Introduction of bonuses to reward initiatives and improvement in employee benefits
 - ➔ Intensive training program for all levels of the organisation with a range of tools:
 - ★ Specialist training center, on the job training, sponsoring, multimedia educational tools,...
 - ➔ Introduction of new health and safety methods to improve working conditions
 - ➔ Networking skills so that the Shanghai municipality can benefit from the expertise and progress made in other services managed by Vivendi Water

Part IV

■ **First financial milestones**

- Centralisation of management of Bank Accounts,
- Implementation of unified accounting procedures for all subsidiaries of the company,
- Adoption and implementation of new accounting software,
- Implementation a new internal control procedures at company headquarters,
- Establishment of buying procedure,
- Selection of new statutory auditors for the Company: determination of the new Company opening balance sheet

■ **First milestones in communications and client services**

- New visual identity conceived and disseminated through the Company,
- Communication Department established:
 - ★ Publication in January 2003 of first internal news letter
 - ★ Organisation of different events
 - ★ Launch of new visual identity
- Redesign of commercial agencies, etc...

Conclusion

- For the first time in recent Chinese history, this bid process allows a Private Foreign Water Operator to share the management of a Chinese Water Utility:
 - Integrated Water Supply System
 - Legal entity changed from SOE to Sino-Foreign JV
 - Direct relationship with Chinese end-user / client

- In the prospect of the potential growing trend of utilities and SOE's privatisation in China, this bid has a great symbolic importance for both China/Shanghai and Vivendi Environnement