

PRINCIPAL TERMS AND CONDITIONS OF THE PROPOSAL

Background Information

1 Issuer

- | | | |
|--------|---|--|
| (i) | Name | Pengurusan Air SPV Berhad |
| (ii) | Address | Level 12, Bangunan Setia 1, 15 Lorong Dungun, Bukit Damansara, 50490 Kuala Lumpur |
| (iii) | Business Registration No. | 866847-H |
| (iv) | Date/Place of Incorporation | Kuala Lumpur |
| (v) | Date of Listing | Not applicable |
| (vi) | Status | |
| | Resident/non-resident controlled company | Resident controlled company |
| | Bumiputera/non-Bumiputera controlled company | Federal Government controlled company |
| (vii) | Principal Activities | A special-purpose vehicle established to undertake the proposed issuance of Islamic medium term notes and Islamic commercial papers in connection with Pengurusan Aset Air Berhad (“ PAAB ”) under the national water services industry restructuring initiatives. |
| (viii) | Board of Directors | The Board of Directors of the Issuer as at 31 August 2009:

(a) Dato' Seri DiRaja Tajol Rosli bin Mohd Ghazali; and

(b) Encik Ahmad Faizal Abdul Rahman |
| (ix) | Structure of shareholdings and names of shareholders or, in the case of public company, names of all major shareholders | The Issuer is wholly-owned by PAAB.

The principal activity of PAAB is to develop the nation's water infrastructure in Peninsular Malaysia and the Federal Territory of Labuan.

PAAB is wholly-owned by the Government of Malaysia through the Minister of Finance (Incorporated), which holds 100% of the issued and |

fully paid-up capital of PAAB.

(x) Authorised capital and paid-up capital		Number of Shares	Par Value (RM)	Total (RM)
	Authorised capital	100,000	1.00 each	100,000.00
	Issued and paid up capital	2	1.00 each	2.00

2 Principal Terms and Conditions

(a) Names of parties involved in the proposed transaction (where applicable):

- (i) Principal Adviser(s)/ Lead Arranger(s) CIMB Investment Bank Berhad ("**CIMB**")
- (ii) Arranger(s) Not applicable
- (iii) Valuers Not applicable
- (iv) Solicitors Messrs Albar & Partners
- (v) Financial Adviser Not applicable
- (vi) Technical Adviser Not applicable
- (vii) Guarantor Not applicable
- (viii) Trustee Not applicable
- (ix) Facility Agent CIMB
- (x) Primary Subscriber(s) and amount subscribed (where applicable) Not applicable
- (xi) Underwriter(s) and amount Underwritten Not applicable
- (xii) Shariah Adviser CIMB
- (xiii) Central Depository BNM

(xiv) Paying Agent BNM

(xiv) Reporting
Accountant Messrs Hanafiah Raslan & Mohamad

(xv) Others

Obligor PAAB

Manager of the
Musyarakah Venture PAAB as the manager ("**Manager**") of the Musyarakah Venture (as defined below) undertakes to manage the Musyarakah Capital (as defined below) paid by the holders of the Sukuk ("**Sukukholders**") to the Manager for the following purpose, on behalf of the issuer:

- (i) purchase of Existing Assets (as defined below);
- (ii) funding and acquisition of Future Assets (as defined below);and/or
- (iii) funding of Assets To Be Acquired (as defined below) to be identified prior to issuance and endorsed by the Shariah Adviser (collectively known as "**Musyarakah Assets**") (the "**Musyarakah Venture**").

(b) Islamic Principle Used

The Islamic Medium Term Notes ("**IMTNs**") issued pursuant to the Islamic Medium Term Notes Programme of up to RM20.0 Billion in nominal value ("**IMTN Programme**") and Islamic Commercial Papers ("**ICPs**") issued pursuant to the Islamic Commercial Papers Programme of up to RM20.0 Billion in nominal value ("**ICP Programme**", together with the IMTN Programme, the "**Sukuk Programmes**") respectively shall be based on either the Shariah principle of Ijarah or Musyarakah. The IMTNs and the ICPs are collectively referred to as the "**Sukuk**".

The IMTNs and ICPs issued under the principle of Ijarah shall be known as "**Sukuk Ijarah**" and the IMTNs and ICPs issued under the principle of Musyarakah shall be known as "**Sukuk Musyarakah**". The IMTNs and the ICPs are collectively referred to as the "**Sukuk**".

Where:

- (a) the current structure described in this Principal Terms and Conditions is amended so as to comply with any future requirements of the Ijarah or the Musyarakah principle; or
- (b) the Sukuk are proposed to be issued based on a Shariah principle or principles other than Ijarah or Musyarakah; or

- (c) the structure of the IMTN Programme or the ICP Programme based on any Islamic principle (other than Ijarah or Musyarakah) is amended so as to comply with the requirements of such Islamic principle,

the prior approval from the Securities Commission (“SC”) and the Shariah Adviser will be sought. For avoidance of doubt, no approval of the Sukukholders shall be required.

(c) Facility Description

Ijarah

The Sukukholders, through the Issuer, shall purchase certain Ijarah Assets (as defined below), from time to time from PAAB, by way of transfer of the beneficial ownership of the Ijarah Assets pursuant to an Asset Purchase Agreement.

The assets shall comprise of certain land(s), plant(s) and Shariah-compliant existing leasable assets (“**Ijarah Assets**” further as defined in Identified Assets below) which will be identified at or around the time of issuance of the Sukuk Ijarah, to be endorsed by the Shariah Adviser and the SC will be notified accordingly. The Issuer (on behalf of the Sukukholders) (in such capacity, the “**Lessor**”) shall then, from time to time, lease the Ijarah Assets to PAAB (in such capacity, the “**Lessee**”) for a pre-determined Rentals (as defined below) and tenure (“**Ijarah Lease Term**”) pursuant to the Ijarah Agreement (as described below).

The Issuer shall declare a trust (“**Trust**”) over the Ijarah Assets, the present and future rights and interest in the Ijarah Agreement, the Purchase Undertaking (as described below) and the proceeds of the foregoing (collectively the “**Ijarah Trust Assets**”) in favour of the Sukukholders, and shall issue the Sukuk Ijarah to the Sukukholders to represent the Sukukholders’ undivided beneficial ownership in the Ijarah Trust Assets. The Sukuk proceeds shall be utilised by the Issuer to pay the Asset Purchase Price (as defined below) to PAAB under the relevant Asset Purchase Agreement.

Upon receipt by the Lessor from the Lessee of Rentals on the relevant Distribution Dates (i.e. One-Off Distribution Date/Periodic Distribution Dates), the Issuer will use such amounts to make payments of the distributions due under the Sukuk (i.e. One-off Distribution Amount/Periodic Distribution Amount) to the Sukukholders.

Pursuant to the Purchase Undertaking, PAAB shall purchase the Ijarah Assets from the Issuer, by way of transfer of the beneficial ownership:

- (a) upon the maturity date of the Sukuk (“**Scheduled Distribution Date**”); or

- (b) upon declaration of a Dissolution Event/Event of Default (save for a Dissolution Event/Event of Default due to a Total Loss Event) (as described below); or
- (c) upon the date of any early dissolution ("**Early Dissolution**") of the Sukuk ("**Early Dissolution Date**"),

at the Exercise Price (as described below). Upon the occurrence of any of the above, the Sukuk held by the Sukukholders shall be cancelled.

PAAB shall have the right via an exchange agreement, to substitute all or part of the Ijarah Assets throughout the tenure of the Sukuk Ijarah with qualified assets that are approved by the Shariah Adviser ("**Substitute Ijarah Assets**") including but not limited to in a Total Loss Event duly notified to the Facility Agent (on behalf of the Sukukholders) as provided herein.

The Substitute Ijarah Assets shall form part of the Ijarah Assets and thereby form part of the Ijarah Trust Assets.

A diagrammatical illustration of the Ijarah transaction and the other terms and conditions are set out in Annexure I.

Musyarakah

Investors shall from time to time form a Musyarakah amongst themselves and subscribe to the Sukuk Musyarakah issued by Pengurusan Air SPV Berhad which represent their proportionate and undivided interest in the pool of Musyarakah Assets (as defined below) to be managed by PAAB.

The Issuer, on behalf of the Sukukholders, shall, from time to time, appoint PAAB as the Manager whereby the Manager is appointed to manage the proceeds paid by the Sukukholders to the Manager ("**Musyarakah Capital**") for the purpose of (i) purchase of existing assets of PAAB ("**Existing Assets**") and/or (ii) funding and acquisition of assets under construction of PAAB ("**Future Assets**") and/or (iii) funding of assets to be acquired by PAAB ("**Assets To Be Acquired**") to be identified prior to issuance and endorsed by the Shariah Adviser (collectively known as "**Musyarakah Assets**" further as defined in Identified Assets below) (the "**Musyarakah Venture**") on behalf of the Issuer (for the Sukukholders). The Musyarakah Assets shall form part of the Musyarakah Venture. The Musyarakah Assets will consist of at least 1/3 of Existing Assets and will be identified at or around the time of issuance of the Sukuk Musyarakah and the SC will be notified accordingly. Prior to acquisition of the Assets To Be Acquired, the Musyarakah Capital shall be invested in Shariah-compliant income-

generating asset-based instruments including Shariah-compliant securities recognized by SC such as Sukuk, Shariah-compliant shares recognized by SC, Shariah-compliant funds recognized by SC, Shariah-compliant asset based deposits with licensed Islamic financial institutions and other Shariah-compliant income generating asset-based instruments to be approved by the Shariah Adviser (**"Investments"**)

The Issuer (on behalf of the Sukukholders) (in its capacity as the "Lessor") shall then, from time to time, lease the Existing Assets in the Musyarakah Venture to PAAB (as **"Lessee"**) for a pre-determined Rentals (as defined in below) and tenure (**"Ijarah Lease Term"**) pursuant to the Ijarah Agreement.

The Issuer shall declare a trust (**"Trust"**) over the Musyarakah Assets, its present and future rights and interest in the Ijarah Agreement, the Purchase Undertaking (as described below) and the proceeds of the foregoing (collectively the **"Musyarakah Trust Assets"**) in favour of the Sukukholders, and the Sukuk Musyarakah shall represent the Sukukholders' undivided beneficial ownership in the Musyarakah Trust Assets.

The Sukukholders shall share any returns from the Musyarakah Venture (i.e. Rentals from the Ijarah Agreement between SPV and PAAB with respect to the Existing Assets in the Musyarakah Venture and any Shariah-compliant income generated from the Investments, Future Assets and Assets To Be Acquired which may include among others, the rental proceeds from received from third parties via the lease of completed Future Assets or from delivered Assets To Be Acquired) in proportion to their respective holdings of the Sukuk Musyarakah while losses shall be borne by and limited to each Sukukholder's respective capital contribution to the Musyarakah Venture. Returns generated from the Musyarakah Venture shall be distributed to the Sukukholders as Expected Return (as defined herein) of the Musyarakah Venture in the form of one-off or periodic distributions (**"Distributions"**). The Sukukholders shall agree that any returns in excess of the Expected Return shall be paid to the Manager as incentive fees.

Pursuant to the Purchase Undertaking, PAAB shall purchase the Musyarakah Assets from the Issuer, by way of transfer of the beneficial ownership:

- (a) upon the Scheduled Distribution Date; or
- (b) upon declaration of a Dissolution Event/Event of Default (save for a Dissolution Event/Event of Default due to a Total Loss Event); or

(c) upon the Early Dissolution Date,

at the Exercise Price (as described below). Upon the occurrence of any of the above, the Sukuk held by the Sukukholders shall be cancelled.

PAAB shall have the right via an exchange agreement, to substitute all or part of the Musyarakah Assets throughout the tenure of the Sukuk Musyarakah with qualified assets that are approved by the Shariah Adviser ("**Substitute Musyarakah Assets**") including but not limited to in a Total Loss Event duly notified to the Facility Agent (on behalf of the Sukukholders) as provided herein.

A diagrammatical illustration of the Musyarakah transaction and the other terms and conditions are set out in Annexure II.

- | | |
|--------------------------------------|--|
| (d) Issue Size | The outstanding nominal value of the Sukuk issued under the Sukuk Programmes at any point in time shall not exceed RM20.0 billion. |
| (e) Issue Price | The Sukuk may be issued at par, premium or at a discount to nominal value and will be determined at each point of issuance in accordance with the Rules on Fully Automated System for Tendering (" FAST ") issued by BNM, as amended or substituted from time to time (" FAST Rules "). |
| (f) Tenor of the facility/issue | <p><u>Facility 1</u>
Up to thirty (30) years from the date of first issue under the IMTN Programme provided that the first issue of IMTNs under the IMTN Programme shall not be later than 2 years from the date of the SC's approval.</p> <p><u>Facility 2</u>
Up to seven (7) years from the date of first issue under the ICP Programme, provided that the first issue of ICPs under the ICP Programme shall not be later than 2 years from the date of the SC's approval.</p> <p><u>Tenor of IMTNs</u>
More than one (1) year and up to thirty (30) years provided that the IMTNs mature prior to the expiry of the IMTN Programme.</p> <p><u>Tenor of ICPs</u>
One (1), two (2), three (3), six (6), nine (9) or twelve (12) months provided that the ICPs mature prior to the expiry of the ICP Programme.</p> |
| (g) Coupon/Profit or equivalent rate | The Expected Return, in respect of Sukuk Musyarakah, or Profit Rate, in respect of Sukuk Ijarah, as the case may be, will be determined at |

the point of each issuance under the IMTN Programme and the ICP Programme (“**Sukuk Return Rate**”).

- (h) Coupon/Profit payment frequency and basis

In respect of Sukuk Ijarah:

Semi-annual basis (“**Profit Period**”).

Profit payment basis is actual/365 days.

In respect of Sukuk Musyarakah:

Semi annual basis (“**Profit Period**”).

Profit payment basis is actual/365 days.

The dates on which the Periodic Distribution Amount (as defined below) is payable shall be known as “**Periodic Distribution Dates**”.

On each Periodic Distribution Dates, the Sukukholders will receive, from moneys received in respect of the Ijarah Trust Assets or the Musyarakah Trust Assets, as the case may be, a periodic distribution amount (“**Periodic Distribution Amount**”) which is an amount equal to the product of (a) the Sukuk Return Rate (as defined above), (b) nominal value of the Sukuk and (c) the number of days in the Profit Period divided by 365.

- (i) Yield to Maturity (%)

The applicable yield to maturity, in respect of Sukuk Ijarah (“Yield to Maturity”) or the expected return to the Sukukholders, in respect of Sukuk Musyarakah (“Expected Return”), as the case may be, which will be determined at the point of each issuance under the IMTN Programme and the ICP Programme.

- (j) Security/Collateral (if any)

None.

- (k) Details on utilisation of proceeds

Issuer

Under an issuance of Sukuk Ijarah, the proceeds of the Sukuk Ijarah shall be utilised by the Issuer to pay the Asset Purchase Price (as defined below) to PAAB under the relevant Asset Purchase Agreement.

Under an issuance of Sukuk Musyarakah, the proceeds of the Sukuk Musyarakah shall be utilised to invest in the Musyarakah Venture consist of the Musyarakah Assets to be managed by PAAB.

PAAB

PAAB shall utilise the proceeds for the following Shariah-compliant purposes:

- (a) to refinance the principal amount of any existing banking facilities of PAAB obtained for the purposes of item (b) and/or item (c) below and to be endorsed by the Shariah Adviser;
- (b) to finance PAAB's acquisition of existing water assets, rights, liabilities and land from privatised water concessionaires or other operators or State Governments in Malaysia ("**Acquisitions**");
- (c) to finance PAAB's capital expenditure in relation to the water assets;
- (d) to fund the fees, costs, expenses and all other amounts payable under or in relation to the IMTN Programme and the ICP Programme; and

for any other Shariah-compliant general funding and Shariah-compliant working capital requirements of PAAB.

- | | | |
|-----|--|--|
| (l) | Sinking Fund (if any) | None |
| (m) | Rating, Credit Rating Assigned Name of Rating Agency | <p>The Sukuk will be rated by RAM Rating Services Berhad ("RAM Ratings").</p> <p><u>Facility 1</u>
Assigned long-term rating of AAA.</p> <p><u>Facility 2</u>
Assigned short-term rating of P1.</p> |
| (n) | Form and Denomination | <p>The Sukuk shall be issued in accordance with:</p> <ul style="list-style-type: none">(a) the "Rules on the Scripless Securities" under the RENTAS system issued by BNM ("Rentas Rules"); and(b) the FAST Rules, or <p>their replacement thereof (collectively the "Codes of Conduct") applicable from time to time.</p> <p>Each tranche of the Sukuk shall be represented by a global certificate to be deposited with BNM, and shall only be exchanged for definitive bearer form only in certain limited circumstances. The denomination of</p> |

the Sukuk shall be RM1,000 or in multiples of RM1,000 at the time of issuance.

(o) Mode of Issue

Facility 1

The IMTNs will be issued on a bought deal, book-building or private placement on a best effort basis.

Facility 2

The ICPs will be issued on a bought deal or via a competitive tender on FAST or book-building or private placement on a best effort basis.

In respect of the Sukuk Musyarakah, there shall be at least 2 Sukukholders upon issuance.

(p) Selling Restriction

(a) At issuance

The Sukuk may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to subscribe the Sukuk and to whom the Sukuk are issued would fall within Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230 (1)(b) and Schedule 9 or Section 257(3) of the CMSA.

(b) Thereafter

The Sukuk may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to purchase the Sukuk would fall within Schedule 6 or Section 229(1)(b) and Schedule 9 or Section 257(3) of the CMSA.

(q) Listing Status

The Sukuk may be listed on Bursa Malaysia Securities Berhad or any other stock exchange.

(r) Minimum Level of Subscription (RM or %)

The minimum level of subscription for each issuance of the Sukuk is five (5) % of the size of a particular issue.

(s) Other regulatory approvals required in relation to the issue, offer or invitation and whether or not obtained

None

- | | | |
|-----|--|---|
| (t) | Identified Assets | <p><u>In respect of Sukuk Ijarah</u></p> <p>Ijarah Assets includes existing plants, equipments, public mains, pipes, treatment plants, pumping stations, services or balancing reservoirs or any combination thereof and all other structures located on and forming part of those lands ("Water Assets") which is owned by PAAB pursuant to the asset migration exercise under the national water services industry restructuring initiatives and completed nation's Water Assets developed by PAAB.</p> <p><u>In respect of Sukuk Musyarakah</u></p> <p>Musyarakah Assets includes existing plants, equipments, public mains, pipes, treatment plants, pumping stations, services or balancing reservoirs or any combination thereof and all other structures located on and forming part of those lands ("Water Assets") which is owned or to be owned by PAAB pursuant to the asset migration exercise under the national water services industry restructuring initiatives and future nation's Water Assets to be developed by PAAB.</p> |
| (u) | Purchase and selling price/rental (where applicable) | To be decided at the point of issuance. |
| (v) | Conditions Precedent | <p>To include the following (in form and substance acceptable to the Lead Manager):</p> <p>A. <u>MAIN DOCUMENTATION</u></p> <ol style="list-style-type: none"> 1) The transaction documents have been duly executed and stamped or endorsed as exempted from stamp duty; and 2) All relevant notices and acknowledgements (where applicable) shall have been made or received as the case may be. <p>B. <u>ISSUER AND OBLIGOR</u></p> <p>The Lead Manager shall have obtained the following:-</p> <ol style="list-style-type: none"> 1) Certified true copies of the Certificate of Incorporation and the Memorandum and Articles of Association, of the Issuer and Obligor; 2) Certified true copies of the latest Forms 24 and 49 of the Issuer and Obligor; |

- 3) A certified true copy of board resolutions of the Issuer and Obligor authorising, among others, the execution of the transaction documents;
- 4) A list of the Issuer's and Obligor's authorised signatories and their respective specimen signatures;
- 5) A report of the relevant company search on the Issuer and Obligor conducted at the Companies Commission of Malaysia; and
- 6) A report of the relevant winding up search on the Issuer and Obligor conducted at the Department of Insolvency Malaysia wherein the Department of Insolvency Malaysia confirms that no winding up orders have been issued against the Issuer and the Obligor or a statutory declaration by a director of the Issuer and the Obligor to that effect.

C. GENERAL

- 1) The approval from the SC and, where applicable, all other regulatory authorities has been obtained;
- 2) The Sukuk have received their respective requisite ratings as stated in this term sheet;
- 3) Evidence of the confirmation from the Shariah Adviser that the structure and transaction documents are in compliance with Shariah;
- 4) Evidence that all transaction fees, costs and expenses have been paid in full;
- 5) The Lead Manager has received from its Legal Counsel a favourable legal opinion addressed to it advising with respect to, among others, the legality, validity and enforceability of the transaction documents and a confirmation addressed to the Lead Manager that all the conditions precedent have been fulfilled;
- 6) Consent from the Obligor's lender under the RC Facility for the Obligor to transfer beneficial ownership of the Ijarah Assets and/or the Musyarakah Assets, as the case may be, to the Issuer and to lease the Ijarah Assets and/or the Musyarakah Assets, as the case may be, from the Issuer under the Ijarah arrangement for the issuance of the Sukuk has been obtained;
- 7) Such other conditions precedent as advised by the Legal Counsel of the Lead Manager and mutually agreed between the Lead Manager, Issuer and Obligor.

- (w) Representations and Warranties The Issuer and the Obligor will make customary representations for a transaction of this nature, including the following:
- 1) each of the Issuer and the Obligor is a company duly incorporated with limited liability and validly existing under the laws of Malaysia and has full power to carry on its business and to own its property and assets and to enter into, exercise its rights under and perform its obligations under the transaction documents and have complied in all material respects with all legal requirements in relation to its businesses;
 - 2) the memorandum and articles of association of the Issuer incorporate provisions which authorise, and all necessary corporate actions and other relevant actions have been taken to authorise, and all relevant consents and approvals of any governmental or other authority or body in Malaysia have been duly obtained, renewed, fulfilled and remain in full force and effect which are required to authorise the Issuer to own its assets, the carrying on by the Issuer or the Obligor of the business it engages in or proposes to engage in and sign and deliver, and exercise its rights and perform the transactions contemplated in the transaction documents, to issue the Sukuk and the performance of the Issuer's or the Obligor's obligations under the transaction documents and under the Sukuk and in accordance with its terms;
 - 3) neither the execution nor delivery of any of the transaction documents nor the performance of any of the transactions contemplated in the transaction documents does or will:
 - (a) contravene or constitute a default under any provision contained in any contract, undertaking, agreement, instrument, law, ordinance, decree, judgment, order, rule, regulation, licence, permit or consent by which the Issuer or the Obligor or any of its assets is bound or which is applicable to it or any of its assets; or
 - (b) cause any limitation on the Issuer or the Obligor or the powers of its directors, whether imposed by or contained in its memorandum and articles of association or in any agreement, instrument, law, ordinance, decree, order, rule, regulation, judgment or otherwise, to be exceeded; or
 - (c) result in the creation or imposition of, or any obligation to create or impose any mortgage, lien, pledge, charge, other security interest or restriction on any of the Issuer's or the Obligor's properties and assets pursuant to any such

agreement, mortgage, bond, contract or other undertaking or instrument;

- 4) (a) no litigation, arbitration or administrative proceeding or claim which might by itself or together with any other such proceedings or claims to the best of the Issuer's knowledge is presently in progress or pending or, to the best of the Issuer's knowledge, is threatened against the Issuer or any of its assets;
- (b) no litigation, arbitration or administrative proceeding or claim which might by itself or together with any other such proceedings or claims to the best of the Obligor's knowledge, is threatened against the Obligor or any of its assets which would have a Material Adverse Effect;
- 5) the Issuer and the Obligor are subject to civil and commercial law with respect to its obligations under the transaction documents, the transactions contemplated hereby and thereby constitute private and commercial acts done for private and commercial purposes and it is not entitled to immunity on the grounds of sovereignty or otherwise from any legal action or proceeding (which may include, without limitation, suits, attachment prior to judgment, execution or other enforcement in Malaysia);
- 6) each of the transaction documents is or will when executed and/or issued, as the case may be, be in full force and effect and constitutes, or will when executed or issued, as the case may be, constitute valid and legally binding obligations on the Issuer and the Obligor enforceable in accordance with its terms;
- 7) the information supplied is true and accurate in all material respect and does not omit to state any fact the omission of which makes the statements therein, in the light of the circumstances under which they were made, misleading in any material respect and all expressions of expectation, intention, belief and opinion contained therein were honestly made on and are not misleading in any material respect except that, when the warranted information is a forecast, the warranty will be to the effect that the forecast has been made on the basis of assumptions which were reasonable at the time when they were made and after due enquiry;
- 8) there is no Event of Default or Potential Event of Default that has occurred or is continuing;

For the purpose of this term sheet, "**Potential Event of Default**" means any event which, upon the giving of notice and/or lapse of

time and/or the issue of a certificate and/or the fulfillment of the relevant requirement as contemplated under the relevant transaction documents would constitute an Event of Default.

- 9) no event has occurred whether constituting, or which with the giving of notice and/or the lapse of time would constitute a contravention of, or default under, any agreement or instrument by which the Issuer or the Obligor or any of their assets is bound or affected or otherwise which would have a Material Adverse Effect;
- 10) no registration, recording, filing or notarisation of the relevant transaction documents and no payment of any duty or tax and no other action whatsoever is necessary or desirable to ensure the validity, enforceability or admissibility in evidence in Malaysia of its liabilities and obligations of the Issuer and/ or the Obligor under the transaction documents or the rights of the holders of the Sukuk, the Facility Agent and the Lead Manager under the transaction documents in accordance with their terms;
- 11) the Sukuk shall constitute direct, unconditional and unsecured obligations of the Issuer and shall at all times rank equally and rateably (*pari passu*) without discrimination, preference or priority among themselves and at least *pari passu* with all other unsecured and unsubordinated obligations of the Issuer, subject to those preferred by law; and
- 12) such other representations and warranties as advised by the Legal Counsel of the Lead Manager and mutually agreed between the Lead Manager, Issuer and Obligor.

(x) Events of Default

The Sukuk will have the customary events of default/dissolution events for a transaction of this nature:

- 1) the Sukukholders cease or fail to be or remain the absolute beneficial owner of the Ijarah Trust Assets and/or the Musyarakah Trust Assets free from all security interest;
- 2) the occurrence of any termination event as may be specified in the relevant transaction documents i.e. the Ijarah Agreement and the Purchase Undertaking;
- 3) the Issuer or the Obligor defaults in the payment of any payments in respect of the Sukuk, i.e. pursuant to the Ijarah Agreement and the Purchase Undertaking and/or the transaction documents when the same shall become due and payable (whether formally demanded or not), or on demand, if so payable in accordance with the respective terms;

- 4) the Issuer or the Obligor shall fail to satisfy any judgment passed against it by any court of competent jurisdiction and no appeal against such judgment has been made to any appropriate appellate court within the time prescribed by law or such appeal has been dismissed and in the case of any judgment obtained in default of appearance, such judgment has not been set aside within thirty (30) days of the Issuer or the Obligor becoming aware of the judgment and such event has a Material Adverse Effect;
- 5) the Issuer or the Obligor for the purposes of section 218(2) of the CA deemed to be unable to pay its debts or stops payment of all or a material part of its debts, takes any proceeding or other step with a view to readjustment, rescheduling or deferral of any of the indebtedness of the Issuer or the Obligor or makes a general assignment or any composition or arrangement with or for the benefit of the creditors of the Issuer or the Obligor (including pursuant to Section 176 of the CA) or a moratorium is agreed or declared in respect of or affecting all or a part of the borrowed money of the Issuer or the Obligor;
- 6) an encumbrancer takes possession of, or a trustee or administrative or other receiver or similar officer is appointed over the whole or a substantial part of the assets, business or undertaking of the Issuer or the Obligor; or other steps are taken for making an administration order against the Issuer or the Obligor or a distress or execution or other process pursuant to a judgment obtained against the Issuer or the Obligor, and such distress, execution or other process is not paid out, withdrawn or discharged within thirty (30) days;
- 7) the Issuer or the Obligor commits any breach of or omits to observe any of the obligations, undertakings or covenants expressed to be assumed by it under any of the transaction documents (other than a failure as referred to in paragraph (3) above or failure to maintain the Minimum Required Balance) and in respect of any such breach or omission which is capable of remedy, such breach or omission remains unremedied for thirty (30) days after the Issuer or the Obligor becomes aware of such breach or a written notice thereof has been delivered to the Issuer or the Obligor by the Facility Agent;
- 8) any representation, warranty or statement which is made (or acknowledged to have been made) by the Issuer or the Obligor in the transaction documents or which is contained in any certificate, statement, legal opinion or notice provided under or in connection herewith or therewith proves to be incorrect in any

material respect on or as of the date made or given or deemed made or given and in respect of any such misrepresentation which is capable of remedy, such misrepresentation remains unremedied for thirty (30) days after the Issuer or the Obligor becomes aware of such breach or a written notice thereof has been delivered to the Issuer or the Obligor by the Facility Agent;

- 9) any provision of any of the transaction documents is or becomes invalid, illegal, unenforceable or void;
- 10) any indebtedness of the Issuer or the Obligor becomes capable, in accordance with the relevant terms thereof, of being declared due prematurely by reason of a default by the Issuer or the Obligor in its obligations in respect of the same, or the Issuer or the Obligor fails to make any payment in respect thereof on the due date for such payment or if due on demand when demanded or the security for any such indebtedness becomes enforceable which would have a Material Adverse Effect;
- 11) any step or action is taken for the bankruptcy, winding up, dissolution or liquidation of the Issuer or the Obligor (including, without limitation, the presentation of a petition for the bankruptcy of or winding up against the Issuer or the Obligor or the making of any order or the passing of any resolution for the winding up, dissolution or liquidation of the Issuer or the Obligor) unless the Issuer or the Obligor has taken any steps to set aside or apply for stay of execution in respect of such petition or order within thirty (30) days of the petition or order being served on the Issuer or the Obligor (as the case may be);
- 12) any event occurs which under the laws of Malaysia has an analogous effect to any of the events referred to in paragraph 11 above;
- 13) the Issuer or the Obligor repudiates any of the transaction documents;
- 14) any Malaysian law is brought into effect which purports to render ineffective or invalid any provision of the transaction documents or which would prevent the Issuer or the Obligor from performing any of its payment obligations under the transaction documents;
- 15) any event or events has or have occurred or a situation exists which would, give the Facility Agent reasonable grounds to believe that such event or events would have a Material Adverse Effect;

- 16) the Obligor's Facilities Licence or any future licences required to be obtained by the Obligor to perform its functions is terminated;
- 17) the Obligor ceases to be a wholly owned subsidiary of the Government of Malaysia either directly or indirectly;
- 18) the occurrence of any Total Loss Event and PAAB does not notify the Facility Agent in writing by 5.00pm on the same date of its intention to substitute the Ijarah Assets and/or the Musyarakah Assets, as the case may be, (or, if so notified, does not thereafter proceed to actually effect such substitution); or
- 19) such other events as advised by the Legal Counsel of the Lead Manager and mutually agreed between the Lead Manager, Issuer and Obligor.

On the occurrence of any of the events above (save for paragraph 18 above) the Facility Agent may, or shall if directed to do so by a special resolution of the Sukukholders, declare that a Dissolution Event/Event of Default has occurred and the Exercise Price under the Purchase Undertaking, shall become immediately due and payable and Ijarah Assets and the Musyarakah Assets shall be immediately repurchased by PAAB, as the case may be.

Thereafter, the Facility Agent may take proceedings against PAAB as it may think fit to enforce immediate payment of the Exercise Price or the Final Rental, as the case may be.

On the occurrence of the event in paragraph 18 above, the Facility Agent shall immediately declare that a Dissolution Event/Event of Default has occurred and the Final Rental (as defined below) under the Ijarah Agreement shall become immediately due and payable. For the avoidance of doubt, the Final Rental shall not be payable if the aggregate principal amount of the Sukuk outstanding is paid via Exercise Price.

(z) Other principal terms and conditions for the issue:

- (i) Transferability Transferable, but subject to the selling restrictions described above.
- (ii) Status The Sukuk shall constitute trust obligations of the Issuer in relation to, and represent undivided beneficial ownership in the Ijarah Trust Assets or the Musyarakah Trust Assets, as the case may be, including the benefits therein under the relevant transaction documents i.e. the Ijarah Agreement and the Purchase Undertaking.

The obligations of the Obligor pursuant to the relevant transaction documents i.e. Ijarah Agreement and the Purchase Undertaking in respect of the Sukuk shall constitute direct, unconditional, unsecured and unsubordinated obligations of PAAB (in its capacity as Obligor) and shall at all times rank pari passu, without discrimination, preference or priority amongst themselves and at least pari passu with all other present and future unsecured and unsubordinated obligations of PAAB (both actual and contingent) including any advances by its shareholders (if any) subject to those preferred by law or the transaction documents.

- (iii) Redemption Unless previously redeemed or purchased and cancelled, the Sukuk will be fully redeemed at their maturity dates at 100% of their nominal value.

- (iv) Repurchase and Cancellation The Issuer, the Obligor or its related corporations may at any time purchase the Sukuk at any price in the open market or by private treaty, but these repurchased Sukuk shall not be counted for purposes of voting and may, if repurchased by the Issuer, be cancelled and in the event of such cancellation, cannot be reissued.

- (v) Availability Upon completion of documentation and, unless waived by the Lead Manager, compliance of all conditions precedent and other applicable conditions to the satisfaction of the Lead Manager.

- (vi) Positive Undertakings of the Issuer and the Obligor To include the following (in form and substance acceptable to the Lead Manager):
 - 1) it will exercise reasonable diligence in carrying on and operating its business and affairs in a proper and efficient manner in accordance with the financial and commercial standards and practices;

 - 2) comply with all laws, regulations and best practices and maintain all necessary approvals and licenses, the absence of which would have a Material Adverse Effect (including under the Water Services Industry Act 2006) relating to or regulating (a) the ownership of its assets; (b) the carrying on by the Issuer and the Obligor of the business it engages in or proposes to engage in; and (c) the entry into and performance by the Issuer and the Obligor of its obligations under the transaction documents to which it is a party including to ensure the validity, enforceability and priority of its liabilities and obligations and the rights of the holders of the Sukuk (or any of them) under the transaction documents;

- 3) perform and comply with all its obligations under the transaction documents and the terms and conditions of the Sukuk;
- 4) immediately notify the Facility Agent as soon as the Issuer or the Obligor becomes aware of the occurrence of a Potential Event of Default or an Event of Default or that such other right or remedy under the terms, provisions and covenants of the Sukuk and relevant transaction documents have become immediately enforceable and provide the Facility Agent with full details of any steps which it is taking, or is considering taking, in order to remedy or mitigate the effect of the Potential Event of Default or the Event of Default or otherwise in connection with it or take such steps as may have been notified to it by the Facility Agent following the occurrence of a Potential Event of Default or an Event of Default to remedy or mitigate the effect of any of the Potential Event of Default or the Event of Default or any other steps as the Facility Agent may request;
- 5) procure that BNM or such other financial institution licensed under the Banking and Financial Institutions Act 1989 (in the case where BNM ceases to be the Paying Agent) be appointed at all times as paying agent for the Sukuk;
- 6) give to the Facility Agent notice of its intention to appoint or remove any Paying Agent at least seven (7) days before notice of any change is given to the holders of the Sukuk in accordance with the relevant transaction documents;
- 7) the Obligor shall at all times during the tenure of the Sukuk be a direct or indirect wholly owned subsidiary of the Government of Malaysia;
- 8) such other covenants as advised by the Legal Counsel of the Lead Manager and mutually agreed between the Lead Manager, Issuer and Obligor.

(vii) Negative Undertakings of the Issuer and the Obligor

To include the following (in form and substance acceptable to the Lead Manager):

- 1) Issuer shall not incur or permit to exist any indebtedness for borrowed moneys (save for those notified to the Lead Manager prior to the date hereof) nor give any guarantees in respect of any indebtedness for borrowed moneys to any person or entity whatsoever. The Obligor shall not incur or permit to exist any indebtedness for borrowed moneys (save for those notified to the Lead Manager prior to the date hereof, any indebtedness

created pursuant to any hire purchase agreements or leasing agreements entered into by the Obligor in respect of any vehicles, equipment or other items used or required by the Obligor for its operations in the Obligor's ordinary course of business and any overdrafts, trade lines, bank guarantees and facilities with tenures of not more than twelve (12) months incurred or obtained in the course of carrying out its business) nor give any guarantees in respect of any indebtedness for borrowed moneys to any person or entity whatsoever if such borrowing or indebtedness will result in the downgrade of the rating of the Sukuk to below AAA;

- 2) each of the Issuer and the Obligor shall not create or permit to exist any encumbrance, mortgage, charge (whether fixed or floating), pledge, lien, hypothecation, assignment by way of security, trust arrangement for the purpose of providing security or other security interest of any kind including, without limitation, title transfer and/or retention arrangements having a similar effect or any agreement to create any of the foregoing, but excluding any security interest created by the operation of law and those arising from the ordinary course of each of their business over any of its undertaking, property, assets, revenues or rights;
- 3) each of the Issuer and the Obligor shall not take steps to wind up or dissolve itself;
- 4) the Issuer shall not declare or pay any dividends or make any distribution whether income or capital in nature to its shareholders or grant any advances or loans. The Obligor shall not declare or pay any dividends or make any distribution whether income or capital in nature to its shareholders or grant any advances or loans to its shareholders or repay any loans, financing or advances from its shareholders if:
 - a. a Dissolution Event/Event of Default has occurred, is continuing and has not been remedied or waived; or
 - b. any amount under the FRSA (as defined below) is due or any instalment on any of the payments under the arrangements pertaining to the Sukuk is overdue and unpaid or if any of the payments under the arrangements pertaining to the Sukuk which has become payable has not been paid as a consequence of default by the Issuer and/or Obligor;
- 5) the Issuer shall not invest in or create any subsidiary or associated company;

- 6) the Obligor shall not carry on any business other than the undertaking, developing, owning and provision of water infrastructure and as stipulated in the Facilities Licence issued to it under the WSIA;
- 7) neither the Issuer nor the Obligor shall add, delete, vary, amend or substitute its Memorandum or Articles of Association or change its financial year which may be in any way inconsistent with the provisions of the transaction documents unless otherwise required under the law;
- 8) neither the Issuer nor the Obligor shall reduce its authorised and/or paid-up capital and/or issued shares in existence at the date hereof whether by varying the amount, structure or value thereof or the rights attached thereto or by converting any of its share capital into stocks, or by consolidating, dividing or subdividing all or any of its shares, or by any other manner;
- 9) the Issuer shall not enter into any agreement with its shareholders (save for any transaction documents). Save and except for as provided by paragraph 10 below or in relation to any agreements entered into for purpose of any Islamic fund raising exercise(s) undertaken by the Obligor as permitted herein, the Obligor shall not enter into any agreement with its shareholders, subsidiaries or associated companies unless such agreement is entered into:
 - a. in the ordinary course of its business; and
 - b. on an arms-length basis;
- 10) the Issuer shall not lend/finance any money to any party save as contemplated under this term sheet. The Obligor shall not lend any money to any party, save and except for any loans/financing to the Obligor directors, officers or employees as part of their terms of employment and any advances to companies whose water assets are to be purchased by the Obligor under the Obligor's water asset purchase programme for the purposes of meeting such companies' operating expenses and advances in the ordinary course of business provided that such advances are required or directed by any regulator and/or the Government of Malaysia;
- 11) save and except in the ordinary course of business and on ordinary commercial terms and on the basis of arm's length transaction or for purpose of Islamic financing, neither the Issuer nor the Obligor shall sell, transfer, lease or otherwise

dispose of or in any case cease to exercise control over, whether by a single transaction or a number of transaction, related or not, the whole or part of the Issuer's or the Obligor's undertaking, business or assets or undertake or permit any merger, consolidation or re-organisation;

- 12) the Obligor shall not vary, and shall not agree to any variation or proposed variation of its Facilities Licence which would materially prejudice the interest of the Sukukholders or any other security created under the security documents;
- 13) the Issuer shall not change or permit any change in its shareholder or its shareholding structure. The Obligor shall not change or permit any change in its shareholder or its shareholding structure which will result in the Obligor ceasing to be a direct or an indirect wholly owned subsidiary of the Government of Malaysia; and
- 14) such other negative covenants as advised by the Legal Counsel of the Lead Manager and mutually agreed between the Lead Manager, Issuer and Obligor.

(viii) Financial
Covenants

Finance Service Reserve Account ("FSRA")

The Issuer shall open and maintain a Shariah-compliant Finance Service Reserve Account with a bank to be appointed by the Issuer which is acceptable to the Lead Manager and the Shariah Adviser.

The FSRA shall be solely operated by the Issuer.

The Issuer shall make the following deposits into the FSRA:

- (i) a deposit equivalent to the first fifty (50) % of the amount payable in respect of any profit payment of the Sukuk six (6) months prior to the due date of such profit payment; and
- (ii) a deposit equivalent to the remaining fifty (50) % of the amount payable in respect of any profit payment of the Sukuk three (3) months prior to the due date of such profit payment

(collectively, the "**Minimum Required Balance**").

The Issuer shall at all times throughout the tenure of the Sukuk maintain the Minimum Required Balance in respect of any profit payment of the Sukuk save and except during the build up of the FSRA.

The monies in the FSRA may be withdrawn to fulfil the Issuer's payments obligations in respect of the profit of the Sukuk as and when they fall due under the Sukuk Programmes, Provided Always that the Issuer shall transfer monies in the FSRA within thirty (30) days from the date of such withdrawal in order to meet the Minimum Required Balance. In the event that the balance in the FSRA exceeds the Minimum Required Balance, the excess may be released to the Issuer.

For the avoidance of doubt, any failure by the Issuer to maintain the Minimum Required Balance shall not tantamount to an Event of Default/Dissolution Event.

(ix) Material Adverse Effect

means any event, circumstance or effect which would have a material adverse effect on the business or condition (financial or otherwise) or results of the operations of the Issuer and/or the Obligor which, in every case, would materially and adversely affect or impair the ability of the Issuer and/or the Obligor to perform any of its obligations under any of the transaction documents.

(x) Compensation ("Ta'widh")

In respect of Sukuk Ijarah

In the event of overdue payments of any amount due under the Rentals for the Ijarah Assets, the Final Rental or the Purchase Undertaking, PAAB shall pay the compensation on such overdue amount at the rate and manner prescribed by the SC's Shariah Advisory Council from time to time in accordance with Shariah.

In respect of Sukuk Musyarakah

In the event of overdue payments of any amount due under the Rentals for the Existing Assets in the Musyarakah Venture, the Final Rental or the Purchase Undertaking, PAAB shall pay the compensation on such overdue amount at the rate and manner prescribed by the SC's Shariah Advisory Council from time to time in accordance with Shariah.

(xi) Taxation

All payments under the Sukuk shall be made without withholding or deductions for or on account of any present or future tax, duty or charge of whatsoever nature imposed or levied by or on behalf of Malaysia or any other applicable jurisdictions, or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law, in which event the payer shall be required to make such additional amount so that the payee would receive the full amount which the payee would have received if no

such withholding or deductions are made.

- | | |
|------------------------------|---|
| (xii) Governing Laws | Laws of Malaysia. |
| (xiii) Jurisdiction | The Issuer and Obligor shall unconditionally and irrevocably submit to the exclusive jurisdictions of the courts of Malaysia. |
| (xiv) Other conditions: | |
| a. Priority of Distributions | <p>Save and except in respect of any unclaimed moneys, all moneys received or recovered by the Facility Agent under or pursuant to the agency agreement, the Sukuk and the other transaction documents consequent upon a declaration of a Dissolution Event/Event of Default shall be held by the Facility Agent to apply the same in the following manner:</p> <p>(a) FIRST, in or towards the payment of or provision for all fees, costs, charges, expenses and liabilities incurred by the Facility Agent in or incidental to the exercise or performance or attempted exercise or performance of any power, right, discretion or authority conferred on the Facility Agent under the agency agreement or the Sukuk or the other transaction documents;</p> <p>(b) SECOND, in or towards payment pari passu and rateably of all arrears in amounts due and unpaid or not distributed in respect of the Periodic Distribution Amount;</p> <p>(c) THIRD, in or towards payment pari passu and rateably of all arrears in amounts due and unpaid or not distributed in respect of the original investment amount of the Sukukholders (being the nominal value of the Sukuk); and</p> <p>(d) FOURTH, in payment of the surplus (if any), without interest, to or to the order of the Issuer or such other person for the time being entitled thereto.</p> |
| b. Other Expenses | Agency fees, legal and other professional fees (including such fees payable and agreed by PAAB in the event that the Sukuk issuance is aborted), rating fees, stamp duties (if any), penalties in connection with the Sukuk issuance, BNM and SC fees shall be borne by PAAB. |

Other Terms and Conditions for Ijarah and Musyarakah

- | | |
|---------|---|
| Rentals | The Rentals in respect of lease of the Ijarah Asset or the Existing Asset in the Musyarakah Venture and consists of:- |
|---------|---|

- (a) an amount equivalent to a one-off distribution amount ("**One-off Distribution Amount**") and/or the Periodic Distribution Amount which are payable by the Lessee to the Lessor on the One-off Distribution Date (as defined below) and/or the relevant Periodic Distribution Date, as the case may be; and
- (b) the Allocated Expenses (as defined below) which are only payable by the Lessee to the Lessor in one lump sum on the Lease Expiry Date; and
- (c) the principal amount of the respective Sukuk Ijarah or the Sukuk Musyarakah, as the case may be, due under the Sukuk Ijarah or the Sukuk Musyarakah, as the case may be ("**Final Rental**") upon execution of the Ijarah Agreement which are only payable by the Lessee to the Lessor in one lump sum on the Lease Expiry Date.

For the avoidance of doubt, the Final Rental shall not be payable if aggregate principal amount of the Sukuk Ijarah or the Sukuk Musyarakah, as the case may be, outstanding is paid via the Exercise Price

The One-off Distribution Amount/Periodic Distribution Amount is payable by the Lessee, under the terms of the Ijarah Agreement, on the One-off Distribution Date or the Periodic Distribution Dates, as the case may be, ("**One-off Distribution Date**" and "**Periodic Distribution Dates**" collectively known as the "**Distribution Date**") to the Facility Agent's account with BNM or such other accounts as the Facility Agent may notify to the Lessee. Upon receipt by the Lessor from the Lessee of each Rental on the relevant Distribution Dates, the Issuer will use such amounts to make payments of the distributions due under the Sukuk (i.e. One-off Distribution Amount/Periodic Distribution Amount) to the Sukukholders. For the avoidance of doubt, the Distribution Date for One-off Distribution Amount shall be the maturity date of such Sukuk ("**One-off Distribution Date**").

Rental are payable up to the Lease Expiry Date (as defined below) of the Ijarah Agreement.

Purchase Undertaking

PAAB shall on the execution of the Ijarah Agreement, enter into a Purchase Undertaking pursuant to which PAAB irrevocably and unconditionally undertakes to purchase from the Issuer the Ijarah Assets and the Musyarakah Assets at the Exercise Price on the Dissolution Dates, the earliest of:

- (a) declaration of Dissolution Event/Event of Default (save for a

Dissolution Event/Event of Default due to a Total Loss Event); or

- (b) the Scheduled Distribution Date; or
- (c) the Early Dissolution Date.

Exercise Price

Upon the exercise by the Issuer of its rights under the Purchase Undertaking:

(1) On the Scheduled Distribution Date:

(i) in the case of Sukuk without Periodic Distribution

Exercise Price = aggregate principal amount of the Sukuk outstanding plus any accrued but unpaid One-off Distribution Amount plus any shortfall in the Allocated Expenses accrued up to Scheduled Distribution Date.

(ii) in the case of Sukuk with Periodic Distribution

Exercise Price = aggregate principal amount of the Sukuk outstanding plus any accrued but unpaid Periodic Distribution Amount and/or One-off Distribution Amount (if any) plus any shortfall in the Allocated Expenses accrued up to Scheduled Distribution Date.

(2) On the declaration of a Dissolution Event/Event of Default (save for a Dissolution Event/Event of Default due to a Total Loss Event):

(i) in the case of Sukuk without Periodic Distribution

Exercise Price = aggregate principal amount of the Sukuk outstanding plus any accrued but unpaid One-off Distribution Amount and to be adjusted to be equivalent to the accreted value plus accrued but unpaid profit (if any) up to the declaration of a Dissolution Event/Event of Default plus any shortfall in the Allocated Expenses accrued up to Dissolution Event/Event of Default.

(ii) in the case of Sukuk with Periodic Distribution

Exercise Price = aggregate principal amount of the Sukuk outstanding plus any accrued but unpaid Periodic Distribution Amount and/or One-off Distribution Amount to be adjusted to be equivalent to the accreted value (if any) plus accrued but unpaid profit (if any) up to the declaration of a Dissolution Event/Event of Default plus any shortfall in the Allocated Expenses accrued up to Dissolution Event/Event of Default.

The Lessor shall waive the Final Rental due under the Ijarah Agreement, or in the event such Final Rental have been paid in full by the Lessee under the Ijarah Agreement, the Exercise Price shall be Ringgit Malaysia One (RM1.00) plus any shortfall in the Allocated Expenses accrued up to Scheduled Distribution Date or Dissolution Event/Event of Default, as the case may be.

(3) On Early Dissolution:

Exercise Price = Early Dissolution Amount (“**EDA**”) calculated by the Facility Agent (which calculation shall be final and binding on the Sukukholders) based on the formula set in Annexure III plus any shortfall in the Allocated Expenses accrued up to Early Dissolution event.

The Exercise Price payable by PAAB to the Facility Agent shall be set off against any shortfall of the Allocated Expenses.

Asset Purchase Agreement

In respect of Sukuk Ijarah, pursuant to an asset purchase agreement, PAAB will sell to the Issuer the Ijarah Assets (free from all claims and encumbrances) at the purchase price (“**Asset Purchase Price**”). The Asset Purchase Price will be in compliance with SC Shariah Advisory Council Pricing Guidelines.

Ijarah Agreement

Under the terms of an Ijarah Agreement, the Lessor will agree to lease to the Lessee, and the Lessee will agree to lease from the Lessor, the Ijarah Assets and/or the Existing Assets in the Musyarakah Venture, as the case may be, during the term commencing on the lease commencement date and ending on the Lease Expiry Date.

“**Lease Expiry Date**” shall be the final maturity date of the Sukuk/ Scheduled Distribution Date.

The Ijarah Agreement is subject to early termination on the following events:

- (a) the date on which the Ijarah Asset and/or the Existing Assets in the Musyarakah Venture, as the case may be, is purchased by the Obligor pursuant to the Purchase Undertaking/the date of declaration of a Dissolution Event/Event of Default; or
- (b) upon the occurrence of a Total Loss Event and the Ijarah Assets and/or the Existing Assets in the Musyarakah Venture are not substituted with the Total Loss Substitute Assets in accordance with the provisions herein, whichever is the earlier.

Service Agency Agreement

Under the terms of the Service Agency Agreement, PAAB (in such capacity as the service agent, “**Service Agent**”), on behalf of the Lessor, will be responsible for the performance of all maintenance in respect of the Ijarah Assets and the Musyarakah Assets, to insure/cover the Ijarah Assets and the Musyarakah Assets, to pay general ownership expenses, to ensure that the Ijarah Assets and the Musyarakah Assets are kept in good repair and to effect replacement of the Ijarah Assets and the Musyarakah Assets as and when necessary, to maintain an up-to-date accounts, information, records relating to the Ijarah Assets and the Musyarakah Assets, and preparing annual operating budget in relation to the Ijarah Assets and the Musyarakah Assets and to ensure compliance with provisions of all regulations and laws, licences, permissions and consents provided under such regulations and laws in accordance with the terms set out in the Service Agency Agreement.

Allocated Expenses

Allocated expenses shall be an amount determined prior to the execution of the Ijarah Agreement and allocated in the Rental payable by the Lessee on the Lease Expiry Date, to be ultimately used by the Lessor to pay the Service Agent for expenses incurred in relation to the maintenance of the Ijarah Assets and the Musyarakah Assets pursuant to the terms of the Service Agency Agreement (“**Allocated Expenses**”). In the event the Allocated Expenses are more than the actual maintenance expenses incurred, such excess shall be paid to the Service Agent as an incentive fee.

Any shortfall shall be set off against any payment due from PAAB pursuant to the Purchase Undertaking.

Dissolution of Trust

Upon a sale of the Ijarah Assets and the Musyarakah Assets to the Obligor pursuant to the Purchase Undertaking and/or the payment by the Lessee of the Final Rental pursuant to the Ijarah Agreement, and in accordance therewith, the Obligor will be required to deposit the Exercise Price and/or the Lessee will be required to deposit the Final Rental into the Facility Agent's account with BNM on or before the relevant date for the redemption of the Sukuk and dissolution of the Trust.

Upon receipt of the Exercise Price from the Obligor in accordance with the terms of the Purchase Undertaking and/or the Final Rental from the Lessee in accordance with the terms of the Ijarah Agreement, such amount, together with Rentals received until the date of the termination of the lease under the Ijarah Agreement, will be applied to redeem the Sukuk.

Early Dissolution of the Trust

Notwithstanding the Scheduled Distribution Date of the Sukuk, PAAB may at its option and pursuant to the Purchase Undertaking, purchase the Ijarah Trust Asset or the Musyarakah Trust Asset (as the case may be) in relation to any Sukuk Series (as defined below), in whole but not in part, from the Issuer subject to the following conditions:

- (a) PAAB shall give a written notice of its intention of not less than twenty one (21) days and not more than sixty (60) days to the Facility Agent; and
- (b) the Early Dissolution will be in the inverse order of maturity among the Sukuk.

For avoidance of doubt, a Sukuk Series is defined as Sukuk with the same issue date and maturity date, and each Sukuk Series shall be redeemed in whole and not in part.

The Exercise Price payable after netting off any shortfall of the Allocated Expenses on Early Dissolution shall be equivalent to the EDA.

Total Loss Event

A total loss event is defined as the total loss or destruction of, or damage to the whole of the Ijarah Assets and/or the Musyarakah Assets, as the case may be, or any event or occurrence that renders the whole of the Ijarah Assets and/or the Musyarakah Assets, as the case may be, permanently unfit for any use.

The occurrence of a Total Loss Event shall be confirmed in writing by the Lessee, provided at all times that the confirmation by the Lessee to the Facility Agent shall not be more than two (2) weeks from the occurrence of such event.

On the occurrence of a Total Loss Event, PAAB shall notify the Facility Agent in writing by 5.00pm on the same day of its inability or its intention not to substitute the Ijarah Assets and/or the Musyarakah Assets, as the case may be, then at once the Facility Agent shall:

- (1) by written notice to the Lessee, declare that the lease shall be terminated and that the Lessee shall pay the Sukukholders the Final Rental plus any accrued and unpaid Rentals; and
- (2) in accordance with the provisions of the agency agreement, by written notice to the Lessor, declare that a Dissolution Event/Event of Default has occurred.

Right to Substitute the Assets
Following a Total Loss Event

Following the occurrence of a Total Loss Event, PAAB, as the Service Agent, shall have the right to substitute the Ijarah Assets and/or the Musyarakah Assets, as the case may be, with qualified assets that are approved by the Shariah Adviser ("**Total Loss Substitute Assets**").

Under this right, PAAB must by 5.00pm on the same day as the occurrence of a Total Loss Event:

- (a) identify the Total Loss Substitute Assets;
- (b) obtain the Shariah Adviser's approval of the Total Loss Substitute Assets;
- (c) execute the necessary documentation ("**Exchange Agreement**") to, amongst others, allow the Total Loss Substitute Assets to be substituted as the Ijarah Assets and/or the Musyarakah Assets, as the case may be, and form part of the Ijarah Assets and/or the Musyarakah Assets, as the case may be, and Ijarah Trust Assets and/or the Musyarakah Trust Assets, as the case may be;

AND

- (i) the consideration for the Total Loss Substitute Assets shall be paid on a deferred basis and shall be due and payable once the insurance/takaful proceeds are received. If the insurance/takaful proceeds are insufficient to cover the purchase consideration, the Service Agent shall be obliged to make good the difference, for not taking full insurance/takaful coverage on the Assets and the Musyarakah Assets pursuant to the terms of the Service Agency Agreement. Any excess from the insurance/takaful proceeds over the purchase consideration shall be paid to the Service Agent as an incentive fee; and
- (ii) In respect of Total Loss of the Ijarah Assets or the Existing Assets in the Musyarakah Venture, as the case may be, the Lessee and Lessor shall continue the lease with the Total Loss Substitute Assets under the terms of the existing Ijarah Agreement. All Rentals due and payable up to the date of occurrence of a Total Loss Event shall be payable by the Lessee to the Lessor in the following Periodic Distribution Date.

Additional Terms and Conditions for Musyarakah

Underlying Transaction and the
Sukuk Musyarakah

There will be two (2) types of Sukuk Musyarakah namely those Sukuk Musyarakah with periodic distributions and those Sukuk

Musyarakah without periodic distributions.

Sukuk Musyarakah with periodic distributions will be entitled to Periodic Distribution Amount on the Periodic Distribution Date and a payment of the Exercise Price.

Sukuk Musyarakah without periodic distributions will only be entitled to the One-off Distribution (“**One-off Distribution Amount**”) on the One-off Distribution Date and a payment of the Exercise Price on the One-off Distribution Date.

For the avoidance of doubt, the One-off Distribution Date in respect of Sukuk Musyarakah without periodic distributions shall be the maturity date of such Sukuk Musyarakah.

Sukukholders Entitlement to Income

The Sukukholders, the Issuer and PAAB agree that the Sukukholders shall be entitled to share in the income generated from the Musyarakah Venture (“**Income Entitlement**”). This share of income attributable to the Sukukholders shall only be paid to the Sukukholders on the Dissolution Dates and/or Periodic Distribution Dates and/or the One-Off Distribution Date.

The Sukuk shall entitle the Sukukholders to the following:

- 1) an undivided share of beneficial ownership in the Musyarakah Trust Assets, (the quantum of which is evidenced by the Sukuk Musyarakah held by it);
- 2) a right to share the income generated from the Musyarakah Trust Assets (in proportion to their undivided ownership based on a pre-agreed percentage) but on the basis that payments of such share of the income shall:
 - (i) be equivalent to the Expected Return in relation to each tranche of the Sukuk Musyarakah;
 - (ii) be received by the Sukukholders on the Dissolution Dates and/or Periodic Distribution Dates and/or One-Off Distribution Date whereby, for avoidance of doubt, failure by PAAB to make such payments of Periodic Distribution Amount or the One-Off Distribution Amount, as the case may be, to the Sukukholders on the Dissolution Dates and/or Periodic Distribution Dates and/or One-Off Distribution Date shall constitute a Dissolution Event/Event of Default; and
- 3) the benefit of the Purchase Undertaking.

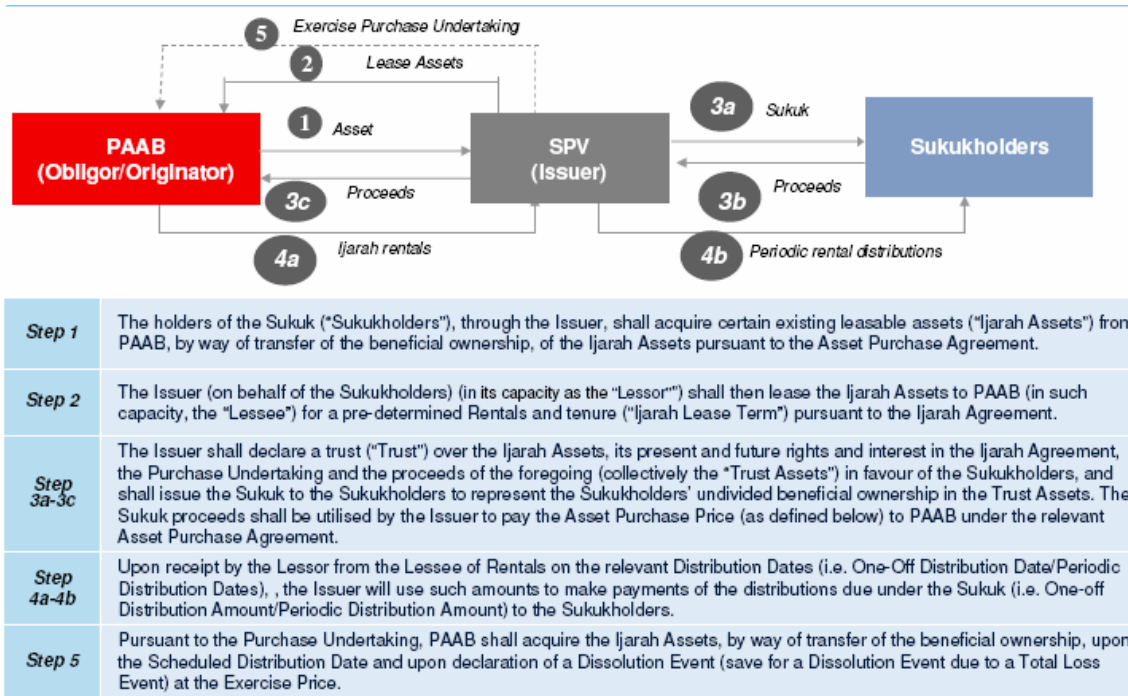
Periodic Distributions and

Sukuk Musyarakah with periodic distributions will be entitled to

Periodic Distributions Date	<p>periodic distributions on the Periodic Distribution Dates (each as defined below).</p> <p>Periodic distributions shall be equivalent to the Expected Return in relation to each tranche of the Sukuk Musyarakah.</p> <p>The frequency of the periodic distributions for the Sukuk Musyarakah shall be on a semi annual basis or such period to be agreed between PAAB and the Lead Manager prior to each issuance of the Sukuk.</p> <p>Periodic Distribution Amount is to be calculated based on the actual number of days elapsed over 365 basis (actual/365).</p>
Partial Redemption of Sukuk Musyarakah	<p>Upon partial redemption of the Sukuk Musyarakah, PAAB shall be the co-owner of the Musyarakah Venture. PAAB and the Sukukholders shall share the return from the Musyarakah Venture (i.e. Rental from the Ijarah Agreement between PAAB and the Issuer and any Shariah-compliant income generated from the Investments, Future Assets and Assets To Be Acquired which may include among others the rental proceeds from lease of the completed Future Assets or delivered Assets To Be Acquired to a third party) based on the proportionate ownership of the Musyarakah Venture.</p>

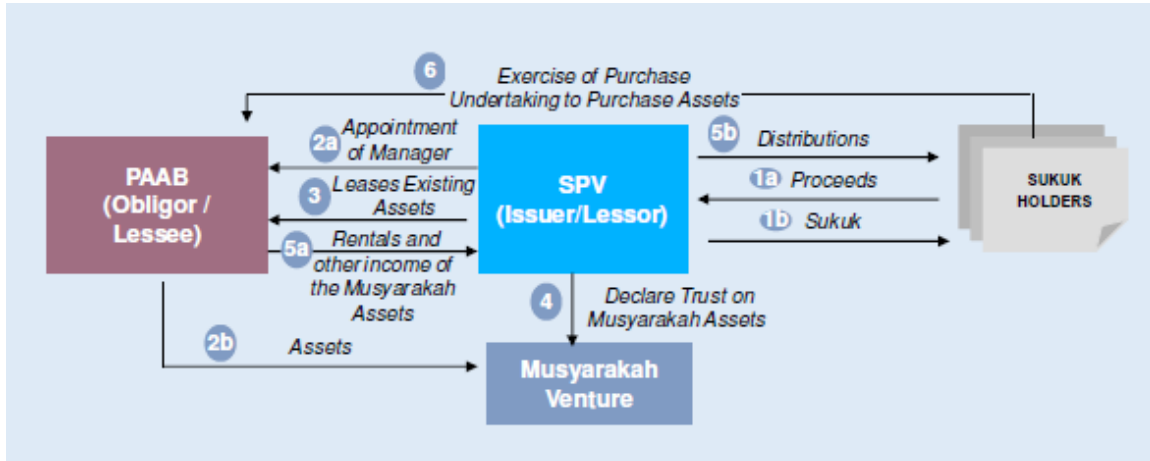
Annexure I

Sukuk Ijarah



Annexure II

Sukuk Musyarakah



Proposed Steps	
Step 1a-1b	Investors shall from time to time form a Musyarakah amongst themselves and subscribe to the Sukuk issued by the Issuer which represent their proportionate and undivided interest in the pool of Musyarakah Assets to be managed by PAAB.
Step 2a – 2b	The Issuer, on behalf of the Sukukholders, shall, from time to time, appoint PAAB as the manager ("Manager") whereby the Manager is appointed to manage the proceeds paid by the Sukukholders to the Manager ("Musyarakah Capital") for the purpose of (i) purchase of existing assets of PAAB ("Existing Assets") and/or (ii) funding and acquisition of assets under construction of PAAB ("Future Assets") and/or (iii) funding of assets to be acquired by PAAB ("Assets To Be Acquired") to be identified prior to issuance and endorsed by the Shariah Adviser (collectively known as "Musyarakah Assets" further defined in Identified Assets) (the "Musyarakah Venture") on behalf of the Issuer (for the Sukukholders). The Musyarakah Assets shall form part of the Musyarakah Venture. The Musyarakah Assets will consist of at least 1/3 of Existing Assets and will be identified at or around the time of issuance of the Sukuk Musyarakah and the SC will be notified accordingly. Prior to acquisition of the Assets To Be Acquired, the Musyarakah Capital shall be invested in Shariah-compliant income-generating asset-based instruments including Shariah-compliant securities recognized by SC such as Sukuk, Shariah-compliant shares recognized by SC, Shariah-compliant funds recognized by SC, Shariah-compliant asset based deposits with licensed Islamic financial institutions and other Shariah-compliant income generating asset-based instruments to be approved by the Shariah Adviser ("Investments")
Step 3	The Issuer (on behalf of the Sukukholders) (in its capacity as the "Lessor") shall from time to time, then lease the Existing Assets in the Musyarakah Venture to PAAB (as "Lessee") for a pre-determined Rentals and tenure ("Ijarah Lease Term") pursuant to the Ijarah Agreement.
Step 4	The Issuer shall declare a trust ("Trust") over the Musyarakah Assets, its present and future rights and interest in the Ijarah Agreement, the Purchase Undertaking (as described below) and the proceeds of the foregoing (collectively the "Musyarakah Trust Assets") in favour of the Sukukholders, and the Sukuk Musyarakah shall represent the Sukukholders' undivided beneficial ownership in the Musyarakah Trust Assets.
Step 5a – 5b	The Sukukholders shall share any returns from the Musyarakah Venture (i.e. Rentals from the Ijarah Agreement between SPV and PAAB with respect to the Existing Assets in the Musyarakah Venture and any Shariah-compliant income generated from the Investments, Future Assets and Assets To Be Acquired which may include among others, the rental proceeds from lease of the completed Future Assets or delivered Assets To Be Acquired to a third party) in proportion to their respective holdings of the Sukuk Musyarakah while losses shall be borne by and limited to each Sukukholder's respective capital contribution to the Musyarakah Venture. Returns generated from the Musyarakah Venture shall be distributed to the Sukukholders as Expected Return (as defined herein) of the Musyarakah Venture in the form of one-off or periodic distributions ("Distributions"). The Sukukholders shall agree that any returns in excess of the Expected Return shall be paid to the Manager as incentive fees.
Step 6	Pursuant to the Purchase Undertaking, PAAB shall acquire the Musyarakah Assets, by way of transfer of the beneficial ownership, upon the Scheduled Distribution Date and upon declaration of a Dissolution Event (save for a Dissolution Event due to a Total Loss Event) at the Exercise Price.

Annexure III

Early Dissolution Amount payable in the event of Early Dissolution

Early Dissolution Amount = the higher of PB or ERP

Where:

PB = Aggregate nominal value/face value of the Sukuk Series to be redeemed

ERP = Early Redemption Price to be calculated as follows:

$$ERP = \frac{PB \times \frac{ERF}{100}}{100}$$

ERF = Early Redemption Factor per RM100.00 (2 decimal places) subject to a minimum of RM100.00 based on the formula set out below.

For purposes of calculating the ERF, the following variables are used:

(i) “**Reference MGS**” shall be the MGS rates for the tenure which is equal to the remaining tenure of the Sukuk Series and shall be determined from:

- (i) the latest Consolidated Government Securities Rates (Conventional)
- (ii) published by BNM daily, two (2) business days prior to the call notice date; or if such is unavailable
- (iii) the arithmetic average of the mid-rates quoted by any five (5) principal dealers, two (2) business days prior to call notice date and/or in the case where the rate for a particular tenure is not available directly, then such rate shall be extrapolated on a linear basis using the available arithmetic average mid-rates;

PROVIDED THAT if the tenure of the Sukuk Series is not an integer, the Reference MGS shall be arithmetic mean of the rates of the two nearest tenures derived from (a) or (b) above.

- (ii) “PPR” means the Profit Rate for the Sukuk Series expressed as a percentage per annum.
- (iii) “Spread” shall be:

Remaining Tenure (Years) of the Sukuk at the time of Issuer’s notice for Early Dissolution	Spread (%)
5.0 or less	0.30
Above 5.0	0.45

(i) **For Sukuk with Periodic Distribution:**

$$ERF = \left[\frac{100}{[1 + (MktYTM / 2)]^{(N-1)+(T/E)}} \right] + \left[\sum_{k=1}^N \frac{[100x(PPR / 2)]}{[1 + (MktYTM / 2)]^{(k-1)+(T/E)}} \right] - \left[\frac{S}{E} \times \frac{100xPPR}{2} \right]$$

- N** = number of Periodic Payment Dates between the Early Dissolution Date and the Maturity Date, inclusive of both the Early Dissolution Date and the Maturity Date.
- T** = number of days from the Early Dissolution Date to the immediate next Periodic Payment Date
- E** = number of days between the immediate preceding Periodic Payment Date (from the Early Dissolution Date) to the immediate next Periodic Payment Date following the Early Dissolution Date
- Mkt YTM** = Reference MGS plus Spread
- S** = number of days from the immediate preceding Periodic Payment Date from the Early Dissolution Date to the Early Dissolution Date.

(ii) **For Sukuk without Periodic Distribution:**

$$ERF = \left[\frac{100}{[1 + (MktYTM / 2)]^{(M-1)+(U/V)}} \right]$$

- M** = number of Relevant Dates between the Early Dissolution Date and the Maturity Date, inclusive of both the Early Dissolution Date and the Maturity Date

“Relevant Date(s)” means the date(s) which shall fall on the last day of the successive six (6) month periods (**“Relevant Period”**), the first period of which shall commence on the Issue Date

- U** = number of days from the Early Dissolution Date to the immediate next Relevant Date
- V** = number of days in the Relevant Period within which the Early Dissolution Date falls
- Mkt YTM** = Reference MGS plus Spread