

## **1MDB boss explains debt due to 'cash flow mismatch'**

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Troubled state fund 1MDB's accumulated debt was due to a cash flow "mismatch" caused by its failure to get its subsidiary Edra Global Energy Bhd to be publicly listed, said 1MDB president Arul Kanda.

"Debts was the basis for 1MDB. When you use debts (to fund investments), there is a need to pay back the debt and service the principle.

"If you do not meet debt repayments, the repercussions are very high. There was a cash flow mismatch because of the failed initial public offering (IPO). The company faced a big challenge to pay back the debt," Arul said in a press conference in Kuala Lumpur today.

However, he insisted that this is a business problem which is not unique to 1MDB.

"This is a business problem, a business challenge, and frankly, it can happen to many businesses. This is not unique to 1MDB," he said.

The Finance Ministry-owned state fund has tried to undertake an IPO for Edra Energy twice, once in November 2013 and again in November 2014.

Both times, Arul said, for various "external and internal" factors, the IPOs did not happen.

In July, 1MDB has blamed criticisms from former prime minister Dr Mahathir Mohamad and negative media coverage for its failed IPO, and today Arul has once again pointed the finger at Mahathir for the 1MDB controversies.

1MDB has since decided to sell off Edra instead, with Arul adding that they have had three bidders submit "final, binding and fully funded" proposals for their consideration.

"Once the confirmatory due diligence is done, they will make their best and final offer soon," he said.

Arul also explained that the reason 1MDB decided to start funding their investments through debts are two-fold.

"First, when you use debt, it creates a certain discipline because debt interest has to be paid back and principal has to be repaid when it matures.

"This gives a certain sense of discipline to either run your business in a way to generate those cash flows or to dispose of your assets," he said.

Secondly, he said, the government can use those funds, which would have otherwise been

injected into 1MDB, for other purposes such as building schools, hospitals and roads.

1MDB's way of doing business, he said, is different from other government-owned companies.

"This is the difference between 1MDB and other companies," he said.

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