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PM: 1MDB model was idealistic

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We did not use much govt funds, it went into debt financing ventures, says Najib

PRIME Minister Datuk Seri Najib Tun Razak has acknowledged the the business model of 1Malaysia Development Bhd (1MDB) was flawed as it was too idealistic and went into heavy debt financing.

“The business model was too idealistic. We did not use a lot government funds ... only RM1bil to undertake a huge property development and acquisition of power generation plants. So it was heavily into debt financing.”

The Prime Minister said the debts were supposed to be reduced from a listing exercise that got delayed.

“It was to be based on the concept of IPO (initial public offering) but the exercise was delayed ... we got into that situation,” he said in his opening address at an Invest Malaysia New York 2015 Partners session here on Wednesday.

1MDB was supposed to list its

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power generation arm – Edra Global Energy Bhd – in the first quarter this year to raise RM3bil but the exercise could not take off and the fund withdrew its application to list in March this year.

1MDB subsequently embarked on a rationalisation scheme to ease its cash flow problems and this included the sale of Edra.

However, the Prime Minister said there would be an announcement “in the coming days” on the significant reduction of 1MDB debt to the tune of RM16bil.

“As for Edra, there are two very real and huge proposals on the

table to take off the Edra assets, domestically as well as foreign – two foreign sources combining to make a very attractive offer.

“So I’m quite confident that by the end of the year, we’ll be able to show that 1MDB is a company that is able to go through the process of rationalisation with a massive reduction of debt,” he said.

1MDB, which is the master developer of two large property development projects in Kuala Lumpur, has debts of almost RM42bil.

In 2012 and 2013, it acquired power plants that are valued in its books at RM18bil.

1MDB has engaged an investment bank to look for buyers for Edra Energy and the process is expected to be completed by the end of the year. Among local companies, Tenaga Nasional Bhd has put in a bid for Edra Energy while

there are three foreign companies that have expressed interest on 1MDB’s energy assets.

Speaking off the cuff and rather candidly about the 1MDB controversy to a mainly American audience, Najib said if there were concerns about governance, “We are going through the process” and if there were wrongdoings, they would be dealt with in accordance with the law.

He added that “there’s a lot of noise from one of my predecessors” but he could manage that and concerns about 1MDB.

Najib said he had been given an undertaking of six months to resolve the issues and they were still within the timeframe of the six months until the end of the year.

He said Bank Negara had come out to say that there was no systemic risk related to 1MDB, “in other

words we have more assets than liabilities”.

“These are some of the short-term concerns you may have in Malaysia and I urge you to look at Malaysia and rise above all the blogs and the political noises.

“If you look at it in a rational manner, you’ll see that Malaysia is still a very good place to do business,” he told fund managers.

During the closed-door one hour dialogue session later, they posed about 15 questions to the Prime Minister on a range of issues, including the value of the ringgit; impact of the current world economic condition on Malaysia’s development; 1MDB rationalisation plan; new growth area Malaysia will focus on to achieve high income nation; race relations and bumiputra policies to ensure equitable distribution of wealth.