

Newspaper	THE WALL STREET JOURNAL
Date	19 APRIL 2016

IMDB and A Partner Battle

Over Debt

WSJ - 19/4/2016
DUBAI—A key Middle Eastern business partner of IMalaysia Development Bhd. said the Malaysian state development fund has failed to make a \$1.1 billion payment as part of a debt-restructuring agreement and that as a result a debt deal between the two entities has been terminated.

By Bradley Hope,
Nicolas Parasé
and Tom Wright

The announcement, made in a London Stock Exchange filing by the International Petroleum Investment Company, an Abu Dhabi sovereign-wealth fund, marks a deterioration in relations between the two funds and signals fresh complications for IMDB as it tries to work its way out from under billions of dollars of debt.

It is also the latest chapter in a long-running scandal involving IMDB, which is under investigation in seven countries, including Malaysia. The Swiss Attorney General said he was investigating possible misappropriations of about \$4 billion. The IMDB fund denies wrongdoing.

IPIC guaranteed \$3.5 billion of IMDB's bonds four years ago. As the Malaysian fund grew short on cash, IPIC also agreed to grant an emergency billion-dollar loan and pledged to continue making interest payments on the same bonds it had guaranteed. In return for IPIC taking over the debt,

Please see DISPUTE page A2

DISPUTE

Continued from Page One

IMDB agreed to transfer undisclosed assets to the Abu Dhabi fund.

IPIC said in its filing Monday that it had honored all of its obligations, and that IMDB had failed to pay \$1.1 billion it promised to transfer in return for IPIC taking over the IMDB debt.

"As a result, IMDB and MOF (Malaysia's ministry of finance) are in default," it said. IPIC said it gave IMDB the chance "to remedy their defaults without success" and that it was considering all its options, including referring the case to the "appropriate resolution forum."

The IMDB fund responded by saying that IPIC wasn't meeting its own obligations. As part of its deal to guarantee IMDB debt, IPIC was expected to make a \$50 million interest payment on Monday but has said it won't make the payment.

IPIC had earlier told the Malaysian fund it would no longer make the interest payments, according to a memo sent by IMDB last week to Malaysia's finance ministry, a copy of which was reviewed by The Wall Street Journal.

Malaysia could make the \$50 million payment but, the memo argued, doing so would harm its negotiating position with IPIC.

On Monday, IMDB didn't say explicitly in a statement whether it would make the \$50 million interest payment.

"IMDB wishes to make clear that it and its group entities will meet all of their other obligations under any other financing arrangements and have ample liquidity to do so," it said.

IPIC officials said in a statement to the London Stock Exchange earlier that the company that IMDB said it made payments to related to its bond guarantee wasn't part of the fund's corporate structure. That offshore shell company was controlled by the same two people who formerly ran IPIC and one of its investment companies, according to documents reviewed by The Wall Street Journal and people familiar with the matter.

Markets responded negatively to Monday's news. Viktor Szabo, a senior investment manager at Aberdeen Asset Management, who doesn't hold any IMDB bonds, said prices for IMDB's 2023 dollar bonds fell to 84.7 cents on the dollar Monday, down 8.1 cents compared with Friday's close. The bond's yield rose from

5.67% to 7.26%, he said.

"They had quite a nose dive today," Mr. Szabo said. "You don't like the 'D' word being mentioned when you're a bondholder," Mr. Szabo said, referring to IPIC's default announcement earlier Monday.

The annual cost of insuring against a default on \$10 million of Malaysian government debt for five years using credit-default swaps rose \$11,000 to \$161,000, according

through rough times because of a collapse in oil revenues, upon which it relies. The Malaysian ringgit fell by half between July 2011 and September 2015, but since then has rallied by about 12%.

Christian de Guzman, a sovereign-ratings analyst with Moody's Investors Service in Singapore, said the extent to which the dispute could affect Malaysia's overall sovereign rating was unclear.

Abu Dhabi has been trying to get a handle on what happened on its exposure to IMDB.

to Thomson Reuters. The U.S. dollar rose 0.6% against the Malaysian ringgit to 3.9250.

Officials at IMDB have told the Malaysian Ministry of Finance that a default on the \$3.5 billion in debt could push investors to sell off their currency and bonds, potentially tarnishing the country's image in global financial markets, according to the memo viewed by the Journal.

Cross-default clauses in other IMDB agreements could also be triggered if the deal between IPIC and IMDB collapses, putting the fund in default on several billion dollars more of debt, according to the memo viewed by the Journal.

Malaysia is already going

through rough times because of a collapse in oil revenues, upon which it relies. The Malaysian ringgit fell by half between July 2011 and September 2015, but since then has rallied by about 12%.

Christian de Guzman, a sovereign-ratings analyst with Moody's Investors Service in Singapore, said the extent to which the dispute could affect Malaysia's overall sovereign rating was unclear.

Abu Dhabi has been trying to get a handle on what happened and on its exposure to IMDB, according to a person familiar with the matter. Last year, the government removed from office the two men who ran IPIC and its investment companies.

IPIC said in a statement to the London Stock Exchange last week that it was aware of media reports that IMDB had sent money to a company called "Aabar Investments PJS Ltd." IPIC said in the statement that it has a subsidiary called Aabar Investments PJS, but that the similarly named company "was not an entity within either corporate group."

The Wall Street Journal, citing people familiar with the matter and bank-transfer documents, earlier reported how the IMDB fund sent \$2.4 bil-

lion to the imitation Aabar, which was set up in the British Virgin Islands and later closed.

A report released last week by a Malaysian parliamentary committee inquiry into IMDB put the amount transferred to the imitation Aabar at \$3.5 billion.

About \$681 million of this money later flowed via a circuitous route into one of the private accounts of Mr. Najib, the Malaysian prime minister, the Journal has also reported, citing people familiar with the investigations.

Mr. Najib has denied wrongdoing or taking money for personal gain.

Malaysia's attorney general said the money that entered Mr. Najib's account was a legal donation from Saudi Arabia's royal family and that most of it was returned. He also cleared Mr. Najib of wrongdoing. The IMDB fund says it never sent money to Mr. Najib's accounts.

—Christopher Whittall
contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Readers can alert The Wall Street Journal to any errors in news articles by emailing wsjcontact@wsj.com.

THE WALL STREET JOURNAL