

On Agusta and Mahaleel

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Proton's reply to issues raised by Tun Dr Mahathir Mohamad

On MV Agusta Motors SpA

The disposal did not have any adverse impact on the financial standing of the group. The losses were in fact recognised at the time of purchase.

The entire purchase consideration of RM367.6mil was treated as goodwill and written off immediately in the financial year ended March 31, 2005.

The additional provisions relating to Agusta in the accounts of Proton Group for financial year ended March 31, 2006 amounted to RM136.2mil. This did not have anything to do with the disposal but was related to the loans and advances extended to Agusta by the management.

The disposal avoided the need for additional financial support from Proton group, preventing a further deterioration of its financial standing.

The objectives of acquiring Agusta were not met and would not have been able to without significant investment by Proton.

Proton also refuted the six justifications given for the purchase of Agusta by the previous management saying:

● IT WAS unlikely to diversify the revenue stream and reduce reliance on the increasing competitive local car market given the track record of losses over the last six years at approximately Euro20mil (RM92mil) per year;

● THE purchase did not assist

Proton achieve operational, engineering and technological synergies, as independently confirmed, as Proton manufactures cars for the masses while Agusta manufactures motorcycles;

● THE acquisition may have enabled Proton to add a motorcycle brand to its stable but as Proton was automotive related, it would not have a positive impact on the core Proton brand;

● PROTON did not have any motorcycle manufacturing programme. As such, the purchase would not accelerate proton's motorcycle programme;

● AGUSTA was in the motorcycle industry, not motorcars. And so the argument that Proton would gain access to Agusta's high quality supply chain was irrelevant; and

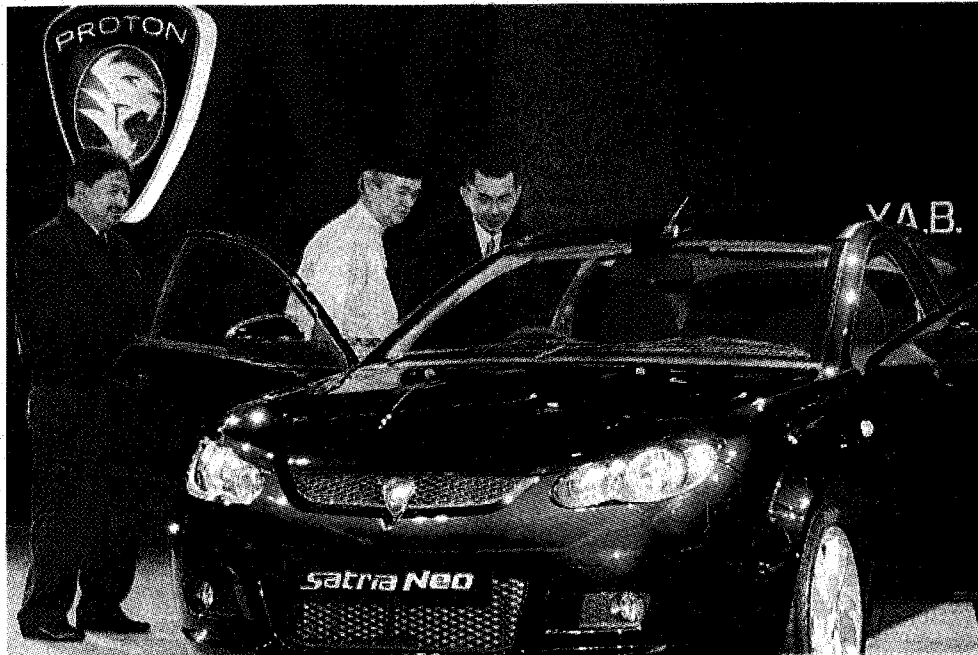
● AGUSTA did not have any technology and styling pedigree in the automotive sector. So it would not be able to enhance Proton's technology and styling capabilities.

An international investment bank appointed to advise on Proton's process of re-evaluating its Agusta investments concluded that:

(1) Agusta's existing business model was neither operational nor financially sustainable.

(2) Developing Agusta into an operating cashflow positive business would require substantial backing from Proton, over an extended period and involve considerable financial risk.

(3) Integration of Agusta's operation with those of Proton was unlikely to deliver significant economies of scale or syn-



LOOKS GOOD: Abdullah admiring a Satria Neo after the launch of the new Proton car model in Petaling Jaya yesterday. With him is Proton chairman Datuk Azlan Hashim (left) and Proton managing director Syed Zainal Abidin Syed Mohamed Tahir. — Bernamapic

ergies to the combined business.

(4) There was very real possibility that Agusta would fall into bankruptcy, with significant commercial, financial and reputation risk to Proton.

In the event Agusta goes bankrupt, Proton would have been subjected to a further contingent liability for an amount of up to Euro202 mil (RM923.1mil; at the rate of Euro1=RM4.57)

After due consideration of the professional advice, given the limited options available, it was clear that the optimal route for Proton was to exit Agusta completely via a disposal of its

equity interest.

Not many wanted to buy Agusta due to its huge debt burden and contingent liability and in the circumstances Proton would have to pay people to buy Agusta.

The shares were said to be worthless and it was extremely difficult to sell Agusta. Proton was subsequently approached by Gevi SpA, which was related to an Italian bank.

On Tengku Mahaleel's contract

Mohamed Azlan said the move was well within the ambit and authority of the company and board of directors.

Proton is a national asset, an institution of sorts and not a private entity.

Proton reflected the aspirations of a nation in its drive towards industrialisation. Hence, the board had to be proactive to ensure Proton was properly managed and prepared to face the challenges ahead.

The board recognised the immense challenges facing the industry and had expressed its commitment that it would spare no efforts to prompt and enable Proton to continuously strengthen and improve itself.

Thus, the management changes announced were not about

individuals. It was about progressing Proton to face the changing realities of the ever-changing and dynamic automotive industry.

Management renewals at corporate enterprises are a normal occurrence. Proton is not a family company.

The staff and the automotive industry had accepted the change.

On criticisms on the non-renewal, Mohamed Azlan said any changes made, even for the better, would be accompanied by a drawback and taken with reluctance by certain parties.

He said Proton was not trying to blame Tengku Mahaleel for buying Agusta but was merely laying down the facts.

"Basically you came to that conclusion yourself. Those are facts for you to see for yourself," he said.

On Dr Mahathir

Mohamed Azlan said Proton had made many attempts to meet with Dr Mahathir but the former prime minister was always unavailable.

"A meeting requires two consenting parties. He is very busy but he will give us a time when he is ready," he said.

He added that Proton would continue to seek his advice.

"It never crossed our minds to replace or remove him. He is our adviser and remains so," he said.

On Dr Mahathir not attending the launch of the new Proton model yesterday, he said the invitation to him was on short notice and he had informed them that he could not make it.