

MEDIA STATEMENT

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KHAZANAH ANNUAL REVIEW 2010

Khazanah's portfolio value rises to RM92 billion, Net Worth Adjusted increases by RM21 billion or 63% to RM54 billion in 2009.

2010 focus on strengthening investment portfolio, catalyzing domestic economic growth and continuation of ongoing capacity building work

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Khazanah Nasional Berhad ("Khazanah") today held a press briefing for its Khazanah Annual Review 2010, the sixth in this annual series. The Review reported progress in both financial and strategic performance in 2009 and an assessment and focus areas for 2010. Key highlights include:

1. 2009 FINANCIAL PERFORMANCE

2009 was a good year with strong year-on-year financial performance. This was in line with significantly improved financial and market conditions, underpinned further by, *inter alia*, three specific financial management programs that were instituted or intensified in 2009. First, the implementation of a crisis preparedness program for investee companies that started in late 2008; second, a steady continuation of the ongoing divestment of non-core holdings; and third, pre-emptive capital base strengthening at selected investee companies. The key **financial** highlights include:

- **Investment portfolio recovered significantly in 2009**, with overall portfolio mark-to-market Realisable Asset Value ("RAV") as at 31st December 2009 of RM92.2 billion (2008: RM68.9 billion) and Net Worth Adjusted¹ ("NWA") **rising by RM21 billion** (2008: minus RM32.8 billion) **or 63.5% to RM54.1 billion** as at 31st December 2009 (2008: RM33.1 billion). Nonetheless, NWA, while significantly higher in 2009, remains below the 31st May 2007 reported level of RM62.7 billion.
- **The NWA rise of 63.5% in 2009**, was significantly higher than the KLCI total return of 49.3% over the same period. Meanwhile, the total shareholder return ("TSR") of Khazanah's portfolio of listed companies was 43.9% in 2009.
- **The portfolio financial position consequently** strengthened in tandem with assets over liability cover of 2.4 times as at 31st December 2009 (2008: 1.9 times). The financial positions of Government-Linked Companies ("GLCs") under Khazanah also improved across the board through a combination of stronger earnings and cashflow performance in 2009, crisis management, divestments of non-core assets and pre-emptive capital base strengthening at selective investee companies, notably Axiata and as recently announced, MAS and UEM Land.
- 2009 also saw a continuation of Khazanah's **progressive divestment** of non-core holdings, with a total of 8 divestments totaling RM3.1 billion (2008: 9 transactions, RM6.2 billion) generating estimated gains on divestment of RM1.2 billion in 2009 (2008: RM 2.2 billion). Significant divestments include Tenaga, MAHB and PLUS.

¹ Net Worth Adjusted is defined as RAV less Total Liabilities and adjusted for equity injections less dividends paid.

2. 2009 STRATEGIC AND OPERATIONAL PERFORMANCE

- Significant progress continued to be made in 2009 on the **strategic** front, notably in the following areas:
 - Ongoing execution of the **GLC Transformation programme** which is now entering into the second half of the ten-year programme from 2005 to 2015, where the focus will increasingly move toward execution driven at the Government-Linked Investment Company (“GLIC”) and GLC levels, from the centre and program level in the earlier stage. Overall program performance remains strong based on financial performance as well as benefits generated for a broad range of stakeholders. While these results have been underpinned by significant progress on many fronts, nonetheless, many key GLCs continue to face challenges in the areas of regulatory management, global competition, fuel price volatility, talent sourcing, labour market inflexibility and procurement management, among others. The Prime Minister at various forums in 2009 such as the 20th Putrajaya Committee on GLC High Performance (“PCG”) meeting in September 2009, continues to emphasize the importance of ongoing transformation of GLCs to become national and regional champions.
 - The stance for **new investments** in 2009 continued to **focus on catalyzing domestic growth in the real economy**. This is in line with cyclical fiscal stimulus measures as well as catalyzing structural shifts to the new economy sectors. Selective regionalization of Khazanah’s and its GLCs investment footprints in selected sectors were also executed in 2009. Significant investment milestones in 2009 include
 - **Iskandar Malaysia:** We continue to see progress across the board. Investment commitments secured during the four year period of 2006 to 2009 totaling RM55.6 billion is 18% higher than the five year target of RM47 billion under the 9th Malaysia Plan to 2010. Out of the committed investments, an estimated 32% or RM17.8 billion have already been spent to date. Of this, the flagship Medini Iskandar development with an investment to date of USD1.2 billion and an estimated Gross Development Value (“GDV”) of more than USD5 billion over 7 years has begun implementation.
 - **Leisure & Tourism:** RM750 million Legoland in Iskandar commenced construction while RM50 million KidZania and RM350 million Puteri Harbour mixed hotel, retail and entertainment complex have been secured.
 - **Creative Industries, Technology and Telecommunication Services:** A RM400 million investment in Pinewood Iskandar Malaysia Studios was secured with a further undertaking by Astro for local content development, and the rollout of the RM11.3 billion national High Speed Broadband (“HSBB”) project under TM Berhad.
 - **Healthcare and Life Sciences:** Ongoing investments by Pantai, Parkway, biotech funds and a new investment in orthopedic parts.
 - **Energy and Green Technology:** Shuaibah Independent Water and Power Plant (“IWPP”) in Saudi Arabia and the first rollout of a municipal waste-to-energy plant in the city of Tai’an in Shandong Province, China. The plant is wholly owned by KCS Green Energy International (Group) Investments Co. Ltd., the holding company of Khazanah’s USD150 million venture in the waste-to-energy sector in China.

- **Islamic Financial Services:** USD150 million investment commitment in Fajr Capital, an Islamic private equity fund, and the completion of a USD76 million acquisition of 10% of Jadwa Investment, a leading Shariah-compliant investment company in Saudi Arabia
- **Agriculture:** Ongoing investments in high-value add ventures in modern fruit and vegetable controlled environmental farming (“CEF”), supply chain management, shrimp farming and herbal products.
- **Education services:** Securing the establishment of Marlborough College in Iskandar Malaysia.
- For **existing investments, several corporate restructurings and reorganizations** also achieved significant progress in 2009, including:
 - The first full year of the completion of the UEM Group restructuring and delayering exercise, resulting in the listing of UEM Land that has risen by 171% since its listing in November 2008.
 - The first full year of the Time dotCom (“TdC”) restructuring saw the company recording a significant improvement in its operating performance.
 - The first full year of the TM-Axiata demerger has seen improved business performance at both companies. The shares of both Axiata and TM from the period between the announcement of the demerger on 28th September 2007 and at 31st December 2009 has outperformed KLCI by approximately 3.5% in terms of aggregate TSR. The total number of subscribers for both TM and Axiata has increased from around 40 million subscribers at the end of 2007 to around 112 million at the end of September 2009.
 - The integration of Lippo Bank and Bank Niaga by CIMB Group was completed in 2009 alongside the acquisitions of Bank Thai and Yingkou Bank. This established CIMB as South-East Asia’s largest banking group based on retail branch network. CIMB’s share price appreciated by 119% during this period, delivering a year-end value of RM12.87 billion for us. It has since become the largest single holding in Khazanah’s portfolio.
 - Successful completion of the long outstanding Malaysia Airports Holdings Berhad (“MAHB”) financial restructuring in 2009 gave MAHB a stronger financial base to undertake selected overseas ventures in India and Turkey that were commissioned in 2009 while also embarking on the new Low Cost Carrier Terminal (“LCCT”) in Sepang.
 - Khazanah’s first exchangeable bonds issued on 22nd December 2004 was successfully exchanged into PLUS shares upon its maturity at the end of 2009 where approximately 99% of the total amount outstanding of USD234.6 million was exchanged leaving only USD500,000 to be repaid in cash. This is validation of Khazanah’s funding methodology of issuing exchangeables, while also adhering to orderly divestment of our companies.
 - The ongoing restructuring and business improvements at Pantai Hospitals and Parkway Holdings, Singapore, collectively, Asia’s leading private healthcare provider. Parkway’s share price recovery of 135% in 2009 reflected significant progress made.
 - Proton has recorded significant improvement in revenue and profitability while Silterra has reported positive EBITDA in 2009, bucking the industry trend.

Notwithstanding that, these two companies remain in Khazanah's restructuring and reorganisation ("R&R") category, due to challenging operating environment.

- Continued progress in **capacity building and corporate responsibility** that include contributions to education, human capital development through the PINTAR school adoption scheme, the introduction of the Sejahtera program to raise the livelihood and sustainability of lower-income groups, the Graduate Enhancement Management Scheme ("GEMS"), Khazanah Global Lectures and other knowledge events, Yayasan Khazanah scholarships, collaboration with local and international universities and collaboration with Mercy Malaysia for disaster and humanitarian relief.
- In addition, Khazanah in 2009 had contributed to various **national level projects** including the design and implementation of the National Key Result Areas / National KPIs, inputs into the development of the new economic model under EPU and the NEAC, various national Human Capital initiatives including the cross assignment program between Government and GLCs and development of various industry sector studies.

3. OUTLOOK AND FOCUS FOR 2010

While 2010 will reap the immediate benefits of the various crisis management measures put in place in 2009, the still fragile global recovery will mean a cautious stance in 2010. This year will also see the first full year of the rollout of several key government initiatives including the Government Transformation Program ("GTP"), the new economic model and the 10th Malaysia Plan. In this context², there are three broad areas of focus for Khazanah in 2010:

- **Strengthening further the investment portfolio:** Building on the recovery base in 2009 and barring a market relapse in 2010, we expect to gradually transition from a crisis management mode in 2009 back into the normalized ongoing transformation mode in 2010. That would mean reverting to the ten-year revamp plan from 2004 to 2013. Among others, this will include ongoing implementation of the GLC Transformation programme, resolving outstanding restructuring and reorganization cases, the regionalization of companies and the orderly divestments of non-core and non-competitive holdings.
- **Catalyzing domestic economic growth:** Key investment focus in 2010 and the medium-term will continue to be on domestic investments with both strong cyclical impact of high economic multipliers and structural transformation content into new growth drivers. This will mean continued rollout of the identified sectors including in Iskandar, leisure and tourism, agriculture, life sciences, healthcare and technology and creative sectors. In addition, Khazanah will continue to look for collaboration and co-investment opportunities from both local and foreign players with a view to increase domestic investments.
- **Continue to build for the future:** Ongoing execution of the various programs in capacity building across all fronts, in human capital and knowledge capital at Khazanah and to support or drive various national level programs including the Government Transformation Program as required, and the PINTAR, Sejahtera, Trust School Network and GEMS programmes.

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For further information, please contact Mohd Asuki Abas at +603 2034 0000 or via e-mail at asuki.abas@khazanah.com.my.

² Refer to Tan Sri Azman Mokhtar's views on the Outlook for 2010 which has been featured in The Edge issue of 28th December 2009. (Attached)