

MEDIA STATEMENT

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THIRTEENTH KHAZANAH ANNUAL REVIEW (“KAR 2017”)

Khazanah posts stronger profits and resilient performance in 2016

Profit Before Tax rises 32%, resilient and long-term value creation intact

Highlights:

- Amidst a volatile year for equity and currency markets, Khazanah posts stronger Profit Before Tax (Unaudited) in 2016, an increase of 32% to RM1.56 billion from RM1.18 billion in 2015
- In line with weakness in most benchmark equity markets and currencies, the portfolio Net Worth Adjusted (“NWA”) declined slightly, posting an unrealized decline of 6.4% to RM101.9 billion as at 31 December 2016 (2015: RM108.9 billion). Nonetheless, the long-run value creation trend remains strong with NWA up by 3.1x or a CAGR of 9.3% p.a., for the period May 2004 to 31 December 2016, with a high-quality portfolio with an Asset Cover of 2.9x¹
- Continued strong focus on long-term value creation across financial, economic, strategic and societal value creation
- Highlights for 2016 include the 10th Anniversary of Iskandar Malaysia and continued focus on catalytic domestic investments; the launch of Khazanah’s fifth overseas office in London and continued gradual internationalization in Khazanah’s portfolio, especially in innovation & technology; and continuous improvements at core Khazanah-linked companies as domestic and regional champions.
- More than RM150 million spent on CR activities in 2016, principally through Yayasan Hasanah, and support of the SL1M training programme, with the cumulative spend and allocation of more than RM3.9 billion over the period 2006-2016
- More than RM10.6 billion of dividends and taxes paid and payable to the Government over the period 2004-2016

Khazanah Nasional Berhad (“Khazanah”) today presented its 13th Khazanah Annual Review (“KAR 2017”), demonstrating resilience and sustained long-term progress across its financial, strategic and value distribution performance.

¹ Defined as Assets over Liabilities

Tan Sri Azman Hj. Mokhtar, Managing Director of Khazanah said: “Khazanah recorded both a profitable and resilient performance in 2016, amidst the challenging and volatile global economic environment that affected all core benchmark markets and currencies. In spite of general weakness in global market conditions and in equity and currency markets in emerging economies especially, the underlying strength and quality of our portfolio ensured that long-term value creation remained intact. Profitability, as represented by Profit Before Tax, while relatively modest in absolute terms, was stronger by 32% in 2016 from the previous year. Just as importantly, many risk management and prudential measures have been put in place over the years, resulting in a strong and resilient portfolio which allows us to ride short- and even medium-term volatility, and continue focusing on long-term value creation, as we have done over the last decade and more.”

1. Financial Performance

a. Long-term value creation

Khazanah recorded a 32% increase in unaudited Profit Before Tax (“PBT”) of RM1.56 billion (2015: RM1.18 billion), with cumulative PBT since May 2004 amounting to RM25.08 billion. Khazanah also declared dividends of RM650 million for 2016, with total dividends declared since May 2004 amounting to RM9.11 billion. Taxes paid for 2016 amounted to RM123 million, with taxes paid since 2004 totaling RM1.55 billion.

Portfolio Realisable Asset Value² (“RAV”) stood at RM145.1 billion as at 31 December 2016, decreasing RM5.1 billion or 3.4% from RM150.2 billion as at 31 December 2015. Net Worth Adjusted³ (“NWA”) stood at RM101.9 billion as at 31 December 2016, decreasing RM7.0 billion or 6.4% from RM108.9 billion as at 31 December 2015.

Despite the challenging year, the overall uptrend in Khazanah’s portfolio since May 2004 remained intact. Over the period May 2004 to 31 December 2016, RAV increased RM94.2 billion to RM145.1 billion or 2.8 times as at 31 December 2016 (May 2004: RM50.9 billion), while NWA increased RM68.6 billion to RM101.9 billion or 3.1 times over the same period (May 2004: RM33.3 billion). This translated into a RAV Compounded Annual Growth Rate (“CAGR”) of 8.6% per annum (“p.a.”) and NWA CAGR of 9.3% p.a.. Meanwhile, the RAV cover (assets/liabilities) remained strong at 2.9x. This key prudential ratio provides a position of relative strength for Khazanah to move forward into a year which is expected to see continued volatility and uncertainty.

² Market value of all equities, securities and cash held. Where no market price is available, a conservative estimate of value is used

³ RAV less Total Liabilities, and adjusted to measure value created

b. High-quality portfolio assets

The resilience was boosted by the positive performance of several key investee companies. In terms of year-on-year NWA movement⁴, portfolio gains were contributed by Tenaga Nasional Berhad (+RM1.5 billion), CIMB Group Holdings Berhad (+RM600 million), UEM Group Berhad (+RM400 million), and Alibaba Group Holding Ltd (+RM300 million), while portfolio decreases were due to the telecommunications sector (-RM5.8 billion), aviation sector (-RM900 million) and IHH Healthcare Berhad (-RM800 million). In terms of RAV segmentation by sector in 2016, media & communications (17.8%), healthcare (16.2%), power (15.7%), financial services (15.3%) and property (11.0%) sectors were the five largest portfolio components.

In 2016, Khazanah made investments totaling RM6.9 billion, including 17 new investments, and 13 divestments providing proceeds amounting to RM4.7 billion, with gains on divestments totaling RM2.6 billion. From 2004 to 2016, Khazanah has made a total of 161 investments worth RM81.6 billion and 90 divestments providing proceeds amounting RM52.8 billion, with overall gains on divestments totaling RM24.9 billion.

2. Strategic and Operational Performance

Despite the challenging operating environment, the year saw the sustained execution of Khazanah's strategic mandate to catalyse growth, create and distribute value. This includes supporting domestic growth, driving further internationalisation, including among investee companies, and maintaining a strong focus on innovation and technology.

a. Catalysing domestic growth

On the domestic front, there was continued development in Iskandar Malaysia, which celebrated its 10th anniversary last year. There was further progress of catalytic investments in the leisure & tourism, education, wellness, property development, Business Process Outsourcing ("BPO"), and creative industries, among others. Overall, Iskandar Malaysia has secured RM218.8 billion in cumulative committed investments from 2006 to September 2016⁵. Khazanah investee companies continued to be involved in key domestic projects, including the launch of KLIA Aeropolis by Malaysia Airports Holding Berhad ("MAHB"), and Telekom Malaysia Berhad's ("TM") Broadband Improvement Plan. In the area of Islamic Finance, Khazanah provided further support for Malaysia as a centre for Islamic Finance, with the issuance of a USD750 million straight Sukuk, and a USD399 million Sukuk exchangeable into Beijing Enterprises Water Group Limited shares.

⁴ See "*Decomposition of Portfolio NWA Movement*" in the accompanying 13th Khazanah Annual Review pamphlet

⁵ Source: Iskandar Regional Development Authority

b. Harnessing technology and innovation

Khazanah further rolled out its internationalisation strategy, with the official opening of Khazanah Europe Investment Ltd's ("KEIL") office in London by the Prime Minister of Malaysia in May 2016. The KEIL office extends Khazanah's international presence, which also includes Beijing, Mumbai, Istanbul, and San Francisco. In tandem, Khazanah made further investments in innovation and technology across several geographies, including the United States, United Kingdom, India, China and Singapore. The continued strong focus on innovation and technology is funded primarily by recycling returns from the earlier investment in Alibaba Group Holding Ltd. It underscores Khazanah's mandate as a strategic investment fund that creates long-term value for the nation via multiple sources, including harnessing creative disruption and innovation by playing the role of what some have referred to as a "Sovereign Venture Fund"⁶.

c. Furthering regionalisation among investee companies

Khazanah investee companies also expanded their international presence, including:

- IHH Healthcare Berhad's ("IHH") acquisition of Tokuda Group and City Clinic Group in Bulgaria; development of a new hospital in Myanmar; partnership with Taikang Insurance Group Inc in China; and joint-venture by IHH subsidiary Parkway Pantai to build a hospital in China.
- Completion of Tenaga Nasional Berhad's ("TNB") acquisition of 30% stake in GAMA Enerji in Turkey and 30% stake in GMR Energy Ltd in India
- Completion of Axiata's acquisition of Ncell Private Limited in Nepal, and merger of Robi Axiata Limited and Airtel Bangladesh Ltd in Bangladesh
- CIMB Group Holdings Berhad ("CIMB") strategic partnership with China Galaxy Securities Co. Ltd. in China, and the award of a banking licence to CIMB Bank (Vietnam) Limited in Vietnam
- UEM Edgenta Bhd's acquisition of Asia Integrated Facility Solutions Pte Ltd in Singapore
- Themed Attractions Resorts & Hotels Sdn Bhd's launch of Kidzania Singapore

Overall, Malaysia remained the largest component of Khazanah's portfolio in 2016, accounting for approximately 54.9% of RAV by geographic exposure⁷, while overseas investments accounted for the remainder.

d. Malaysia Airlines recovery on track

Meanwhile, there was also steady and continued progress in the rollout of the five-year 12-point MAS Recovery Plan, which after 28 months of implementation, or approximately half-way through, is on track and on schedule. Key milestones in 2016 include the appointment of Peter

⁶ See The Khazanah Report 2015 case study, "Venturing into Funding Innovation and Technology", pg86-89.

⁷ An estimate of attributable value according to the countries where investee companies have operations

Bellew to helm Malaysia Airlines Berhad (“MAB”), formation of the Malaysia Aviation Group, and the establishment of the Malaysian Aviation Commission.

3. Value Distribution and Nation-Building Initiatives

a. Delivering societal returns

Khazanah continued to deliver societal returns via corporate responsibility (“CR”) efforts led by Yayasan Hasanah (“YH”), a Khazanah foundation provided with a RM3 billion endowment which focuses on five core areas: Education; Community Development; Environment; Arts, Heritage and Culture; and Knowledge. Overall, Khazanah and YH have collectively spent more than RM900 million on CR initiatives since 2006, including RM89 million on the Khazanah-Skim Latihan 1 Malaysia programme since 2015.

b. Developing human capital and promoting social inclusion

In the education sector, 21 Trust Schools were rolled out in 2016 under the Yayasan AMIR (“YA”) Trust School Programme, bringing the total to 83 schools in 10 states to-date. YA is a not-for-profit foundation incorporated by Khazanah to improve accessibility of quality education in schools through a Public-Private Partnership with the Ministry of Education. Meanwhile, Yayasan Khazanah (“YK”) introduced two new scholarships, *Rhodes Scholarship, in Partnership with Yayasan Khazanah* and *Chevening-Khazanah Scholarship*, last year. Yayasan Khazanah awarded 114 scholarships in 2016 under its various scholarship programmes, and has awarded a total of 649 scholarships since 2006. In addition, a total of 5,160 graduates have been trained under the Khazanah-SL1M programme since 2015.

Other social inclusion initiatives rolled out in 2016 include urban rejuvenation projects in Johor Bahru, Kuala Lumpur, Butterworth and George Town by Think City Sdn Bhd, a wholly-owned subsidiary of Khazanah. In addition, the development and promotion of public spaces continued, including the launch of the Taman Tugu Project, an urban rainforest park in the heart of Kuala Lumpur that is being developed through a public-private-civil society partnership. Meanwhile, Khazanah has committed RM71 million for social development initiatives in Iskandar Malaysia, in the areas of affordable housing, capacity building, entrepreneurship development and livability enhancement.

c. Continuing contribution to national transformation

As part of the mandate to create sustainable value for a globally competitive Malaysia, Khazanah continued to provide further support for government policy formation through various platforms in 2016, including the Bumiputera Empowerment Agenda (“BEA”), Unit Peneraju Agenda Bumiputera (“TERAJU”), Special Economic Committee, Performance Management and Delivery Unit (“PEMANDU”), Malaysian Global Innovation and Creativity Centre (“MaGiC”),

Talent Corporation Malaysia Berhad (“TalentCorp”), and Global Science and Innovation Advisory Council.

d. Facilitating public policymaking & knowledge development

Meanwhile, Khazanah continued to provide support for government policy formation and deepen linkages across global knowledge networks. Key milestones in 2016 were Khazanah Research Institute’s (“KRI”) publication of “State of Households II”, which examines the latest available data on the state of Malaysian households, and “Climbing the Ladder: Socio-economic Mobility in Malaysia”, a study of inter-generational social mobility in Malaysia, including educational and occupational mobility. In addition, the Khazanah Megatrends Forum 2016⁸, the twelfth in the annual series, was also held with the theme “Geography As Destiny?”, which focused on the political economy of location, environment and demographics. The 12th Khazanah Global Lecture⁹ featured Dr. Jane Goodall, the world-renowned ethologist, conservationist and United Nations Messenger of Peace, who delivered a lecture on “Caring for the Earth: Reasons for Hope”.

4. Outlook for 2017

The volatile, uncertain, complex and ambiguous global business and market environment is expected to continue in 2017. Khazanah will continue to drive long-term value creation, further develop a high-quality and resilient portfolio, ensure holistic value creation in financial, economic and societal terms, as well as strengthen institutional integrity and governance.

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For further information on Khazanah, please visit www.khazanah.com.my or contact Mohd Raslan Md Sharif at +603 2034 0000, or e-mail at raslan.sharif@khazanah.com.my.

About Khazanah Nasional Berhad

Khazanah Nasional Berhad (“Khazanah”) is the strategic investment fund of the Government of Malaysia entrusted to hold and manage the commercial assets of the Government and to undertake strategic investments. Khazanah is involved in various sectors such as power, telecommunications, financial institutions, healthcare, aviation, infrastructure, leisure & tourism, property, creative & media, education, and innovation & technology. Some of the key listed companies in Khazanah’s investment portfolio include Telekom Malaysia Bhd, Tenaga Nasional Bhd, CIMB Group Holdings Bhd, Axiata Group Bhd, IHH Healthcare Bhd, Malaysia Airports Holdings Bhd and UEM Sunrise Bhd. For further information on Khazanah, please visit www.khazanah.com.my.

⁸ See Khazanah Megatrends Forum website, www.kmf.com.my for more information

⁹ See Khazanah Global Lecture website, www.kgl.com.my for more information