

Bil. 9

**Isnin
1 April 2019**



MALAYSIA

LAPORAN PROSIDING

MESYUARAT JAWATANKUASA KIRA-KIRA WANG NEGARA (PAC)

Mengenai:

Kerugian Pelaburan Khazanah Nasional

Jabatan Perdana Menteri:

- i) Timbalan Ketua Setiausaha
Kanan,
Yang Berbahagia Datuk Seri Mohd
Zuki bin Ali

Khazanah Nasional Berhad:

- i) Pengarah Urusan,
Yang Berbahagia Datuk Shahril Ridza
Ridzuan

**PARLIMEN KEEMPAT BELAS
PENGGAL KEDUA**

**MESYUARAT JAWATANKUASA KIRA-KIRA WANG NEGARA
BILIK MESYUARAT JAWATANKUASA 1, TINGKAT 2 BLOK UTAMA
BANGUNAN PARLIMEN, PARLIMEN MALAYSIA
ISNIN, 1 APRIL 2019**

AHLI-AHLI JAWATANKUASA

Hadir

YB. Datuk Seri Dr. Ronald Kiandee [Beluran] - *Pengerusi*
YB. Tuan Wong Chen [Subang]
YB. Tuan Steven Choong Shiau Yoon [Tebrau]
YB. Tuan Wong Hon Wai [Bukit Bendera]
YB. Puan Wong Shu Qi [Kluang]
YB. Tuan Muslimin bin Yahaya [Sungai Besar]
YB. Tuan Robert Lawson Chuat [Betong]

Tidak Hadir [Dengan Maaf]

YB. Tuan Wong Kah Woh [Ipoh Timur] - *Timbalan Pengerusi*
YB. Tuan William Leong Jee Keen [Selayang]
YB. Puan Nurul Izzah binti Anwar [Permatang Pauh]
YB. Datuk Haji Hasanuddin bin Mohd Yunus [Hulu Langat]
YB. Datuk Seri Haji Ahmad bin Haji Hamzah [Jasin]
YB. Dato' Dr. Noraini binti Ahmad [Parit Sulong]
YB. Dato' Takiyuddin bin Hassan [Kota Bharu]
YBhg. Datuk Roosme binti Hamzah - *Setiausaha*

URUS SETIA

Encik Ahmad Johan bin Mohd Afandi [Ketua Sekretariat Jawatankuasa Kira-kira Wang Negara, Parlimen Malaysia]
Puan Siti Noor Akmar binti Zulkafli [Juruaudit Jawatankuasa Kira-kira Wang Negara, Parlimen Malaysia]
Encik Rosli bin Aw Ahmad [Juruaudit Jawatankuasa Kira-kira Wang Negara, Parlimen Malaysia]

HADIR BERSAMA

Jabatan Audit Negara

Puan Nor Salwani binti Haji Muhammad [Pengarah Sektor Audit Tadbir Urus]

samb/-

HADIR BERSAMA (*samb/-*)**Kementerian Kewangan Malaysia (MOF)**

Puan Azreen binti Awang [Ketua Penolong Setiausaha Kawalan Pemantauan]

Encik Mohammad Adam Danial bin Hafiz Goh [Penolong Setiausaha Kawalan Pemantauan]

Jabatan Peguam Negara

YBhg. Datuk Amirudin bin Abd Rahman [Timbalan Ketua Bahagian Penasihat]

Encik Mohd Farid Huzaimi bin Mohd Baderudin [Peguam Persekutuan]

Suruhanjaya Pencegahan Rasuah Malaysia (SPRM)

Puan Fadzillah binti Shamsuddin [Timbalan Pengarah (Awam) Bahagian Pemeriksaan dan Perundingan]

Jabatan Perkhidmatan Awam (JPA)

Puan Eizan Azura binti Zainudin [Timbalan Pengarah (Unit Laporan Ketua Audit Negara & Operasi Khas)]

Jabatan Akauntan Negara

Encik Azeman bin Miskah [Timbalan Pengarah (Bahagian Perkhidmatan Operasi Pusat dan Agensi)]

Kementerian Hal Ehwal Ekonomi

YBhg. Dato' Mohammad Radhi bin Abdul Razak [Timbalan Pengarah (Bahagian Industri Perkhidmatan)]

Encik Roslan bin Ibrahim [Timbalan Pengarah 2 (Bahagian Industri Pembuatan Sains dan Teknologi)]

SAKSI-SAKSI**Jabatan Perdana Menteri**

YBhg. Datuk Seri Mohd Zuki bin Ali [Timbalan Ketua Setiausaha Kanan]

Encik Mohammad bin Ismail [Timbalan Ketua Setiausaha (Kewangan dan Pembangunan)]

YBhg. Datuk Almalena Sharmila binti Dato' Dr. Johan [Penasihat Undang-undang]

Encik Shahrul Kamal bin Osman [Setiausaha Bahagian Kewangan]

Encik Rezuoi bin Abdullah [Setiausaha Bahagian Audit Dalam]

Puan Salwani binti Ismail [Setiausaha Bahagian Dasar dan Perancangan Strategik]

Puan Inu Baizura binti Mohamad Zain [Timbalan Setiausaha Bahagian Kewangan]

Puan Zarina binti Yusuf [Timbalan Akauntan (Bahagian Akaun)]

Puan Sharifah Azlina binti Syed Anuar [Ketua Penolong Setiausaha (Bahagian Kewangan)]

Puan Nursiah binti Abas [Penolong Setiausaha (Bahagian Kewangan)]

Encik Mohd Faizal bin Abdul Ghani [Penolong Setiausaha (Bahagian Kewangan)]

samb/-

SAKSI-SAKSI (*samb/-*)**Khazanah Nasional Berhad**

YBhg. Datuk Shahril Ridza bin Ridzuan [Pengarah Urusan]

Puan Faridah binti Bakar Ali [Ketua Pegawai Kewangan]

Encik Mohd Raslan bin Md Sharif [Pengarah Komunikasi Korporat]

Encik Firdaus Suffian bin Abdul Latif [Naib Presiden Kanan Komunikasi Korporat]

Puan Nik Nazhah binti Nik Abdul Aziz [Naib Presiden Kanan (Bahagian Kewangan)]

Encik Mohamad Rafiq bin Mubarak Ali [Naib Presiden (Bahagian Kewangan)]

Puan Izzati Liyana binti Zakaria [Penolong Naib Presiden Komunikasi Korporat]

LAPORAN PROSIDING

MESYUARAT JAWATANKUASA KIRA-KIRA WANG NEGARA PARLIMEN KEEMPAT BELAS, PENGGAL KEDUA

Isnin, 1 April 2019

Bilik Jawatankuasa 1, Tingkat 2 Blok Utama,
Parlimen Malaysia, Kuala Lumpur

Mesyuarat dimulakan pada pukul 11.00 pagi

*[Yang Berhormat Datuk Seri Dr. Ronald Kiandee **mempengerusikan Mesyuarat**]*

Tuan Pengerusi: Selamat pagi dan salam sejahtera kepada Ahli-ahli Yang Berhormat Ahli-ahli PAC, Datuk Roosme binti Hamzah akan hadir selepas ini kelak. Selamat datang juga kepada Ahli-ahli ex-officio PAC Parlimen. Untuk makluman Khazanah, ex-officio PAC Parlimen ini terdiri daripada Kementerian Kewangan, Kementerian Hal Ehwal Ekonomi, Jabatan Perkhidmatan Awam, Jabatan Audit Negara, Jabatan Peguam Negara, Suruhanjaya Pencegahan Rasuah dan Jabatan Akauntan Negara. Mereka duduk di belakang Ahli-ahli PAC sekarang ini.

Ahli-ahli Yang Berhormat, Jawatankuasa ini pagi ini akan memulakan mesyuarat prosiding berhubung kerugian pelaburan Khazanah Nasional, sebuah syarikat pelaburan utama milik kerajaan yang sebelum ini di bawah Kementerian Kewangan tetapi kini diletakkan secara langsung di bawah Jabatan Perdana Menteri dalam pentadbiran Kerajaan Pakatan Harapan. Hadir di hadapan PAC pada hari ini adalah Yang Berbahagia Datuk Seri Mohd Zuki bin Ali, Timbalan Ketua Setiausaha Kanan JPM serta barisan pegawai kanan JPM. Turut hadir adalah Yang Berbahagia Datuk Shahril Ridza bin Ridzuan, Pengarah Urusan Khazanah Nasional dan barisan pengurusan kanan Khazanah Nasional.

Untuk pengetahuan semua pada 5 Mac 2019, Khazanah mengumumkan kerugian sebanyak RM6.3 bilion pada tahun 2018 yang diumumkan dalam '*Laporan Khazanah Annual Review 2019 : 2018 in Review and Khazanah's Refreshed Mandate*'. Kerugian berjumlah RM6.3 bilion ini mengejutkan ramai pihak memandangkan pada tahun 2017, syarikat pelaburan utama kerajaan ini mencatatkan keuntungan berjumlah RM2.9 bilion. Walaupun isu ini tidak dilaporkan dalam Laporan Ketua Audit Negara namun ia membabitkan kepentingan negara dan rakyat selain menjadi perdebatan di kalangan rakyat.

Berikutan itu PAC di bawah Perkara 77(1)(d) Peraturan Mesyuarat Majlis Dewan Rakyat yang memperuntukkan kuasa untuk Jawatankuasa ini memeriksa apa-apa perkara yang lain yang

difikirkan oleh Jawatankuasa itu patut diperiksa atau apa-apa perkara yang diserahkan oleh Majlis kepada Jawatankuasa ini, PAC mengambil keputusan sebulat suara untuk mendengar penjelasan serta keterangan daripada JPM serta Khazanah Nasional berhubung dengan kerugian pelaburan ini.

Sehubungan dengan itu tanpa membuang masa saya dengan sukacita mempersilakan Yang Berbahagia Datuk Seri Mohd Zuki bin Ali serta Yang Berbahagia Datuk Shahril Ridza untuk memulakan penjelasan kepada Ahli-ahli PAC berhubung dengan isu yang dinyatakan. Terima kasih.

Datuk Seri Mohd Zuki bin Ali [Timbalan Ketua Setiausaha Kanan, Jabatan Perdana Menteri]: Terima kasih Tuan Pengerusi. *Bismillahir Rahmanir Rahim, Assalammualaikum warahmatullahi wabarakatuh* dan selamat pagi. Yang Berhormat Datuk Seri Dr. Ronald Kiandee, Pengerusi Jawatankuasa Kira-kira Wang Negara, Ahli-ahli Yang Berhormat barisan anggota PAC, Yang Berbahagia Datuk Shahril Ridza Ridzuan, Pengarah Urusan Khazanah Nasional Berhad dan hadirin yang saya hormati sekalian.

Pertama kalinya saya ingin mengucapkan terima kasihlah bagi pihak Jabatan Perdana Menteri di atas jemputan untuk memberikan ataupun untuk menghadiri prosiding bagi membincangkan hal yang berkaitan dengan kerugian Khazanah seperti yang disebutkan oleh Tuan Pengerusi tadi bagi tahun 2018. Seperti yang disebutkan oleh Tuan Pengerusi tadi, untuk makluman Khazanah yang dulunya diletakkan di bawah Kementerian Kewangan kini diletakkan di bawah bidang kuasa ataupun kawal seliaan Jabatan Perdana Menteri bermula pada Januari tahun 2019.

Kami percaya sesi ini akan memberikan gambaran yang lebih jelas tentang prestasi Khazanah pada tahun lepas dan seterusnya merungkai isu-isu yang berkaitan dengannya termasuklah yang berkaitan dengan anak-anak syarikatnya seperti MAS dan sebagainya. *We're made to understand* bahawa Pengarah Urusan Khazanah akan turut mengambil peluang ini pada hari ini untuk berkongsi dengan Ahli-ahli Yang Berhormat sekalian tentang *way forward* untuk Khazanah pada masa hadapan di bawah mandat baharunya. Sememangnya seperti yang kita sedia maklum, isu berkaitan Khazanah terutama sekali mengenai prestasi kewangan ini menjadi tajuk beberapa perbahasan baik di Dewan Rakyat dan juga di dalam media.

Untuk makluman Ahli-ahli Yang Berhormat, Khazanah telah mencatatkan kerugian sebanyak RM6.3 bilion pada tahun 2018 yang sebenarnya disebabkan oleh beberapa faktor lah. Hal ini telah pun dimaklumkan oleh pihak Khazanah semasa pembentangan taklimat Ulasan Tahunan Khazanah 2019 kepada pihak media pada 5 Mac yang lalu. Susulan daripada itu Khazanah juga telah mengambil inisiatif untuk menyampaikan taklimat pada beberapa pihak

berkepentingan termasuklah Ahli-ahli Parlimen kerajaan dan juga pembangkang pada 13 dan juga 14 Mac yang lalu. Jadi pihak Khazanah juga telah— *we are working together* dengan pihak JPM dengan memberikan input kepada beberapa soalan lisan serta isu perbahasan yang telah dibangkitkan oleh Ahli-ahli Yang Berhormat tentang isu-isu yang berkaitan kerugian yang dicatatkannya termasuklah pelupusan aset, pelaburan baharu, isu pembayaran dividen kepada kerajaan dan sebagainya.

Kebetulan pada hari ini 1 April, JPM yang dijadualkan akan menggulung perbahasan Titah Diraja di Dewan Rakyat, kita jangkakan akan disentuhlah isu-isu ini dalam ucapan penggulungan. Justeru prosiding PAC pada pagi ini tepat pada masanya dan ia juga akan memberikan Khazanah platform untuk tampil dan memberikan penjelasan lanjut mengenai isu-isu yang banyak dibangkitkan secara terus kepada Ahli-ahli Yang Berhormat dan juga Ahli-ahli Jawatankuasa inilah pada pagi ini.

Jadi saya berharap, kita berharap dengan penjelasan dan juga pencerahan yang akan dibentangkan oleh pihak Khazanah nanti, akan dapat memberikan gambaran yang lebih jelas dan sebenar tentang isu yang dibangkitkan bagi prosiding pada hari ini. *So, without further ado, I will call upon* Datuk Shahril Ridza untuk menyampaikan taklimat. *Thank you, Sir.*

Datuk Shahril Ridza bin Ridzuan [Pengarah Urusan Khazanah Nasional Berhad]: *Okay, Thank you* Datuk Seri. *Bismillahir Rahmanir Rahim, Assalamualaikum*, selamat pagi kepada Yang Berhormat Pengerusi serta juga Ahli-ahli yang lain. Pertama sekali saya hendak ucapkan terima kasih kerana memberi peluang kepada Khazanah Nasional Berhad untuk tampil pada pagi ini untuk memberi satu penjelasanlah kepada PAC di atas *financial result* Khazanah Nasional untuk tahun 2018. Kita juga akan membentangkan dari segi strategi kita untuk masa hadapan yang telah pun diluluskan oleh Ahli Lembaga Pengarah Khazanah Nasional Berhad juga.

Pembentangan ini adalah susulan daripada pembentangan yang telah pun kita memberikan kepada Ahli-ahli Parlimen termasuk juga ahli-ahli daripada kerajaan dan juga pembangkang pada kebelakangan ini dan *insya-Allah* kalau ada apa-apa soalan kita akan cuba untuk menjawablah sebaik yang mungkin untuk makluman PAC.

Pertama sekali saya kena minta maaf sebab *as we go along* ada tempatnya yang mungkin saya terpaksa berbahasa Inggeris sebab *some technical points for us to consider*.

Tuan Pengerusi: Akan tetapi *the members also ask question...*

Tuan Wong Chen [Subang]: *In English. [Ketawa]*

Datuk Seri Mohd Zuki bin Ali: *In order, okey lah. [Ketawa]*

Datuk Shahril Ridza bin Ridzuan: *Okay, no problem. So, tanpa melengahkan masa lagi saya akan mulakan. Susulan daripada election yang telah pun berlaku pada bulan Mei tahun lepas, seperti mana yang diketahui oleh Ahli-ahli Yang Berhormat semua, dengan kerajaan yang baharu, kita juga telah pun ada lembaga pengarah yang baharu di Khazanah Nasional Berhad. Saya telah pun diminta untuk masuk untuk menerajui Khazanah pada penghujung bulan Ogos tahun lepas setelah sembilan tahun di EPF/KWSP dan telah diminta untuk mengambil position sebagai Managing Director lah untuk Khazanah mulai pada penghujung Ogos.*

Mandat saya pada masa itu adalah untuk memastikan bahawa Khazanah Nasional mempunyai satu strategi dan satu vision yang merangkumi apakah yang perlu untuk negara Malaysia pada masa yang akan datang. Kalau kita tengok dari segi apakah position ataupun vision yang sepatutnya satu agensi seperti Khazanah Nasional Berhad terpaksa mengambil untuk menerajui masa hadapan Malaysia, *there are actually two things that we look at here* Tuan Pengerusi. *One, basically is the role of Khazanah as a sovereign wealth fund* iaitu satu dana *sovereign*, kekayaan untuk satu negara, sama seperti juga *sovereign wealth fund* yang lain di dunia ini.

Kalau kita tengok dari segi model-model yang lain yang ada seperti Norges di Norway ataupun ADIA di Abu Dhabi, *the main role of the sovereign wealth fund over time is basically to diversify the income of the country.* Di mana dari segi pelaburan yang dibuat dengan menggunakan aset-aset negara, kita boleh menjana pendapatan pelaburan yang akan datang untuk mempelbagaikan lagi bajet negara.

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Kalau kita tengok jiran kita Singapura, di mana GIC dan Temasek mengambil peranan yang sama. Mereka telah pun berjaya untuk mempelbagaikan sumber pendapatan dari segi bajet negara Singapura. Sebanyak hampir 15 peratus hingga 20 peratus daripada bajet mereka adalah hasil daripada pendapatan ataupun keuntungan pelaburan yang dibuat oleh agensi-agensi mereka.

So, if we look at the long-term future for Malaysia, kita pun sudah tahu bahawa we will need at some point to start thinking about replacing the lost income or the dwindling income from agencies like PETRONAS di mana dari segi pengeluaran minyak dan pengeluaran gas kita pada masa yang akan datang mungkin akan menyusut disebabkan oleh kehabisan dari segi rizab-rizab kami. *So, the idea basically for a sovereign fund like Khazanah is to invest the assets of the country, generate returns and over time increase the dividend to the government* supaya dari segi kerajaan, kita boleh juga menikmati satu kepelbagaian atau *diversification of the national budget.* *That is the main role of sovereign fund.*

The other major role that Khazanah has played in the past Tuan Pengerusi, is to actually perform strategic investment on behalf of the country in industries or in technologies which are important for the economic development of Malaysia. So, at the end of August when I was asked to come in, that was the first thing basically that I worked with kerajaan dan dengan ahli-ahli lembaga pengarah kita untuk mengenal pasti apakah strategi yang perlu untuk kita merangka masa hadapan untuk Khazanah ini. Very clearly, we're looking at essentially a revamp basically the vision which over the years basically has been diluted because Khazanah started to get involved in a lot of other things. In order for basically for us to move on, I think the decision was made basically that kita paksa untuk meneliti apakah pelaburan yang telah pun dibuat pada masa yang kebelakangan ini, clean up the books of Khazanah supaya kita boleh merangka ke masa hadapan dengan balance sheet dan P&L yang bersih iaitu telah pun dikenal pasti kesemua kerugian-kerugian yang sebelum ini tidak lagi dimasukkan melalui P&L kita serta untuk memastikan bahawa dari segi balance sheet Khazanah adalah satu yang seimbang dan boleh merangkumi mission yang baharu ini.

So hasil daripada that review, what we've done basically is a full strategic review of all our works that we're doing. We have done basically is relook at the balance sheet, the assets of Khazanah Nasional Berhad and we decided basically that for 2018, we will take in all the provisioning ataupun impairment which needs to be taken in so that basically the balance sheet and the P&L is clean and can support the activities of Khazanah going forward. The result of that review basically is a brand new strategy and I will talk about the strategy to the PAC Members after this. But at the same time because of the impairments that we are taking through and I go through the details on the financial numbers, Khazanah declared a loss of RM6.3 billion for 2018. Namun, kita yakin bahawa dengan all this clean up that we have done, kita akan mencatatkan keuntungan pada tahun 2019 because we 're able to move forward clean dari segi balance sheet kita.

So kalau kita tengok dari segi 2018, apakah peristiwa-peristiwa ataupun latar belakang kepada ekonomi dunia dan juga pasaran saham dan juga pasaran pelaburan yang mana Khazanah and all the other funds that have been operating. You can see basically there has been a lot of geopolitical tensions. I think Yang Berhormat semua are very aware of this. Ranging from basically the trade war between US-China, as well as basically uncertainty in Europe with Brexit and all the rest that's happening you know, variation in terms of our energy prices. Kalau kita tengok dari segi pasaran saham dunia, kesemuanya menunjukkan satu penurunan yang mana values have really depressed. KLCI iaitu Bursa Saham Malaysia turut sama juga. Walaupun nampak macam kerugian itu adalah kerugian tidak banyak, hanya tiga peratus, but actually Bursa

Malaysia for the past five years has underperformed the world. So basically it is always starting at a lower level compared to the rest of the world. So, whereas MSCI World which is basically tracking all the developed markets and has been looking at basically an increase over the years and last year had the eight percent decline, Bursa Malaysia and you'll see the numbers later basically other than 2017 has at its five years period of continuous decline in Malaysia.

Now, impact kepada Khazanah Nasional is actually more than three percent. This is basically a result of a few factors. One, Khazanah Nasional basically our portfolio construction by 2018, basically was not well balanced. Kalau kita tengok dari segi aset-aset Khazanah Nasional Berhad, roughly about 80 percent to 85 percent of our assets were basically made up of about nine to 10 companies only. So dari segi portfolio construction kita, memang we are over concentrated and therefore there were high risk of basically this kind of event happening. Kalau kita tengok dari segi net worth of Khazanah Nasional in 2018, actually menurun sebanyak 21 peratus. The bulk of that impact actually was in the telco sector. In Axiata which is basically the operator of telecommunication in the region including Celcom Malaysia Berhad dengan TM. Dari segi total shareholder return, TM menurun sebanyak hampir 60 peratus dalam tahun 2018 dan kita kerugian roughly about RM3.5 billion in value there. Axiata by nearly 27 percent, about RM5 billion of value. The rest basically yes, some declined tetapi more or less in line with the market and the sector as the whole. Tenaga Nasional about eight percent decline, IHH at the end of 2018 about eight percent decline.

Now, kenapa sektor telekomunikasi yang paling teruk sekali pada tahun 2018? Ini adalah berlandaskan kepada changes in regulation and changes in policy yang telah berlaku terutamanya selepas bulan Mei 2018. Ini di mana dari segi kerajaan, kerajaan telah pun menekankan polisi yang baharu yang mana menekankan kepentingan para consumer dan untuk memastikan bahawa mereka mendapat broadband ataupun high speed internet pada harga yang lagi murah daripada apa yang sedia ada. If you remember basically after May, there was a promise basically for high speed broadband to be offered at double the speed and half the price. That of course has a major impact on all the telco companies dari segi pricing. For TM, basically the market took the view basically that the regulatory environment has become non-conducive for their business yang mana yang paling ketara sekali ialah bahawa dari segi impak kepada cashflow mereka akan menjejaskan keuntungan dari segi jangka masa panjang dan memang betul, kalau kita tengok dari segi apakah yang telah pun has been released by TM dari segi result mereka untuk 2018, mereka telah pun menunjukkan bahawa satu kerugian daripada cashflow yang mana impak adalah memang besar sekali.

I think one thing we did highlight to the ministry after May basically was essentially double the speed at half the price is more or less equal to quarter the revenue for the companies. Walaupun I think dari segi industri, kita faham bahawa dari segi polisi adalah satu yang telah pun dirangka oleh kerajaan, tetapi yang kita telah pun memberikan nasihat kepada kementerian bahawa untuk masa hadapan kalau boleh, berikan masa yang lebih panjang kepada industri untuk menstrukturkan semula kos mereka supaya mereka boleh menjanakan keuntungan yang munasabah sambil meneliti dan merangkumi polisi-polisi yang baharu daripada kerajaan. But unfortunately, of course for 2018 the impact cannot be reversed and the telco sector in particular has gotten very big hit in terms of valuation. So, you think about it basically it is a movement of value from basically the owners of capital towards basically consumer in terms of cheaper pricing.

For Malaysia Airports, CIMB, Tenaga Nasional, basically the fall is more or less in line dengan market as a whole. So there we're slightly not as worried, but I think this highlight basically one of the key factors which I am sure the PAC has heard from market participants since May which is basically the worry by investors about policy instability and regulation instability in Malaysia. It is because that will drive a lot of investment behaviour, investment decision on the part of basically global investors when they look at Malaysia. I think that is very important to think about.

Tuan Wong Chen: *Before we proceed, Chairman, can I ask some clarifications here? I am looking at this chart here, Datuk Shahril. This is— let's look at TM, right, RM3.5 billion, that is your losses but you haven't sold anything. This is just basically the overall market value, right?*

Datuk Shahril Ridza bin Ridzuan: *Correct.*

Tuan Wong Chen: *So, it is dropped by 60 percent, the valuation.*

Datuk Shahril Ridza bin Ridzuan: *Yes.*

Tuan Wong Chen: *Now, you know it is a policy by the new government to make internet cheaper and if you compare the rest of the Asian region and in particular, Korea, Japan and all those places, it is quite cheap. Their internet speed and you know, speed is good and cost is low. Don't you accept as a shareholder, major shareholder in TM that there are issues regarding wastage and possible corruption in TM structure itself? Wouldn't those saving then come through from that side? Are you an active shareholder? Do you try to push for governance issue or are you just passive?*

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Datuk Shahril Ridza bin Ridzuan: *So, the role of Khazanah basically— now there are a few questions. I'll take them one by one. The role of Khazanah basically in— our company has evolved over the years. I think in the early year 2000, Khazanah was a much more active*

shareholder in terms of reforming governance and reforming management. I think as you all remember, those were the period of the GLC transformation program. That basically created a lot of value in terms of better efficiency and better operation.

But the reality basically is that companies such as TM and Tenaga Nasional Berhad because of the history they are— if you remember privatized government agencies— so, they carried a lot of legacy cost in terms of basically both human resources, network and everything else which in the past basically was very difficult to basically to revolve that cost. All right.

Coming back to my point earlier about talking to the ministry on the policy. I think we all acknowledge basically that company like TM could do a better job in terms of being more efficient but a lot of that cost is historical. I know a lot of that cost basically is essentially people cost. I think in the past there was a conscious policy decision to balance between slowly resolving that cost factor without causing too much of a sudden dislocation to cost.

The reason I said that is because if you think about TM today and where their profit level is after basically the policy changes, one of the easiest ways to essentially get back to a reasonable profitability for TM would be to essentially do a very large cost restructuring immediately. But that has other implications in terms of both jobs as well as basically cost structure.

I think that is something which ministry had to be aware of which is basically that— yes, you know, if you want to basically do a very cliff edge kind of policy change, it is possible. But the response by someone like TM would be, for instance, to then look straight away at cutting maybe 40 to 50 percent of the workforce immediately. So, there is, of course, other political consideration and implications. It is always a tradeoff. I think that is one thing we want to make sure that government and ministry are aware of that you can mandate very sudden policy changes but you had to be aware what is the economic consideration or consequences running from that.

So, for TM, yes, they now have to accelerate basically their cost cutting program but still be mindful I think a lot of sensitivities there. But in the reality, basically is that— no, we have always wanted a longer runway to achieve, better cost efficiency for company like TM. Because, to be fair to them, when they do privatize, they have to absorb a very large cost base from the government in form of people as well as network legacy issues. Unless you are willing to wholesale restructure that upfront, then you will always end up carrying that cost.

Tuan Wong Chen: So, in the case of TM, I mean if you just look at Axiata, you know, you can more or less compare the two. They are both telco companies, you can see the drop is almost half, right?

Datuk Shahril Ridza bin Ridzuan: Yes.

Tuan Wong Chen: *So, that half of it is obviously from cost cutting issues regarding wages, jobs and stuff like that.*

Datuk Shahril Ridza bin Ridzuan: *So, Axiata is a bit different. Axiata, basically it was a spinoff of Celcom from the old TM. Because of that, Axiata has always set a very different cost structure and they had much more flexibility. So, Axiata basically is able to essentially reduce cost very quickly in terms of basically both human resources and others cost faster than TM can. It is just a nature of, I think, the history of the companies.*

Tuan Wong Chen: *Can I just ask about Tenaga Nasional Berhad a little bit? I mean, the drop is not as significant as we think because there was no real policy change per say. But there are a couple of these rumors in the market that there is going to be new IPPs being issued. So, how many shares do you have in Tenaga Nasional Berhad? It is very important that the future government doesn't sign away very generous power purchasing agreements? Are you all going to be active in this issue or are you just going to be, again, a passive investor?*

Datuk Shahril Ridza bin Ridzuan: *Well, again, I think the main role for Khazanah, in respects to companies like TM and Tenaga Nasional Berhad, today is really working with the companies on regulatory framework. So, for Tenaga Nasional Berhad, for instance, we're working with them on what we call MESI 2.0 which is basically the new energy policies for the country. And that include basically, as you mentioned, a policy with respect to future IPPs and even the structure of the energy industry itself.*

I think as I am sure the PAC is aware, you know, one of the policy considerations that potentially could be looked at is, for instance, in market separation of distribution, transmission and generation which, again, like I said, theoretically it should result in better efficiencies. But again, we are working with government to make sure that if it's being done, then let's do it in a coordinated manner which allows basically for that cost restructuring to happen smoothly among the different entities.

So, we will look at Tenaga Nasional Berhad. Yes, the drop was about eight percent. It is not as much as the rest. As you pointed out, there've been no changes in policy. But what the eight percent drop reflects is basically market concern that there may be changes in policy. So, from an investor point of view, a lot of foreign investors— you have seen the numbers in terms of foreign selling on Bursa Malaysia— to the view basically that they will rather take their money out first, make sure that there is basically policy certainty first before they come back into the market again.

Tuan Wong Chen: *I have been engaging some of these investors. They do come around and they do try to talk to me for an hour or two. The general impression and message I tell them*

is the country needs to reform. So, when the structural reform happens, then obviously the numbers will pick up. But, depending on that, the panic seems to be seven percent or eight percent, across IHH as well. IHH is where you exited a big chunk in December right? I mean, you haven't been paid yet.

Datuk Shahril Ridza bin Ridzuan: *We have closed the deal already.*

Tuan Wong Chen: *Closed the deal?*

Datuk Shahril Ridza bin Ridzuan: *Yes.*

Tuan Wong Chen: *And have you got the money yet?*

Datuk Shahril Ridza bin Ridzuan: *Yes.*

Tuan Wong Chen: *Oh I see, very good. So, Khazanah obviously going to get possibly RM5 billion or RM6 billion gain for 2019?*

Datuk Shahril Ridza bin Ridzuan: *So, for IHH, basically I think, as you are aware, one of the things that we wanted to do straight away, falling basically from the slide preview and we will touch more in detail later, was to actually restructure the portfolio. I think like I mentioned earlier, one of the main problems of the portfolio is the over concentration in a very small number of companies. While in the past I think that has done well, it is left the portfolio very vulnerable to this kind of shock in terms of basically being overly concentrated.*

So, IHH was the example of the kind of transaction that we are trying to achieve which is basically finding the right long-term partner who can work with us to keep growing the company. So, in IHH, for instance, we were the single largest shareholder at 40 over percent. We always had Mitsui as a junior shareholder with us. They had been working with us on building IHH since day one of the company. At the time they came, basically that we discussed with them for us to sell down the block of our shares. We essentially swapped places. So, they became the largest shareholder and we became the second largest. We sold the 16 percent block to them at that time at the price of RM6 per share which was a 20 percent premium to market. Market was only trading at RM5 at that time.

The reason why we did a deal with Mitsui rather than going into the market and doing a placement in the market is because we knew with Mitsui, they understand the value of the company. So, it is easier to talk to them about why they should be paying a premium to the market compared to going the market and just do the placement to institution. Nobody will ever give you a premium. They only want to take discount to your placement.

So, in that case, it actually worked very well. So, at that time, the share was trading at RM5, we traded it at RM6. As soon as the news was announced, the share then re-rated because the market has hold then— perceived that two bigger shareholders knew that value was RM6.

The price has actually re-rated all the way back up to almost RM5.80. Meaning basically that even for our remaining shares, we actually benefited from that uplift in value as well for IHH.

So that is basically how we intend to do a lot of our portfolio restructuring which is to find the right strategic partners to work with either through a sale or partnership, so that basically we can keep building the value of these companies and allow us at the same time to release funds for restructuring. So, in this particular instance, the were raised about RM8 billion of new money and the way to think about it as we have been emphasizing to all the Ahli-ahli Yang Berhormat both in government and opposition is basically this is actually a major Japanese investor. Mitsui is one of the biggest global houses actually investing RM8 billion into a Malaysian company because they actually believe in the prospects of IHH. So, it is not a selldown by any means of Khazanah Nasional. It is actually bringing in a new investor. The RM8 billion that it frees up for us allows us to then reinvest that money for other things as well.

Tuan Wong Chen: *Okay, I also heard the story that possibly Mitsui is taking the biggest stake and is going to look at East Asia as an expansion plan. Is that true or it's just market talk?*

Datuk Shahril Ridza bin Ridzuan: *Well, IHH is already a global company. When we look at IHH, we started basically with our Malaysian operation we combined with Singapore, subsequently we bought Turkey, we now have India, China and Hong Kong as well. IHH today is actually the second largest global healthcare provider that's listed. So, we believe there is a lot more that we can do in terms of basically creating and making IHH a real global healthcare provider and private healthcare provider. So, headquartered and based out of Malaysia but certainly I think you know with the global reach.*

So, that is the way I think that from our point of view, Malaysian companies need to think about expanding in the future. It can only expand so far with your own capital and using your own market as basically a base. In future expansion for a lot of Malaysian companies will be through this kind of global corporation and mergers as well as basically joint ventures.

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Tuan Pengerusi: *What was the government's response to the policy changing effect on the value of Khazanah?*

Datuk Shahril Ridza bin Ridzuan: *So, again I think we see a lots of the policy changes were announced very quickly after the May election. I think at that point and to be fair to the government, I think the focus was more on fulfilling a number of key manifesto promises in terms of actually try to delivering on those. So, clearly cheaper broadband was one of them and government announced it and I think at the point in time, I'll be honest I'm pretty sure impact on*

market valuation was probably not very high on their consideration of what happened after that, right.

But since then, I think the ministry has been a lot more circumspective upon actually identifying and understanding what is actually the wholesale impact on the kind of policy changes. That's why Yang Berhormat Gobind, the minister. Since basically, announcing the changes on consumer pricing basically has then actually come out a very clear he said that he is done for now. Any future changes will be a subject of discussion with the industry. Which I think is very positive. I think they recognize the fact that basically that while trying to achieve your policy goal, you still need to maintain an orderly market and a stable market for investors as well.

Tuan Steven Choong Shiau Yoon [Tebrau]: Tuan Pengerusi, may I ask a question about Telekom Malaysia? Just now I heard Datuk said that a cost to made Telekom Malaysia profitable you are probably engaging on the cost restructuring programme. Now, we are on the grounds we have received a lot of complains about Telekom services and Telekom Malaysia is very reluctant to provide UNIFI services to many areas even in urban areas on the basis that because to lay out, a lot of cost to provide that infra before UNIFI services and they are asking the customer to pay for the costs. But I hope that TM will not so called use a cost cutting exercise and then, what we call, cause hardship especially to businessman. Because nowadays businesses rely on high speed internet to link up with customers and things like that. I mean their potential investor to come in say that your internet speed is too slow for them to actually operate here.

So, there is what we call the pros and cons of cost cutting. So, I hope that to me I counted myself we always look at cost cutting but then, a businessman looks at it sometimes it needs to invest so the initial outlaid cost will sometimes will fall to invest in order to bring in the return in two to three years' time. Okay.

Datuk Shahril Ridza bin Ridzuan: Yang Berhormat, I fully agree with you. In fact, I think the fundamental problem today with the regulatory change basically is that for all operators like TM and TIME, Axiata, Maxis and all the rest basically is with the new mandated pricing changes, it actually has had an adversed effect. So, while it has been good for existing customers who already have connectivity because you now have a lower price for the companies today, to connect new customers basically become less of incentive. Because in a lot of cases now you cannot actually justify the investment to land new fibre, to connect customers who don't already have fibre passing in front of their premises. Because with the new prices in place, the companies cannot actually made back the investment.

I think that's one of the reasons why the industry as a whole has been engaging with the ministry to try to address the issue. I think the ministry has got to understand basically that while cheaper faster broadband is a good objective to have you have to do it in a way basically that actually encourages companies to keep investing. Because if the prices are too low you cannot get a sufficient return. Companies will no longer invest in actually rolling out fibre.

So, the long-term solution I think is going to be tricky because it will be a combination probably of both fixed wired and fixed wireless broadband. Hopefully with the advance of new technologies with 4G plus and you know four, five years' time 5G, you will probably find more household and more businesses will be connected through wireless broadband rather than fibre optic broadband. Because the cost of deployment of fibre basically is very, very expensive now relative to the amount of pricing that the ministry is allowing.

Tuan Wong Chen: *Chairman can I— I just want to make a point here. Just on record. We understand the reforms that you have to do on the policy side. We worked a lot on political reforms that need to be done first reforms which cost no money— because there are two types of reforms generally. Reforms that cost lots of money, reforms that don't cost money. Reform on your telco thing which dropped the valuation on TM is reform that costs money. So, primarily most of us who are at the backbench have always advocated political reforms and governance reforms first before we look at other financial reforms. So, I just want to make sure that you understand that many of us are still pushing for the political reforms and governance reforms.*

Unfortunately, whether that is coming or not after 10 to 11 months, is still a question up for debate. But rest assured for you all who run the GLCs and also the ministry side, there are people here still pushing for those reforms that we think, will generate a democracy dividend faster than tweaking things that affect the market valuation of things. So, we should see in the coming year how fast we move on political reforms because that's what the investors truly want to see. They want to see a reduction in wastage and corruption in government overall and that we will be committed to better governance, and that should then translate, hopefully two or three years down the line, into real profits for companies and better government procurement issues.

Tuan Wong Hon Wai [Bukit Bendera]: *Chairman, as we know that the Khazanah is also a sovereign wealth fund and I think not only you have to look at the inward looking, you have to outward looking as well. So, based on some of the data I have, Khazanah announced in July 2015 you have 44 percent of your investment portfolio consisted of foreign assets. That was the data I have in 2015 but I'm not sure what is the data you have in 2019. Could you give us an overview, your investment portfolio both in foreign countries as well in Malaysia?*

Datuk Shahril Ridza bin Ridzuan: *So, if you look at Khazanah's operation basically we have been very active especially on last 10 years or so in trying to invest in more new technologies. So, we are in China especially as well as in the US looking at those investments and India. In China, we have partnership with people like Ali Baba Group. So, we are shareholders of Ali Baba. We were part of their IPO. We are also shareholders of Ant Financial which is basically operating their Alipay and all the rest and also an investment in a number of other private subsidiaries which are involved in either the delivery of a new business model in China as well.*

A lot of this actually quite useful because you are able to bring them here to Malaysia to work with our companies in Malaysia as well. For instance, with Malaysia Airport, Ali Baba has basically looked at setting up distribution, logistics. With CIMB, Ant Financial is working with them on Touch n' Go and a number of cases basically be—the role that Khazanah plays is try and find new technologies or new business partners who can then work in Malaysia as well. Similarly, in the US as well when we have a number of investments.

Today in terms of global assets it is actually less than 44 percent. It's actually now about 15 percent— 15. The reason for that... [Disampuk]

Tuan Wong Hon Wai: *15 overseas? [Berucap tanpa menggunakan pembesar suara]*

Datuk Shahril Ridza bin Ridzuan: *15 percent overseas. Yes. It is not that so much we reduced it but the value of the local holdings has grown and at the same time we didn't put in new money offshore for some time. For two reasons. One, mostly because Bank Negara has been quite strict about the flow of new assets overseas. This is not just for Khazanah. When I was in EPF also the same thing. Therefore, basically the ability to invest new money overseas was quite restricted especially for the last few years. So, Khazanah just like other global— just like EPF and other funds basically had to make do with whatever was already in overseas and any new money is just actually invested in Malaysia itself.*

So, that is why the percentage has actually— is not about 15 percent but in the long-term Yang Berhormat, you are actually right. If the role of the sovereign wealth fund is to diversify our national income, then you need to do more global investments. Because you actually want to diversify away from the local risk and local economy risk as well. So, the whole intention basically is over the next 10 to 20 years, just like other sovereign wealth funds, the majority of our investment should actually be overseas rather than in Malaysia.

Tuan Wong Chen: *So, what numbers are you looking at? 15 percent? 50-50 or what kind of ratio?*

Datuk Shahril Ridza bin Ridzuan: *Ultimately, I think you should be looking at easily about 60 to 70 percent of the AUM of Khazanah should actually be overseas. Because you actually want to diversify the national income rather than just focusing on the Malaysian income.*

Tuan Wong Chen: *So, would you agree that the most of the foreign investment sell-downs or non-investment in the foreign companies is to do with defending the Ringgit, the last few years?*

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Datuk Shahril Ridza bin Ridzuan: *No, no at all.*

Tuan Wong Chen: *Not even that?*

Datuk Shahril Ridza bin Ridzuan: *Not at all because the— if you look at what the fund has done, whether it is Khazanah, EPF, PNB and KWAP, there has been a lot trading of foreign assets but the way Bank Negara allowed us to operate essentially is that we're allowed to basically sell our investments overseas and keep it overseas.*

So that means no translation back into Ringgit. We have not used the proceeds from foreign sales to buy back into Ringgit assets. They're actually being used to reinvest in foreign assets.

Tuan Wong Chen: *So, basically— but you then return back the money to Malaysia, right? I mean if you have a foreign sale, do you bring back the money?*

Datuk Shahril Ridza bin Ridzuan: *No.*

Tuan Wong Chen: *No, you don't? You just kept it outside.*

Datuk Shahril Ridza bin Ridzuan: *Yeah.*

Tuan Wong Chen: *But you didn't allow— I mean basically Bank Negara said you can't take out Malaysian money to invest.*

Datuk Shahril Ridza bin Ridzuan: *You can't take out Malaysian money.*

Tuan Wong Chen: *Right.*

Datuk Shahril Ridza bin Ridzuan: *So, in that sense basically the way Bank Negara has been working on managing the Ringgit basically is to reduce further pressure on Ringgit. But to be fair to them, they understand the need for funds like Khazanah, EPF and PNB to have global diversification.*

So, what they said basically is that, "Sorry can't allow you to take any of your money out right now because Ringgit is in pressure but whatever you already have overseas you are free to sell and reinvest".

Tuan Wong Hon Wai: *Additional question. I think last— I got the record for last year for Khazanah. Your pelupusan I think disposal of some of your foreign assets BDO Unibank, Infosys*

Limited India, PT Djarum Indonesia, Titan Industries Limited India. So, all these are the disposals of your foreign assets, foreign portfolio?

Datuk Shahril Ridza bin Ridzuan: *Correct.*

Tuan Wong Hon Wai: *So, it means that your acquisition will be less and then you dispose more in terms of foreign assets? Would it bring down your— affect your record all these— your performance financial position?*

Datuk Shahril Ridza bin Ridzuan: *So, what we are doing Yang Berhormat basically is just like any fund manager or your portfolio manager, you will constantly trade in your assets. So, some of the assets that you mentioned, those assets if we felt basically already reached the value that we want, so we sold those assets and essentially we are reinvesting that money into new assets.*

So, there will always be constant change of assets, I think. This is not different really from most fund managers or most sovereign wealth funds. Where, you know, once you achieve what you want to do with particular asset, you actually think about whether you want to continue to hold the asset or whether you should actually dispose and there's a better opportunity to invest the money.

Tuan Wong Hon Wai: *What is the rule of the— because Khazanah is formed under Companies Act. So, you have a board? So, what is the rule of the board in terms of approving or disapproving of giving direction for all these domestic as well as foreign investment.*

Datuk Shahril Ridza bin Ridzuan: *So, the way that Khazanah operates today essentially is that we have changed the governance structure to make it more streamlined. The board basically looks at the strategic overview of Khazanah Nasional Berhad, looking at for instance, our overall assets allocation, our strategic assets allocation, how many percent should be allocated towards Malaysia versus basically towards global assets, how much is between our commercial fund and our strategic fund. I will run through those details shortly.*

What they then do basically is that, they then devolve power to the exco which is the exco of the board to approve transactions up to a certain limit. Anything above the limit has to go back to the board for approval. At the management investment committee level essentially there is smaller allocation of approval authority which allows us to do faster trade. So, for instance, if you're in the market, you imagine if you are trading on the stock exchange. You don't want to have to wait weeks or months to get an approval. So, management at the management investment committee level basically has a small authority which allows us to do faster trades in the market to do smaller deals. That basically, very similar to most fund structure today. Meaning

essentially management has certain authority limit, goes up to committee of the board for higher limits and for the biggest deals basically goes up to the board of directors itself.

So, in the previous example we have talked about IHH which is RM8 billion deal. That is a deal big enough, you have to go to the board for approval before it can be done. But, generally speaking basically exco has enough limit to handle probably 80 percent to 90 percent of the cases.

Tuan Wong Hon Wai: *Your international investment actually must less than the EPF? EPF invests more in terms of foreign assets, foreign portfolio...*

Datuk Shahril Ridza bin Ridzuan: *Yes.*

Tuan Wong Hon Wai: *...As compared to the sovereign wealth fund Khazanah. So, I mean I think these are the things you have look at it and then...*

Datuk Shahril Ridza bin Ridzuan: *Correct.*

Tuan Wong Hon Wai: *Is there a standard of the sovereign wealth fund international benchmark or whatever in terms of a— you know...?*

Datuk Shahril Ridza bin Ridzuan: *There isn't so much of an international benchmark. But we actually look at a lot of the global sovereign wealth funds because the main reason for sovereign wealth funds is to diversify the income of the country and you don't want to have double exposure to the same economy. A lot of them, basically a very heavily invested towards income or exposure outside of the country. So, Norges for instance, which is the largest sovereign wealth fund in the world. They are 100 percent outside of Norway. They don't own anything in the Norway. GIC Temasek, same thing. A very big percentage of their investment, GIC in particular, actually is outside of Singapore, and similar with IDR and a lot of the rest.*

Again, the basic thinking and the basic reasoning which is very clear, essentially is that you diversify your economic risks. You generate foreign revenue and foreign income through your foreign investment and holdings. So that essentially if anything happens to your local economy, you still have outside income coming in to do it.

So, that's why for Khazanah as well the same thing, right. Over time as we perform that role— but it will take time. I mean all these funds took decades to build that position, right. Khazanah would be no different, it will take us within 10 to 20 years to really reach that point whereby it would be fully diversified.

Tuan Wong Chen: *Can I know your average investment timeline? I mean, we know that some private equity invests for seven years period, 10 years. What are you looking at? I'm sure some are just stocks that you trade almost daily basis or weekly basis. But this investment is strategic, is there a guide that you're use, it seven years or is it 10 years?*

Datuk Shahril Ridza bin Ridzuan: *So, if you look at basically the portfolio that we have today, right, we have a range of assets. Some of them because of the nature of the intention behind those investments like Iskandar for instance, much more strategic in role and therefore have a much longer time frame in terms of what they want to do.*

So, that's much more commercial in nature. So, typically if it's much more private equity type investment, you would typically have somewhere between five to seven years' time frame for private equity investment. Sometimes shorter if you actually reach your numbers much earlier, we actually get out faster.

So, for instance, we had one or two of our deals went to IPO last year. Much faster than our original intended plan and did very well out of those. So, it'll always be a mix of assets. That's part of the reason why we actually divided the fund between the commercial fund which is very much purely commercial, purely returns-oriented and strategic fund which looks at basically our strategic investment in key industries and key assets.

Again, like I said, I will take the committee through that.

Tuan Wong Chen: *I think most of us have seen this slide, right? So, if you can accelerate that a bit? I really want to drill down into the MAS issue because we have been getting political signals on MAS which is quite different from what we understand about MAS today.*

Datuk Shahril Ridza bin Ridzuan: *Sure, no problem. I will skip this slide because I think I have already explained this slide in the previous briefing.*

Okay, looking at this slide— just give you a very quick breakdown on the actual RM6.30 billion loss. In here, I think, just to emphasize again, a lot of the loss that we took was essentially due to increase impairment. So, if you look here, essentially, we took it RM7.3 billion impairment in 2018 relative to RM2.3 billion in 2017. And RM3.1 billion of that is Malaysia Airlines. I think probably a subject for some discussion today. But if you look at the operational numbers of Khazanah for 2018, we actually paid RM1.5 billion of dividend, and we actually paid a higher tax for 2018 and 2017 of RM249 million. Meaning basically, we actually have a lot more taxable income to work with and therefore dividend as well.

This basically like I said for the RM7.3 billion essentially is the main reason why there was a shortfall. If you actually look at where are the sources income for Khazanah, it is no different from any other fund. A fund like Khazanah, EPF and the rest you make money essentially in two primary ways. One basically is collecting in yield or dividend on asset that you hold and secondly is actually through your trading profits in buying and selling those assets.

Therefore, if you look at Khazanah in 2018, our dividend income basically was about 10 percent down from 2017 which more or less in line with general market as a whole— company

as a whole, because of poor of results paid last dividend. But we only made half of the divestment income in 2018 compared to 2017. Two reasons for that, one is basically market pretty poor. So, opportunities to actually sell were more limited. But, secondly after the May election and until basically a new board, new management came in September. There was big lull period where basically nothing could happen. It could be nobody can make decision in Khazanah. Therefore, no deals were done for nearly about six-month period in Khazanah and that affected basically the turnover.

Since coming in what I have done, basically, is to try accelerating that, we did IHH transaction, we got a number of transactions happening this year. So that should return back to normal as well.

But the big chunk basically is the RM7.3 billion impairment. Impairment I think from an accounting point of view just to recap, happens basically when you actually do a review of the assets that you hold. If the market value or basically the fair value of those assets today sits below your entry cost your book value, then you must take in the impairment. This is just an accounting principle.

Malaysia Airlines of course is the biggest one, RM3.1 billion and this is a result basically on the fact that we put pump in a lot of capital into Malaysia Airlines under the restructuring plan over last the five years quite clearly that restructuring plan is not working.

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MAS was supposed to break even by 2018 and essentially will return to profitability in the listing 2019. In 2018, MAS basically lost over a billion ringgit. Because of that, quite clearly the fair value of Malaysia Airlines can no longer support the cost of investment. So, it was written down as essentially the capital that was invested during this restructuring plan for Malaysia Airlines.

Now, just to jump the gun a bit on Malaysia Airlines. What is the problem with Malaysia Airlines? The problem with Malaysia Airlines is actually a problem with our aviation industry as a whole. If you look at Malaysia today, we actually have four home carriers— Malaysia Airlines, AirAsia, AirAsia X and Malindo— in the market of 30 million people and a massive oversupply where effectively you have roughly about 1.7 seats for every actual customer.

So, if you look at the Malaysia Airlines restructuring plan, they actually have done a very good job of cutting their cost. So, Malaysia Airlines cost— and the way the industry measures cost and revenues is always based on cost for available seat kilometer (CASK). So, Malaysia Airlines's CASK today basically is actually lower than Singapore Airlines, is lower than Thailand and it is maybe about 15 to 20 percent higher than AirAsia which is the lowest cost operator in

the region. So, on the cost side, they are actually doing okay. What has happened is the revenue has also collapsed.

So, the problem with Malaysia Airlines today is not so much of cost as it is of revenue. And it is the same problem for all the airlines in Malaysia. Malindo, although they don't release numbers, they have losses in hundreds of million every year. AirAsia X, as you know, also lost money last year and even AirAsia itself basically had a much lower operating profit and after basically inserting other charges also declared a loss in the last quarter of last year.

So, the problem with the industry as a whole actually is on the revenue. So, if you look at consumers, all of us who fly, basically our tickets has been coming down in price due to the intense competition for passengers. Most airlines right now are pricing the ticket essentially to cover their variable costs. Meaning, basically as long as they cover the cost of fuel and all that, they will fly. But it is not covering basically your fixed asset cost. That is the biggest problem with not only Malaysia Airlines but industry as a whole.

So, again, like I said, you know, it has done very well in terms of cost cutting but perhaps too much on the cost cutting because part of the reason why they were able to cut the cost so much was in terms of basically also cutting the route network. There has been an impact on revenue. At the same time, basically cost cutting has also affected some of the perception of the product of Malaysia Airlines that people have had. So, there is always been this general perception basically that the product is not as good as SQ. That is because they deliberately, they don't want to invest the money and they reduced the cost of the product itself.

Unfortunately, basically the aviation industry is in that problem right now of a massive oversupply. That is why a lot of airlines are not really making money at all. This is not unique to Malaysia. If you look at Europe, Europe has had, I think five airlines closed down over the last few months mostly, again, due to the same issue, an oversupply of seats and passenger aircraft. It is actually going to get worse. If you look at South East Asia, it is the region with the most number of new aircraft coming in between AirAsia and Lion Group or Malindo over the next five years.

So, you are likely to see basically the competition in aviation industry in South East Asia will get more and more intense over the next few years.

Tuan Wong Chen: Okay, can I just bring you back to the impairment issue? I know it is an accounting treatment but couldn't Khazanah have staggered the impairment losses? Or is it a necessity to declare the RM3.1 billion impairment for that period?

Datuk Shahril Ridza bin Ridzuan: By right, what should have happened is that we should have actually started staggering that RM3.1 billion even in preceding years as it has

become evident that the plan was not working as well as you expected. You could have made a call earlier to start providing earlier in the cycle, but making the call to provide basically is one that, you know, fundamentally the Board of Director has to basically take a view on— are they optimistic or are they pessimistic whether the plan is going to work or not.

All I can say is when it comes to 2018, very clear basically the plan was not going to work. I think both of our Audit Committee and the Board took the view basically that it is better to bite the bullet and accept the fact that it is not going to work. The market is not going to allow you to make that revenue.

Tuan Wong Chen: Okay, are we expecting more of this impairment losses this year?

Datuk Shahril Ridza bin Ridzuan: For 2019, you can't tell as at this point in time. I think it is going to be only towards the end of the year that we are going to give a better view on this. Obviously, I think we are quite optimistic that the bulk of impairments necessarily to be taken had been taken in 2018. That is not to discount the fact that if markets change, for instance, there is a big sell-down in global markets resulting in share prices basically collapsing, you may not have to take an impact on impairment. Because, in this RM7.3 billion, there is also not just Malaysia Airlines. There is also market driven impact. So, for instance, Astro Malaysia Holdings Berhad where we have to take a one over billion impact on impairment there, as their share price collapses due to the change of the industry.

So, we believe that we have taken everything that needs to be taken up to this point. Therefore, going forward, it is really about what happens in 2019. If basically the market collapsed, then we may have to look at it again.

Tuan Wong Chen: Okay, on MAS, just to kick off you with a few questions but I will just stick with one, then allow my other colleagues to ask similar questions.

Basically, you know, there has been a lot of news and announcements by Ministers and the Prime Minister on the issue of MAS and that has spooked the market further, driving revenue of MAS ironically down in the last month or so. I have friends who said that they have to cancel their MAS flights, you know— change their ticket, all sorts of things lah.

Don't you all have the duty to inform these Ministers about the real situation on this issue? Was there a communications breakdown? Because even as late as the 19th, you know— wow, two weeks ago, there is still talk about a MAS sell-off. Does it warrant a sell-off in your professional opinion? I know MAS has losses but you know, as you said the aviation industry is not in a great shape anyway, who is there to buy this? I mean, there is no white knight available to buy these things but the fears about MAS collapsing is still being played at the political sphere.

So, some views on this first and then secondly about communications. Is there a point person? A point person to deal with the Cabinet.

Datuk Shahril Ridza bin Ridzuan: So, on that score I think, you know, there has been a number of briefings obviously. Recently, I think, the Ministers who monitor this industry basically are in the know. Ministry of Transport quite clearly, I think, you know. Even the PM has a very deep interest in Malaysia Airlines. Ministry of Finance as well.

But, quite clearly, I think you know, once Khazanah had announced its result and you know it is very apparent that we are very—we try to be more transparent, right? You know, we try as fast as possible to tell them basically where the bulk of that impairments coming from, right?

Part of the problem I believe is that people now, I think, are increasingly aware essentially that the aviation industry in Malaysia basically is pretty precarious because all the other airlines had also announced their result by that point in time. It became very obvious basically that industry as a whole was losing money. And so, I think, first thing that has me asking, what really is the future for Malaysia aviation industry going forward?

If you actually were going to ask us from a professional point of view, I think if you were looking at the aviation industry, it is quite clear that just like in any other industry, the only way basically for the industry to recover is for excess capacity essentially to be removed from the system.

I think anybody who understand how the industry works in general, is always on supply and demand issue, the only way for excess capacity basically to move essentially is if one or more of the existing players start to rationalize and think about basically the industry as a whole.

Now, typically in any industry, the way it normally happens is, basically either the weakest player decides to exit the market and goes out or basically there is a consolidation of capacity and consolidation of operation, you know, to more rationalize the industry as a whole. We believe basically that ultimately for the Malaysian aviation industry, it cannot continue on this basis. If things were to carry on like this, what essentially it means is that the shareholder of all four airlines, not just Malaysia Airlines, shareholder of four airlines will have to keep pumping money in to sustain operation of their airlines.

Same is true for Malaysia Airlines as it is for Malindo, as it is for AirAsia X and AirAsia. AirAsia is probably in the best position of all because they are the lowest cost operator and they are still making operating profit as compared to other three airlines. Meaning basically, they probably have more run way to survive in this current industry. All the other three airlines basically were required at some point or another more capital to be injected in.

So, for the Malaysian Government who ultimately are the owners of Malaysia Airlines via Khazanah, the decision that needs to be made basically is how much more capital is required on two fronts. One is you just want to sustain operation as it is. Then, you're looking at probably about a billion plus a year of capital, I guess to sustain as it is if you don't have any industry consolidation or industry review.

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If you want MAS to actually have a better chance of doing more on revenue capture side, then you probably have to invest more because you actually have to improve the product, increase your route frequency and improve the overall network effect of the airline. That's quite clear.

So, the question really for government as the shareholder as it is for any investor or any shareholder basically is, what is your opportunity cost for the money that you either invest or don't invest into Malaysia Airlines. Now, uniquely, unlike a private shareholder of an airline, the Malaysian Government as a shareholder of an airlines basically captures economic benefit not just from the profit and loss of the airlines itself but also essentially from the spinoff of the benefit to economy as a whole.

So, if you look at the aviation industry as a whole, yes, all the airlines are losing money but actually outside the airlines itself, industry is actually making money. Malaysia Airports now has done tremendously well from an increase number of passenger traffic, right. Malaysia Tourism has been on an upward trend because the cheaper capacity is actually driving more people to come and visit Malaysia. So, you see, Malaysian traffic numbers in tourism actually is going up. So, the government actually is benefiting through the economic spinoff, taxation and also the development from other industries. So, that is why it's a more complex decision for the Government of Malaysia. Is not just about if I put RM1 into Malaysia Airlines right, will I lose that RM1, and the question basically is, if I don't put the RM1 into Malaysia Airlines, what are the benefits don't I get?

So, for the Malaysia Government, it is slightly different and that is why we are trying to, at this point in time, help them to understand the full economic cycle of the aviation industry as a whole and then allow the government then to decide how much more support should I give to Malaysia Airlines because if I don't support Malaysia Airlines and Malaysia Airlines basically either gradually winds down operations or slowly loses its capacity, I actually am going to lose other economic benefits. Either through taxation or other GDP benefits or through a drop, in terms of number of passengers coming to Malaysia.

That is why it is more complex actually for the Malaysian Government as opposed to for instance, if it was the EPF having to decide to invest an airline, very simple, I don't invest because

I can't make a money, right. But for the Malaysian Government it is actually very different. I invest because I actually have the ability to get other benefits through economic development and spin off into the economy as well and that is why it is more complex to discuss.

Tuan Pengerusi: *Khazanah involves in deciding the future of MAS.*

Datuk Shahril Ridza bin Ridzuan: *So, what we are doing basically, we're trying to work with Malaysia Airlines to try and identify all this different economic benefits to the government. Ultimately the government has to decide. Because the flip side of that argument Tuan Pengerusi is basically for every dollar that I ask Khazanah to invest into Malaysia Airlines is a ringgit that I can't invest somewhere else. So for instance, if the country as a whole has other economic imperatives, you want to promote, for instance, say, 5G or you want to promote electric vehicles and you need someone to invest in infrastructure to promote all that stuff.*

Khazanah's resources are limited, we have to decide where is that RM1 best bet. Is it in supporting aviation with its benefits or supporting digital networks with all its benefits or EV or whatever it is that the government wants us to think about.

Tuan Pengerusi: *What exactly when wrong to the restructuring plan of MAS actually. Their supposed to make money, breakeven in year 2018, where or what went wrong.*

Datuk Shahril Ridza bin Ridzuan: *So, what went wrong with that like I said Tuan Pengerusi, they were successful in getting the cost down. So, if we actually look at MAS cost per seat kilometer like I said, it is actually now better than SQ, Thai, Cathay and any other direct competitor. They're still higher than AirAsia but it can't do much because AirAsia is a really low-cost airline so they're basically the bottom of all in the cost table. So, the cost has been okay in terms of moving cost. Where, essentially the plan has fallen apart is actually on the revenue side. The plan basically did not cater for the fact that so much more supply was gonna come into the industry with Malindo, with AirAsia new planes everything.*

Malaysia is essentially adopting a more open sky policy allowing anyone to fly to Malaysia. So, the policy has been good for Malaysia in terms of boosting total passenger numbers, total tourist numbers but it has been terrible for the local airlines because it essentially you have cut into the revenue stream by forcing downward pressure on prices in terms of consumers. So, that's been one of the major problems to the plan.

Tuan Pengerusi: *We are saying that MAS is too much in concentrating on the passenger business but neglecting the cargo business.*

Datuk Shahril Ridza bin Ridzuan: *Actually the cargo business is doing okay. The cargo business is actually profitable. The problem is basically if you look at MAS today cargo is okay, engineering is more or less okay now, Firefly which is the short haul flight basically lost money*

because we have to give up Singapore until that is resolved hopefully. The main problem of MAS basically is that the passenger, the core passenger business basically just cannot generate enough revenue even with the lower cost base of Malaysia Airlines today.

Tuan Pengerusi: *So, that is no full, no full.*

Tuan Wong Chen: *[Bercakap tanpa menggunakan pembesar suara] They lost a billion already.*

Tuan Wong Hon Wai: *Datuk, I think I just want to make sure about the open sky policy and also introducing the competition law and also some of the challenges you are facing in the aviation industry actually, you know, MAS is severely affected. In terms of ownership of Khazanah how many percent you own MAS?*

Datuk Shahril Ridza bin Ridzuan: *We now own 100 percent of Malaysia Airlines.*

Tuan Wong Hon Wai: *100 percent. MOF got golden share plus your 100 percent?*

Datuk Shahril Ridza bin Ridzuan: *No.*

Puan Faridah binti Bakar Ali [Ketua Pegawai Kewangan, Khazanah Nasional Berhad]: *No.*

Tuan Wong Hon Wai: *No more. Oh,...*

Datuk Shahril Ridza bin Ridzuan: *Malaysia Airlines doesn't have golden share.*

Tuan Wong Hon Wai: *Is 100 percent ownership now.*

Datuk Shahril Ridza bin Ridzuan: *Ya.*

Tuan Wong Hon Wai: *So, the size you have to be fully responsible for that.*

Datuk Shahril Ridza bin Ridzuan: *Correct.*

Tuan Wong Hon Wai: *That is the challenge you are facing, I think.*

Datuk Shahril Ridza bin Ridzuan: *Ya, but again just to highlight again Yang Berhormat, I think yes Khazanah owns 100 percent of Malaysia Airlines right, but Khazanah basically is the Malaysian Government. The economic decision about further investment to Malaysia Airlines has to be one that the government has got to decide. We can advise in terms of basically doing all the studies in terms of economic spinoff and benefit and everything else but ultimately the government has to decide whether this is the best way to employ its assets in terms of this is going to continuously support the airlines, at the expense of other investments that can be done in other industries, for instance.*

So, it is a classic economic decision lah, what is your opportunity cost for supporting Malaysia Airlines and to be fair, every ringgit they put in Malaysia Airlines, you may not see it in the P&L of Malaysia Airlines but you probably do see it in terms of the economy as a whole for other passengers, like the taxation for government and all the rest. But it is still an opportunity

cost because that is a ringgit you could have invested in something else. That is fundamental, I think, a policy decision that the government has to make.

Tuan Steven Choong Shiau Yoon: Ya, I follow through, just what you said about the spinoff economic benefits. Personally, I find it difficult to be convinced, because if you are talking about the spinoff, why can't the so-called economic benefit be tapped by the other airlines, local airlines. If they are really what we call inbound passengers into Malaysia, why MAS have to contribute to that inbound passengers? Why can't that be absorbed by other airlines?

Because my experience with MAS, very bad experiences over the last two years. The food is terrible which literally I don't eat as compared to old days, because too much of cost cutting and my flight to London was so horrible. It was delayed by two hours then basically there was a flight, the same plane coming back from the Middle East, to me, since we were delay by two hours, I am okay to delay by another hour. It is what we call if the plane is being cleaned properly.

But basically, the passengers got off and we were asked to board the plane and in the plane there were foul smell everyway, in the toilet too. So, are we going to keep MAS with cost cutting and with that kind of services? You know after that— basically it my last trip with MAS was last December also bad experience. So my next trip actually I'm not flying MAS, I flying other airlines. So, I think if you want to keep MAS, if really that you know the economic benefit is it can be substantiated and then we must not sacrifice the services that MAS used to have in the old days.

Datuk Shahril Ridza bin Ridzuan: Ya, thank you Yang Berhormat and which I think brings me to the point I made earlier which is basically I think for the government, you know you have a range of choices, you can keep it as it is and it's about a billion a year. If you want to actually increase the level of service quality and start fighting back with the Singapore, one reason why SQ has a higher cost per seat kilometer is because they actually spend on all these things. They spend on the product, they spend of the cabin, they have a better business class cabin all that. But they are willing to spend because Singapore has a very different market, Singapore has more control, they are able to make enough revenue to cover the cost.

Malaysia unfortunately, like I said with the huge oversupply you could spend all that additional costs on improving the services and everything else, I doubt that if you are actually going to get to increase the revenue because people in Malaysia are not going to be willing to pay extra to cover basically the increased cost.

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That is the conundrum that MAS is in right now.

Tuan Wong Chen: *So is it— Okay, a market sensitive question. Not really-lah. So, what is going to happen if the government is still pursuing to offload MAS? I mean you know, I don't get the impression this issue is going to die which raises a lot of questions because a lot of people think, MAS is going to be sold for a song. What is really happening? Can you provide some ideas?*

Datuk Shahril Ridza bin Ridzuan: *At this stage I can't give you more details in terms of basically what is ultimately can be the solution. I think what I can tell you basically is that both MAS and Khazanah is working on presenting to the government essentially a comprehensive list of options that are available, what are the implication of each of these options. It is because at the end of the day I think like I mentioned, part of it alternately for the government as the owner, basically it is not just an economic decision, there is a political component to it as well, obviously right? There is a quite clearly, I think a lot of sentiments are still attached to Malaysia Airlines. We always joke about it and people are so sentimental about it but they don't want to pay higher ticket prices to support the airline. That is why ticket prices has collapsed in Malaysia right, you look at it. So, yes you know.*

Tuan Pengerusi: *International flight fare, MAS is higher than any other flight.*

Datuk Shahril Ridza bin Ridzuan: *No. You have to look at essentially Yang Berhormat. I know where you are coming from, but you have to look basically at the competing product. So, you will always going to find a cheaper flight if you are willing to take a one-stop strategy. Meaning basically that, for instance, like London, you are willing to transit via The Gulf whatever, you'll always find a cheaper ticket. But if you actually compare directly MAS against BA, which is the only other operator or the same direct nonstop flight, actually there is no difference in pricing. Macam itu. Very little difference in pricing. But if you want to find a cheaper airline ticket, depending on how much time you are willing to give up, you can always find it.*

That is the fundamental problem with Malaysia as an aviation industry. Unlike Singapore or Hong Kong which has a very high concentration of business users, who are very time sensitive. They just want a direct nonstop flight. That is why Singapore Airlines and Cathay, for instance, have a much bigger business class and they have the ability to fill the business class at higher prices because the underlying users basically are a different market segment. Malaysia, most of the consumers are very price sensitive. They'll look at price first before basically the product or the convenience. That is why low-cost seat or low-cost carriers have about a 60 percent share of market in Malaysia. We just don't have enough business users in Malaysia for full service airline.

Tuan Robert Lawson Chuat [Betong]: *What about domestic services? What is MAS's share in Malaysia?*

Datuk Shahril Ridza bin Ridzuan: *MAS's share has actually fallen. So you look at the domestic service today, MAS's share now is about 20 percent plus. The bulk of the share now basically is AirAsia in terms of capacity, in terms of capacity.*

Tuan Pengerusi: *But profit wise I don't think—I mean people say that AirAsia also doesn't make much money, but... [Disampuk] They make more money from selling aircraft.*

Datuk Shahril Ridza bin Ridzuan: *For last year, they make a lot of money through basically sales and disband of the aircraft. So, which I think it just highlight the fact that the passenger carrier business in Malaysia is extremely difficult because of the overcapacity. It is good for consumers. I think all of us has taken a cheap holiday or cheap flight because it is so easy to get cheap flight now. But it is actually terrible for the airlines. Malaysia Airports as well, well although Malaysia Airports basically does a lot of more throughput now.*

Tuan Pengerusi: *You think the government would keep subsidizing MAS to keep it afloat? What is your advice to the government? I mean Khazanah is the biggest shareholder...*

Datuk Shahril Ridza bin Ridzuan: *Again like I said Yang Berhormat, it is hard for me to give you better clarity on that right now because we are really in the process right now to review the whole industry and we will provide to the government I think. There are various options that are available for them to decide.*

Tuan Wong Chen: *I think— just a simple observation. It is obvious that you have to segmentise the middle and upper-middle and the upper for yourself. It is because all the other competitors are low-end. So that is pretty obvious, you have to craft that segment out. Now, what you have to do is to make sure the costs are low, if it is possible at all. It is a combination...*

Datuk Shahril Ridza bin Ridzuan: *That is conundrum Yang Berhormat, how do you operate a high-end...*

Tuan Wong Chen: *High-end cheap...*

Datuk Shahril Ridza bin Ridzuan: *High-end airline with the cheap costs...*

[Ketawa]

Datuk Shahril Ridza bin Ridzuan: *I think, as the other Yang Berhormat pointed out...*

Tuan Wong Chen: *Ya.*

Datuk Shahril Ridza bin Ridzuan: *When you start cutting costs, your product is not the same anymore. Your product is compromised.*

Tuan Wong Chen: *So, I mean we understand that MAS...*

Tuan Pengerusi: *New category, high-end cheap.*

Tuan Wong Chen: *High-end cheap, betul. What we call austerity class. [Ketawa] No. But there must be a point where the overheads of the staffs, engineers and all those things, should*

be able to meet the number of airplanes you have, right? Are we already at that point, that optimum point?

Datuk Shahril Ridza bin Ridzuan: *We're at that point like I said...*

Tuan Wong Chen: *You're already there?*

Datuk Shahril Ridza bin Ridzuan: *Like I said, that is why on the cost per available seat per kilometre, MAS is actually very competitive now.*

Tuan Wong Chen: *So, we can't say we reduce 30 percent or 20 percent of the airplanes and all that and you know, try to...*

Datuk Shahril Ridza bin Ridzuan: *I don't think the right solution is a cost efficiency solution anymore. The right solution now basically is industry consolidation, industry capacity solution and also a revenue solution for Malaysia Airlines.*

Tuan Wong Chen: *In that case, we just keep supporting you RM1 billion a year for seven years and wait for Malindo to close. [Ketawa] I mean that is the strategy, right? [Ketawa]*

Datuk Shahril Ridza bin Ridzuan: *Well, probably not best for me to comment on that one.*

[Ketawa]

Tuan Pengerusi: *You can just highlight to your anticipation of the project...*

Datuk Shahril Ridza bin Ridzuan: *So Yang Berhormat, I think just moving on very quickly. We've also done a lot. I think some of this basically may not be visible to the public. But for instance, in 2018, we made investments in Ant Financial, in M + S. M + S now basically has done very well. We actually in process now of doing a sale of the first two assets there which are basically the duo hotel and offices. We actually had two IPOs last year on investments. So Phunware basically did an IPO in NASDAQ and Farfetch in New York Stock Exchange. The profit that we're getting from these IPOs is not reflected in our P&L for 2018 because we've not actually disposed all the shares yet.*

So that is why like I said Yang Berhormat, we are fairly comfortable that for 2019 as we go through the cycle of trading out the assets and investing in new assets, we will be able to recognize a better profit for 2019. That is why we call it comfortable that Khazanah will return to the profitability in 2019.

IHH, I think just as I mentioned, we closed that transaction last week. Mitsui has already paid us RM8 billion and essentially that money is earmark for new investment as well. Here I think just to highlight again, I think there is perhaps some confusion. People think that every time we sell, the money goes to the government. Actually, it doesn't. The only money that goes to

government basically is our annual dividend that we declare to government. The bulk of the money is actually meant for reinvestment of our balance sheet.

Tuan Wong Chen: *That dividend is just set by you all internally, right?*

Datuk Shahril Ridza bin Ridzuan: *So, yes. So in the past I think again, because of the lack of transparency, there wasn't a very clear idea how the dividend was actually determined. What we've done basically when the new mandate basically we have gotten the board and government to agree that we now effectively— very similar to dividend policy kind of setup. So effectively what it looks like essentially at certain percentage of the profit that we make every year, should be made available for dividend. Then that is amount that's made available, then we have discussion with government how much do they want to have as dividend. So that I think is a more transparent way forward.*

Tuan Wong Chen: *That is different from EPF? EPF is based on sales, is it?*

Datuk Shahril Ridza bin Ridzuan: *EPF is— Because EPF basically is individual accounts. So, the way EPF works essentially that all profit in any given year is always distributed as dividend to the members. Because it is individual member accounts.*

Tuan Wong Chen: *Can I have this some comments on Ant Financial and Alibaba investment, Alibaba and all those. Have you seen a drop in those values due to the US-China dispute on everything?*

Datuk Shahril Ridza bin Ridzuan: *So in 2018, the Chinese market performed very badly because of all the trade tension and everything else. But what has happened since the turn of the year, basically there has been in the first quarter of this year, huge up-rise in terms of valuation in China. I think it is because a lot of the fears have receded. Now China is pretty comfortable I think with talking through and coming to deal with US on trade. The Chinese stock market is up about close to 15 percent ... stock of the year. So, similarly our stake in Alibaba has also seen an increase in value. But again, like I said, these are market securities. So, they will go up and go down in value all the time.*

Tuan Wong Chen: *I am concerned about Alibaba's foreign investment in Malaysia, payment getaway issues. Obviously, you guys are investors, so you might take a commercial position. But for many of us, we worry about the regulatory environment on Bank Negara and how do we monitor electronic payments. Now, do you all give any advisory ideas to the government on this issue because there is a lot of market rumors going around what is really happening with Alipay and things like that?*

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Datuk Shahril Ridza bin Ridzuan: *At the Khazanah level, we don't engage as much. Our investing companies are doing a lot of the work because— I just give you an idea. We are actually having an interest in e-payment through various channels. One is, of course, through Touch 'n Go which we co-owned via CIMB and PLUS. Boost which is actually run by Celcom, Axiata. But we are leaving the actual engagement with Bank Negara on the regulatory framework and environment to them because they know the business better than we do at Khazanah level.*

We believe I think like most players— most countries I think will revolve down to about two or three dominant players in e-payment just for sheer scale and size. From the commercial point of view, we believe that Touch 'n Go where we have an investment and Boost which is the fastest growing network, hopefully will be one or two of those three players in the market at the end of the day. But, certainly we think basically that the market will eventually consolidate around just a few players.

Tuan Wong Chen: *We are not worried about the e-payment for the local players because obviously we can still have some control over the data if it is within Malaysia. As the moment when we open up the Alipay and they probably store data outside of Malaysia and use for other purposes, I mean that is the concern.*

Datuk Shahril Ridza bin Ridzuan: *Yang Berhormat, that is one for the regulations. Ultimately, I think if Bank Negara takes the view that that is the risk, then Bank Negara will put in the regulations to have onshore data storage, for instance. So, those things can be controlled. I don't think it is particularly an issue. It can be controlled through regulations through a basically a technical specification— all the gateways and how the data is managed. But that is ultimately Bank Negara's purview.*

The rest basically, Yang Berhormat, is just the mandate. So, very quickly. The way we now look at Khazanah, like I mentioned, we have a commercial mandate and strategic mandate. It is easier to see on this slide. So, the commercial mandate basically is targeting a real return for Malaysia over a five-year rolling period. Why five years? It allows Khazanah to take basically more risks. We are having a higher equity positions relative to, says, an EPF. The target basically is essentially inflation plus three percent initially as we restructure the portfolio, and over time basically we can then reset the target depending on the performance and all that.

So, if you look essentially on the commercial side, it includes a lot of our listed entities as well as some of our unlisted. Unlisted, we have a number of things including— I think not many people know but we actually co-owned Holstein Milk Company which is basically the Malaysia's largest producer of fresh milk. They are the Farm Fresh brand. So, those of you who drink Farm Fresh milk, please continue doing so.

Our strategic side basically includes all the regulated industries. So, TM, Tenaga Nasional Berhad, PLUS, Malaysia Airports. The way we do it essentially the strategic side focusses on those industries or technologies where government should have a bigger say either through regulations or ownership in terms of developing the country as a whole. So, in terms of our catalytic investment include stuff like SILTERRA, includes things like Iskandar Investment and Themed Attractions Resorts and Hotels where we are in the working with the government to improve tourism products in Malaysia as well. Those are some items in the strategic fund.

What are we planning to do over the next five years? Really a few things. One, strengthening the financial position. So, one of it is basically to actually reduce our cost of operations whereas Khazanah in 2018 was running at roughly about 50 bps to AUM. We think really it should be running about 30 to 35 bps in line with other funds. So, over the course over the next few years, we are planning to reduce the overall cost of operation of Khazanah by about 30 to 40 percent to achieve this target. Everything is quite doable, I think, as we look at being much more cost efficient on how we run Khazanah.

Secondly...

Tuan Pengerusi: *Does that include reducing the size of the man power?*

Datuk Shahril Ridza bin Ridzuan: *So, what we are doing basically is we— actually there is a lot of fixed cost we are trying to cut out now. So, for instance, we have some expensive offices overseas which may not be necessary. So, in those instances, we probably look at closing down those offices to make some savings there. Even within Kuala Lumpur, you know, we have two offices in Kuala Lumpur. Actually, there is no need for it. So, we actually going to consolidate everything to one office at a cheaper location. So, right now we are in KLCC as well as KL Sentral. We probably close down the one in KLCC and move everybody to KL Sentral. That saves us about RM20 million a year, just in rental alone.*

Tuan Wong Chen: *Jangan masuk Khazanah lah lepas ini. [Ketawa]*

Datuk Shahril Ridza bin Ridzuan: *But like I also mentioned, we will continue to make sure that we are competitive in the talent market, because we want to make sure we have the best people running the funds for sovereign wealth funds. What it means is that we will make sure we are not overpaying, but we at least competitive because the people we are hiring, we are hiring basically in competition with other investment banks, others sovereign wealth funds. So, in some cases, we do not want to be penny wise pound foolish also.*

Tuan Wong Chen: *What you should generally hire about 20 percent less pay scale because the people that join Khazanah are supposed to do it for the country, not purely for money. [Ketawa] I do not know what is your opinion on that.*

Datuk Shahril Ridza bin Ridzuan: *There is that element as well.*

Tuan Wong Chen: *Right. Sure.*

Datuk Shahril Ridza bin Ridzuan: *To be fair, I, myself have done national service now for many years with EPF and now with Khazanah. So...*

Tuan Wong Chen: *You will join bank soon?*

Datuk Shahril Ridza bin Ridzuan: *No. I will be retired after this one. [Ketawa]*

Tuan Wong Chen: *Masuk Parlimen lagi senang.*

Datuk Shahril Ridza bin Ridzuan: *No, no.*

Tuan Wong Chen: *But your pay will drop by 50 percent. [Ketawa]*

Tuan Pengerusi: *Not 90 percent? [Ketawa]*

Datuk Shahril Ridza bin Ridzuan: *Of course we already cover a lot of what we talked about on the commercial funds. So, a lot of restructuring there. As we move away from these concentrated holdings towards a more portfolio-based approach, more asset allocation-based approach, I think that will also help in terms of risk management for Khazanah.*

The strategic fund, I think this is where, like I mentioned— the choices here are actually we have to advice the government, every ringgit invested in one particular venture means a ringgit less to do something else. So, the government I think, needs to have as much information as possible about the anticipated economic spin off and benefits and it can then decide what is policy direction on some of these investments.

Governance, we are improving a lot and we also improving on transparency. So, for instance, I think 2018 accounts should be the first time we are going to put the whole things on to the website. People can download and look at. So that we'll make available once basically it has been cleared.

Of course, in terms of organizational capacity, we will continue to build on that. Here I think just to highlight to PAC, Khazanah also performs a lot of functions in terms of capacity building for the country. So, the Yayasan Khazanah scholarship, for instance, I think one of the best in terms of basically the number of scholarships it sends out every year for good students going to good universities. We sponsor the annual Khazanah Megatrends Forum which is a capacity building event for the industry as a whole, in terms of increasing knowledge and everything else.

We are also doing a number of more sustainability projects including Taman Tugu which is quite close to Parliament. We invite the members, if you are free, to come and visit us at Taman Tugu. That was basically a project that is undertaken by Khazanah to preserve green lung for the city as a whole.

Tuan Wong Chen: *I hope you all scale back the project because the original budget was ridiculous.*

Datuk Shahril Ridza bin Ridzuan: *Yeah, yeah. So, it was— after I came in, I had a look at it. So, worked with the team to completely scale back the project, whereas previously I think the project size was half a billion, RM600 million. Today, it is less than RM100 million.*

Tuan Wong Chen: *Acceptable because I use the Lake Garden quite a lot. [Ketawa]*

Datuk Shahril Ridza bin Ridzuan: *Yeah, yeah. So, that is really open, Yang Berhormat. So, please feel free to come and visit.*

So, focus for 2019, like I said, it is about the portfolio restructuring, financial strengthening of the Khazanah balance sheet and P&L. We are very comfortable with returning to profitability in 2019. And of course, improving the transparency in governance. I think one thing that I learned from my time in EPF is basically the more transparent you are, I think the better it is in the long run in terms of basically governance as well as I think in terms of public knowledge and what we are doing. So, that is really where we are today.

Tuan Wong Chen: *Can you just provide us a very simple snapshot? I do not know how many investment portfolios you have or how many investments you made. Let's say assuming that you have made a hundred companies, how many percent is exactly losing money and how many percent are you making money? Just very simple. Are you doing 50:50 or are you doing 80:20?*

Datuk Shahril Ridza bin Ridzuan: *No. It is actually not so easy to answer it in general like that because you have to look at different portfolios.*

So, for instance, in technology where you invest in a lot more early stage venture cap, PE type stuff, you will be doing pretty well to get 50:50. In most cases, you're probably doing about 30 percent winners, 70 percent— you know, either break even or you lose money. But the 30 percent winners, if you get them to IPO like where we did with Phunware, Farfetch and all the rest, basically you'll actually make a lot of money to cover the portfolio as a whole. So, I think it is a bit dangerous to generalize like that. What we are trying to do basically is always to look at it from a portfolio return as a whole to make sure we achieve those financial targets for the government.

Tuan Wong Chen: *But you are not at any critical position, right?*

Datuk Shahril Ridza bin Ridzuan: *No, no.*

Tuan Wong Chen: *I mean overall is going along quite well.*

Datuk Shahril Ridza bin Ridzuan: *Yeah. So, if we look at Khazanah as a whole in terms of portfolio as a whole, generally speaking, we are okay. We just need to do restructuring because*

what 2018 has shown basically is that by having too much concentration risk when you have a sudden event especially when it affects policy change and given the fact that it almost 80 percent of our assets are in policy sensitive industries, then the profit takes a huge beating. You had seen from the earlier slide as well, the profit has not really grown in the last few years because it had been too concentrated on Malaysia and most of the gains from restructuring those companies has been taken already in the early part of the cycle. So, Khazanah really should have four to five years ago started to actually restructure the portfolio, exit some of the assets and reinvest back into other things. We just know to do so.

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Tuan Wong Chen: *So, you're in the mood to find new things to invest? I mean that is, basically lah. So, you are lagging now for what three or four years at least.*

Datuk Shahril Ridza bin Ridzuan: *That's right. Ya.*

Tuan Wong Chen: *Last question now. What do you want Parliament to do, to help you to improve your governance? You know, is there something fundamentally wrong with any Act that involves you all— you know, like composition of the board or anything that you want. I mean we are the backbench but we do have influence over the Cabinet's decision as well.*

Datuk Shahril Ridza bin Ridzuan: *I think as far as Khazanah directly not so much because Khazanah is a company— per say, right. It's already governed by the Companies Act. We have our governance through basically our board membership and everything else. I think that part is okay. I think maybe if anything if backbenchers could help with our investee companies is, I think as you pointed out right the interface within policy and market stability which is very important. Because what we are trying to achieve is a stable policy regime which allows investment to keep happening. We want to keep the economy growing, right? For that to happen, investors must keep coming in. But, for investors to really keep investing in all these industries they want to have the certainty that they know how much they're going to be making out of it and that's why we decided to sudden policy shift. I think that is very important. So, that's why maybe if anything else Parliament can actually help in terms of... [Disampuk]*

Tuan Pengerusi: *For that part, government is listening too.*

Datuk Shahril Ridza bin Ridzuan: *They are now. They are now. But— yes.*

Tuan Wong Chen: *For Parliament we really want to do in a last couple of months, six months, this is an ongoing project that is to gain back some Parliamentary independence. Which is why we are pushing for the Parliamentary Services Act to come back, be brought back and then to form more standing committees so that policy wise— the standing committees play a crucial role in shaping policy and advising the minister in charge. So, we probably'll meet you half*

way there when we get the standing committees moving and also the independence of Parliament coming back in full with separation of powers.

Datuk Shahril Ridza bin Ridzuan: Okey.

Tuan Wong Chen: *Currently, of course we are confined by the Cabinet's power. So, hopefully within a year or so we should be able to negotiate with cabinet, so that, all of us have a role and whether we are opposition or government, backbench or otherwise have a role in trying to shape a policy. I think the issue like PAC Chairman, I think is fantastic-lah. Betul tidak?*

Tuan Pengerusi: *[Ketawa]* Saya buka kepada ahli-ahli ex-officio kalau ada soalan? *Anymore? Anything?* Jadi, terima kasih saya ucapkan kepada Datuk Shahril, kepada Datuk Seri Zuki dan semua *team* daripada Khazanah dan JPM kerana memberi taklimat dan penjelasan kepada PAC mengenai perkara kerugian Khazanah ini. Kita yakin bahawa Khazanah di bawah pimpinan Datuk Shahril, Khazanah *in the safe hand of* Datuk Shahril. Kita yakin Khazanah akan maju ke hadapan dan tidak perlu berhadapan dengan PAC tahun-tahun mendatang ini. *[Ketawa]*

Datuk Shahril Ridza bin Ridzuan: *Insya-Allah. Kalau perlukan we will come back and explain when we make money.*

Tuan Pengerusi: *Ah ya, you'll come back to tell us how much money you make. Saya tahu banyak taklimat yang telah dibagi. Prosiding dan taklimat pada pagi ini akan kita compile-kan dan akan dibuat dalam bentuk laporan ke Parlimen. Jadi, itu perbezaan antara taklimat yang sebelum ini dengan taklimat kepada PAC. Sebab itu, kita sengaja panggil mesyuarat hari ini sebagai prosiding dan jika diletakkan dalam kategori prosiding ia akan dilaporkan di Parlimen. Jadi, kita harap akan di-compile-kan semua information pada hari ini termasuk nota taklimat ini dan soal jawab yang berlaku pada hari ini dan akan dibuat dalam bentuk laporan dan dilaporkan ke Parlimen.*

Jadi, terima kasih banyak sekali lagi kepada semua kerana memberi kerjasama yang begitu erat dan baik kepada PAC. Terima kasih.

Datuk Shahril Ridza bin Ridzuan: Terima kasih Yang Berhormat.

[Majlis mesyuarat ditangguhkan pada pukul 12.34 tengah hari]