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MEDIA STATEMENT

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YAB Prime Minister Reviews Progress made under the GLC Transformation Program and Launches Initiative Books on Board Effectiveness and Procurement Revamp for GLCs

The Prime Minister, YAB Dato' Seri Abdullah Ahmad Badawi was today given an update on the progress of the Government Linked Companies ("GLC") Transformation Program by the Putrajaya Committee on GLC High Performance ("PCG") and launched two major initiative books under the GLC Transformation Program. The launch of the Green Book on Board Effectiveness and the Red Book on GLC Procurement Guideline and Best Practices marks another major milestone of the GLC Transformation Program.

The Prime Minister was pleased with the progress made and he reaffirmed the Government's strong support to this program, which is one of the key policies of his administration. Indeed YAB Prime Minister highlighted that the GLC Transformation Programme is an integral part of the National Mission outlined in the Ninth Malaysia Plan ("RMK9"). In order to move the economy up the value chain, which is the first major thrust of RMK9, there is a great need to inculcate a culture of high performance and excellence in both the public and private sectors and the GLC Transformation Program is a key enabler in this regard.

He added that the Government remains committed to the GLC Transformation Program, and hopes that the PCG will continue to program manage, track and monitor the progress against the timeline set out in the GLC Transformation Manual.

At the GLC Transformation Update session, the PCG, chaired by Second Finance Minister YB Tan Sri Nor Mohamed Yakcop, reported to YAB Prime Minister on the progress of the program. The Transformation of GLCs continues to gain momentum with the launch of these two key initiative books on Enhancing Board Effectiveness (Green Book) and Procurement (Red Book) and caps a busy nine month period of activity in rolling-out the transformation program which began with the launch of the Transformation Manual by YAB Prime Minister in July 2005. Since then various initiatives have been put in place, including the launch of the Blue Book on Performance Management, the establishment of the Transformation Management Office ("TMO") and the announcement of headline Key Performance Indicators ("KPIs") by 15 key GLCs.

The PCG also highlighted that in the period since the inception of the GLC Transformation Program on 14th May 2004, the 23 GLCs which are constituents of the KLCI 100-stock index on Bursa Malaysia has registered a total shareholder return ("TSR") of 33.9% as well as outperforming the overall index (excluding the GLCs) by 11.2% points. Annualised, this represents a total shareholder return of 15.9% per annum, outperforming the broader KLCI ex-GLCs TSR of 12.1%.

Overall, notwithstanding that 2005 and 2006 are transition years involving restructuring of legacy issues and mobilization of the Transformation Program, the PCG reported that good progress has been achieved with many GLCs having reported various quick wins in their transformation efforts. However the PCG also noted that there remains much to be done and the focus going forward will be on executing and implementing the program.

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About The Putrajaya Committee on GLC High Performance (“PCG”)

The PCG was formed in January 2005 to follow-through and catalyse the GLC Transformation Program. PCG is chaired by the Second Finance Minister, with participation from the heads of the Government-Linked Investment Companies (GLICs) namely Khazanah Nasional Bhd. (Khazanah), Permodalan Nasional Bhd. (PNB), the Employees Provident Fund (EPF), Lembaga Tabung Amanah Tentera (LTAT), Lembaga Urusan Tabung Haji (LTH) and representatives from the Ministry of Finance Inc. (MOF) and the Prime Minister’s Office, to work together to monitor developments and recommend further measures for improvement.

A Transformation Management Office (TMO) has been established at Khazanah, the Secretariat to the PCG. This TMO is responsible for managing the roll-out and implementation of the 10 Initiatives proposed in the GLC Transformation Program.

About the Green Book – Initiative 3: Enhancing Board Effectiveness

Three components of an effective GLC Board.

1. Structuring a high performing Board:
 - Size of Board is preferably no larger than 10 members, but can go up to 12 under special circumstances
 - Composition should be balanced, with at least 1/3 independent directors but with no more than two executive directors (except in special circumstances)
 - Cap directorships in listed companies to 5, and in non-listed to 10
 - Formation of Excocs only in specific circumstances (crisis mode and lack of capacity from management to deal with the crisis). In such cases, Excocs should last up to 6 months, and in exceptional circumstances extended to 12 months
 - Broaden pool of directors, in addition to the current pool and traditional sources of Directors, to include professionals from within Malaysia and Malaysian expatriates with specific skills required by GLCs; other serving CEOs provided there is no competitive conflict; and over time experienced directors from overseas - particularly for GLCs with regional and global aspirations or those that are facing global competition
2. Ensuring effective Board operations and interactions
 - Setting the Board calendar at least 12 months in advance, but revisited as necessary. Board meeting agendas distributed 14 days, and reading materials 7 days, in advance

- Board decisions communicated promptly to management for action, verbally within 1 day, relevant written minutes within 3 days
3. The Green Book contains a practical, action-oriented workbook to help guide these directors conduct a Board Effectiveness Assessment (BEA). By completing this assessment, individual GLC Boards will be better able to evaluate their current effectiveness, identify any key gaps and formulate an actionable improvement program. All GLC are expected to conduct a BEA as soon as practicable.
 4. Focused on fulfilling fundamental Board roles and responsibilities
 - Oversee strategy setting, corporate performance management, development of future leaders and human capital, and risk management. Adopt all shareholders' perspective and balance all valid stakeholder interests
 - Clarify boundaries to be drawn between the Board and management

About The Red Book – Initiative 6: Procurement Guidelines and Best Practices

1. Undertaking procurement initiatives can significantly improve GLCs' performance.
 - a. GLC Procurement spend is large, with high potential for savings
 - i. G15 GLCs spent RM50 billion in capex and opex in 2004, representing about 10% of GDP
 - ii. The savings potential from improved procurement in G15 ranges from RM4-9 billion
2. The Red Book will help GLCs
 - a. **Drive value creation**
 - i. **Lower total costs of ownership** by aggregating demand, intensifying competition, and standardising specifications. For example, TM has used electronic bidding to intensify supplier competition, realising savings of RM130 million (or 20% of spend) for 5 products purchased
 - ii. **Reduce cycle times** by using differentiated purchasing methods, streamlining approval processes, and using e-procurement where appropriate. For example, TM introduced a new purchasing method for commodity products, resulting in 25% reduction in cycle times
 - b. **Enhance transparency and reduce corruption** by introducing vendors' and employees' codes of conduct, more rigorous procurement audits and stronger contract terms. For example, TNB has introduced more stringent supplier contract terms to minimise unethical conduct and use of non-value adding suppliers.
 - c. **Improve GLCs' support for national development objectives** by
 - i. Promoting use of products with significant local value add
 - ii. Ensuring Bumiputeras' equity share of economic growth
 - iii. Supporting local and Bumiputera vendors, using an approach that balances commercial and national developmental objectives. For example, Petronas has successfully graduated vendors, several of whom are now regionally competitive
3. The Red Book will increase the roles and responsibilities of GLC Boards and management in driving procurement transformation programmes. GLCs Boards and CEOs should
 - a. Conduct "Procurement Assessments" to determine their procurement maturity and gaps to best practices
 - b. Design procurement transformation programmes relevant to their organisations

- c. Ensure that their procurement organisations have the required capabilities (e.g. qualified Chief Procurement Officer or head of procurement with appropriate senior reporting line, supported by market intelligence units)
 - d. Set appropriate KPIs and targets for CEOs and heads of procurement. (e.g. cost savings realised, average cycle time reduction)
 - e. Track and monitor procurement transformation programmes on a regular basis (e.g. on a quarterly basis)
4. Listed GLCs will be expected to be applying the Red Book's best practices by end 2006. Hence, they should complete their assessments within the next 3-6 months.

Appendix: Quick Wins Achieved by the key GLCs to date

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| Affin Holdings Berhad | <ul style="list-style-type: none"> ● Integration of the group's businesses is on track with the merger of Affin Bank Berhad and Affin-ACF Finance Berhad completed on 1 June 2005 and the acquisition of remaining 36.84% of Affin Merchant Bank from MISC in December 2005 |
| BIMB Holdings Berhad | <ul style="list-style-type: none"> ● Recapitalisation via issuance of Rights Issue at the Bank is on target while improved market orientation via redefining target market, enhanced delivery system and product focus now in place |
| Bumiputra-Commerce Holdings Berhad | <ul style="list-style-type: none"> ● Major restructuring to integrate commercial and investment banking arms completed and acquisition of Southern Bank Berhad pending finalisation ● Successful regional expansion via acquisition of GK Goh and consolidated presence in Indonesia through increased stake in Bank Niaga |
| Malayan Banking Berhad | <ul style="list-style-type: none"> ● Implemented capital management program and Performance Management System |
| Malaysian Airline System Berhad | <ul style="list-style-type: none"> ● Quick wins plan implemented, generating estimated revenue of RM500 million while comprehensive Business Turnaround Plan unveiled in February 2006 ● Signed collective agreement with nine unions in February 2006 |
| Malaysian Resources Corporation Berhad | <ul style="list-style-type: none"> ● Rationalisation and restructuring pared down debt to RM1.2 billion in 2005 while KL Sentral development project has on-going order-book of RM1.2 billion in 2005 and balance of RM3.5 billion gross development value until 2012 |
| Sime Darby Berhad | <ul style="list-style-type: none"> ● Improved capital management function by strengthening corporate centre on M&A activities and capital expenditure requisition, defining optimal capital structure, and centralisation of cash management and corporate finance decision ● On-going disposal of non-core assets |
| Telekom Malaysia Berhad | <ul style="list-style-type: none"> ● Initial savings of RM 191 million from procurement pilot, mutual benefits for staff and company from a VSS program ● Granted fairer access pricing structure with outflow savings of RM100 million p.a. ● Regional expansion plan bearing fruit with gains from Telkom South Africa and successful listing of Dialog and Excelcomindo and roaming and co-branding partnership with Vodaphone established |
| Tenaga Nasional Berhad | <ul style="list-style-type: none"> ● Efficiency gains of RM962 million realised in FY05 from cost reduction, revenue enhancement and reduced losses ● Successful bid for new overseas venture – Shuaibah 3 |