



Catalysing GLC Transformation to Advance Malaysia's Development

Presentation by PCG Secretariat

29 July 2005



GLC TRANSFORMATION IS CRITICAL FOR MALAYSIA

Significant part of economy

- **Capital Market constituent: 54% of KL Composite Index**
- **Employer: 5% of workforce**

Provider of strategic utilities and services

- **Utilities e.g., public transport, water**
- **Services e.g., telecommunications, airlines, banking**

Executor of industrial policy and development

- **E.g., Automotive, semi-conductors**

Builds international linkages

- **Foreign ventures**
- **Investments in new growth sectors**

Policy Instrument to develop Bumiputera community

- **Human Capital**
- **Suppliers**

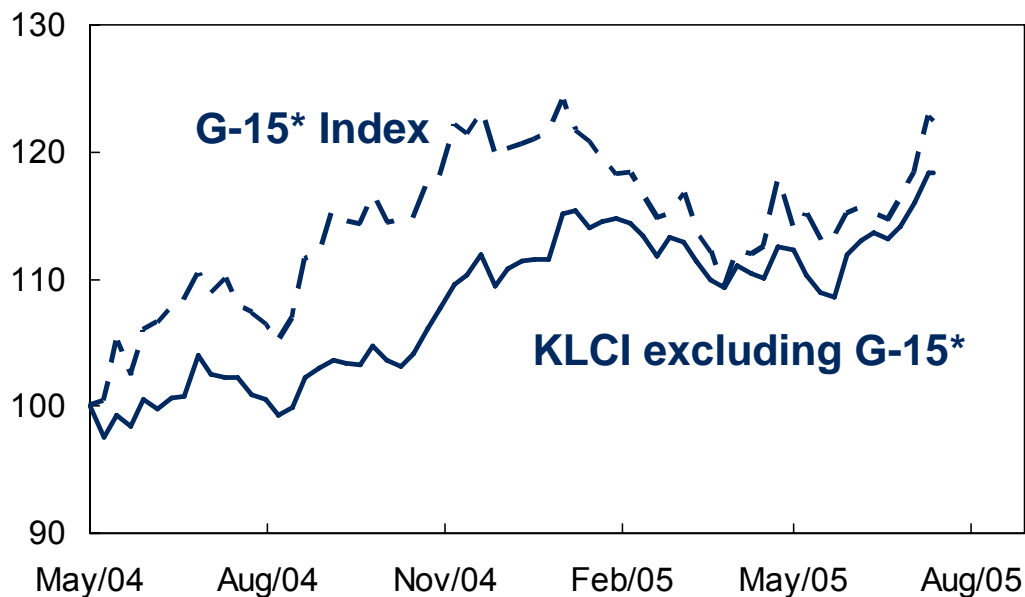
GLC TRANSFORMATION FOUNDATION – ‘2004 MEASURES’

2004 Measure	Description
1 Guidelines on KPIs and PLC	<ul style="list-style-type: none">• Referred to as the ‘Blue Book’• Provided a framework to design and implement fact-based monitoring, assessment and rewarding of the performance of GLCs executives• Performance contracts for senior management
2 Board composition reform	<ul style="list-style-type: none">• Reduce number of Board members to 10• Required a broader and more balanced representation of expertise• Removal of regulators from Boards
3 Revamp of Khazanah	<ul style="list-style-type: none">• From a passive to an active shareholder• Mandate of driving the transformation of GLCs in its portfolio• Building regional and international investments and linkages
4 Senior management and Board changes	<ul style="list-style-type: none">• In line with new phase at several major GLCs, e.g., Tenaga Nasional, Telekom Malaysia• Signal of government’s commitment to GLC transformation

GLCs HAVE BEEN PERFORMING WELL

Total Shareholders Return (TSR)

Indexed to May 2004 (kick-off of 2004 measures)



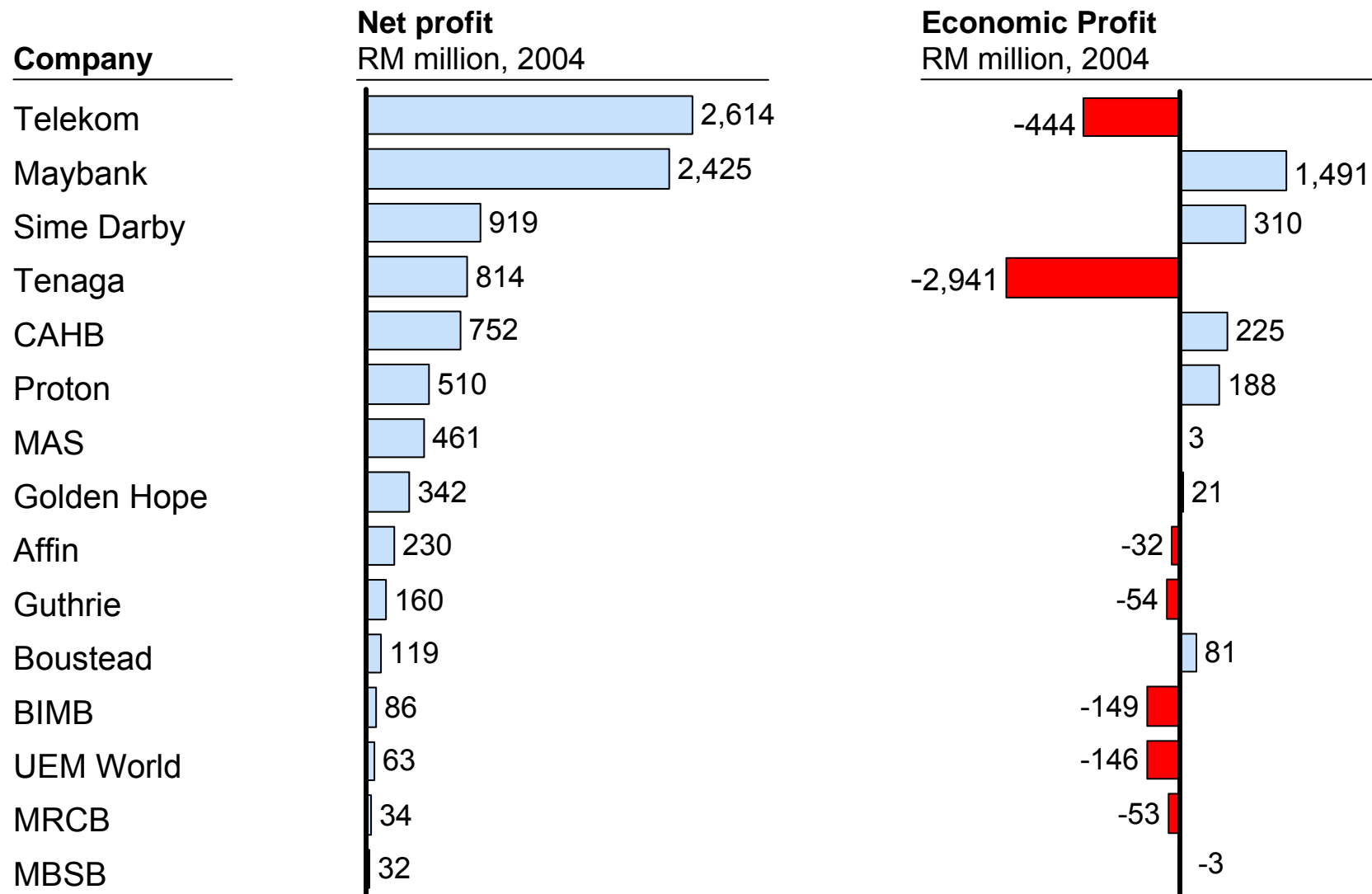
TSR for the G-15* grew at a CAGR of more than 18% compared to around 15% for the KLCI excluding the G-15**

* Selection of 15 GLCs controlled by the GLIC constituents of PCG; G-15 represents 65% of capitalisation of all GLCs

** CAGR (compound annual growth rate) for the period 13/5/04 to 25/7/05

Source: Datastream

BUT SIGNIFICANT OPPORTUNITY TO IMPROVE PERFORMANCE – UNDERLYING PERFORMANCE IS MUCH WEAKER THAN REPORTED



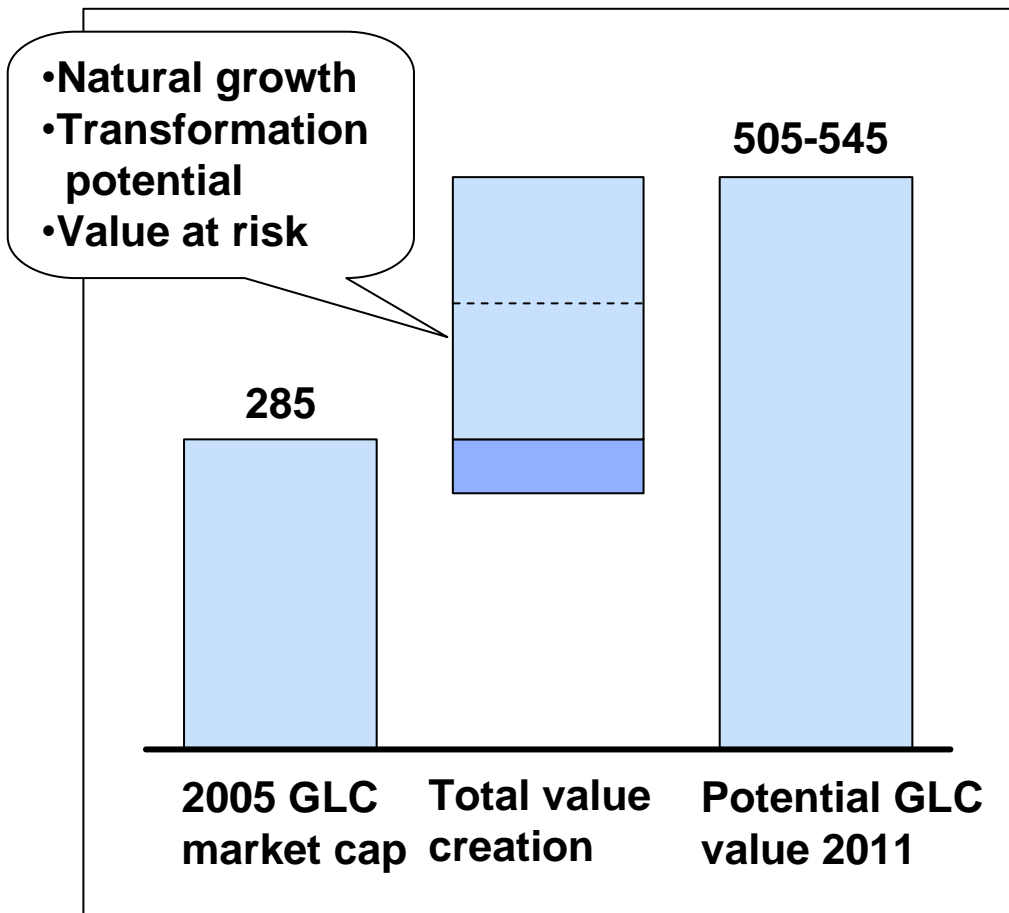
Source: Annual reports; Joint Working Team analysis

GLC TRANSFORMATION WILL HELP ENHANCE VALUE TO ALL STAKEHOLDERS

RM billions

ESTIMATES

Economic value to investors



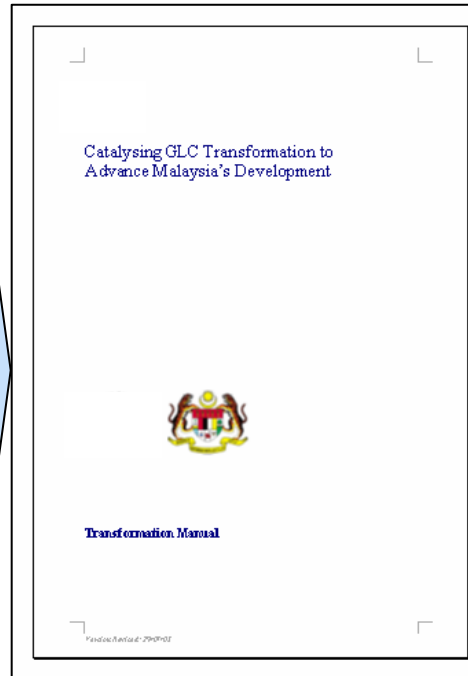
Value to all stakeholders

- Customers
- Labour force
- Shareholders
- Private sector
- Suppliers
- Bumiputeras

A THOROUGH STUDY WAS CONDUCTED TO DEVELOP THE TRANSFORMATION MANUAL

5 Lenses on Best Practices:

- (1) Company transformation case studies, e.g. Telefonica, Petronas, Shell-Malaysia
- (2) Transformation experience in other countries, e.g. NZ, UK, China, Indonesia, Singapore
- (3) Leading corporate governance practices, e.g. Intel, Yale
- (4) Major pension funds, e.g. Calpers, Hermes
- (5) Leading Private Equity firms, e.g. 3i

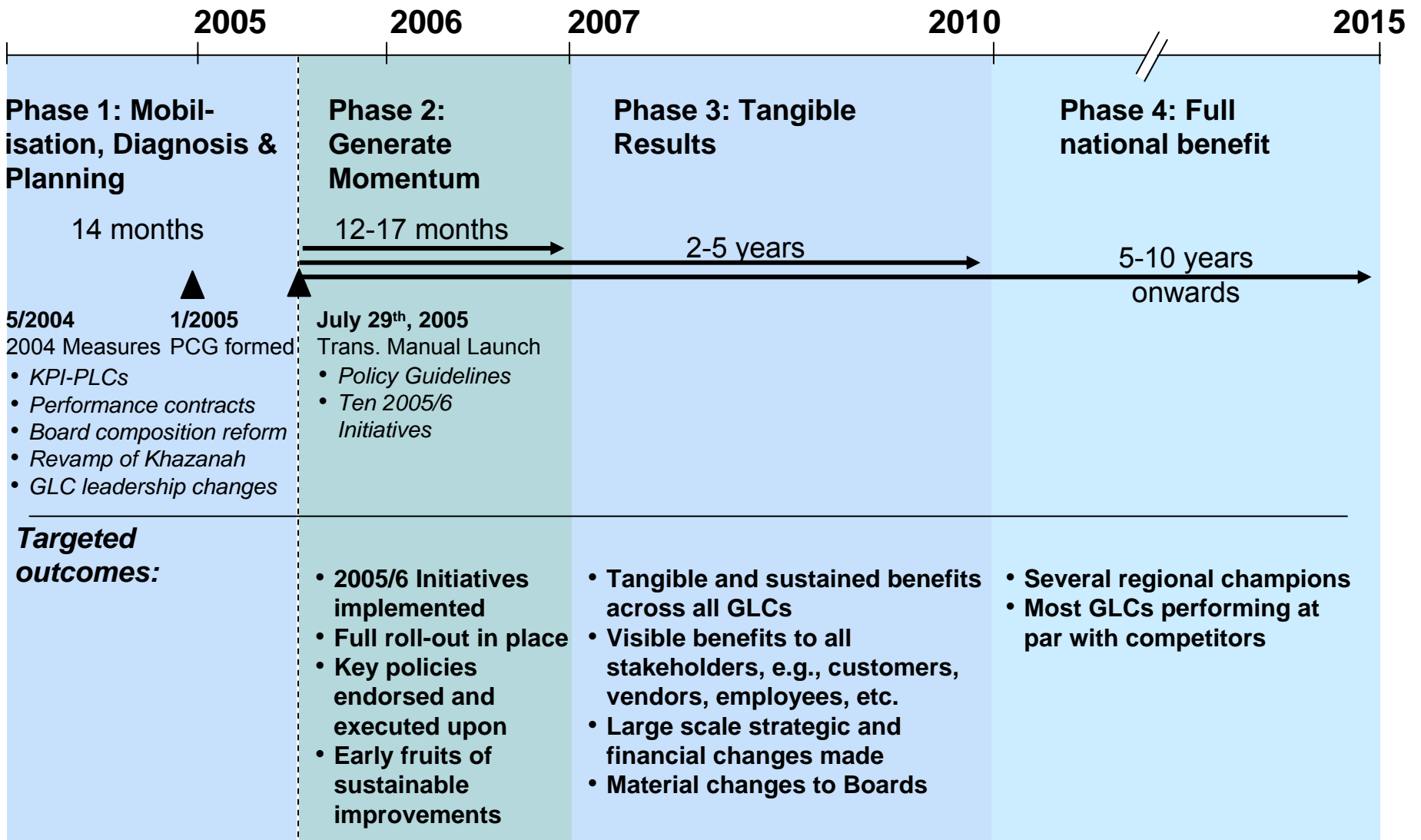


- Living binder
- Not a cookbook
- Complementary to existing initiatives

Deep diagnosis of Malaysian context

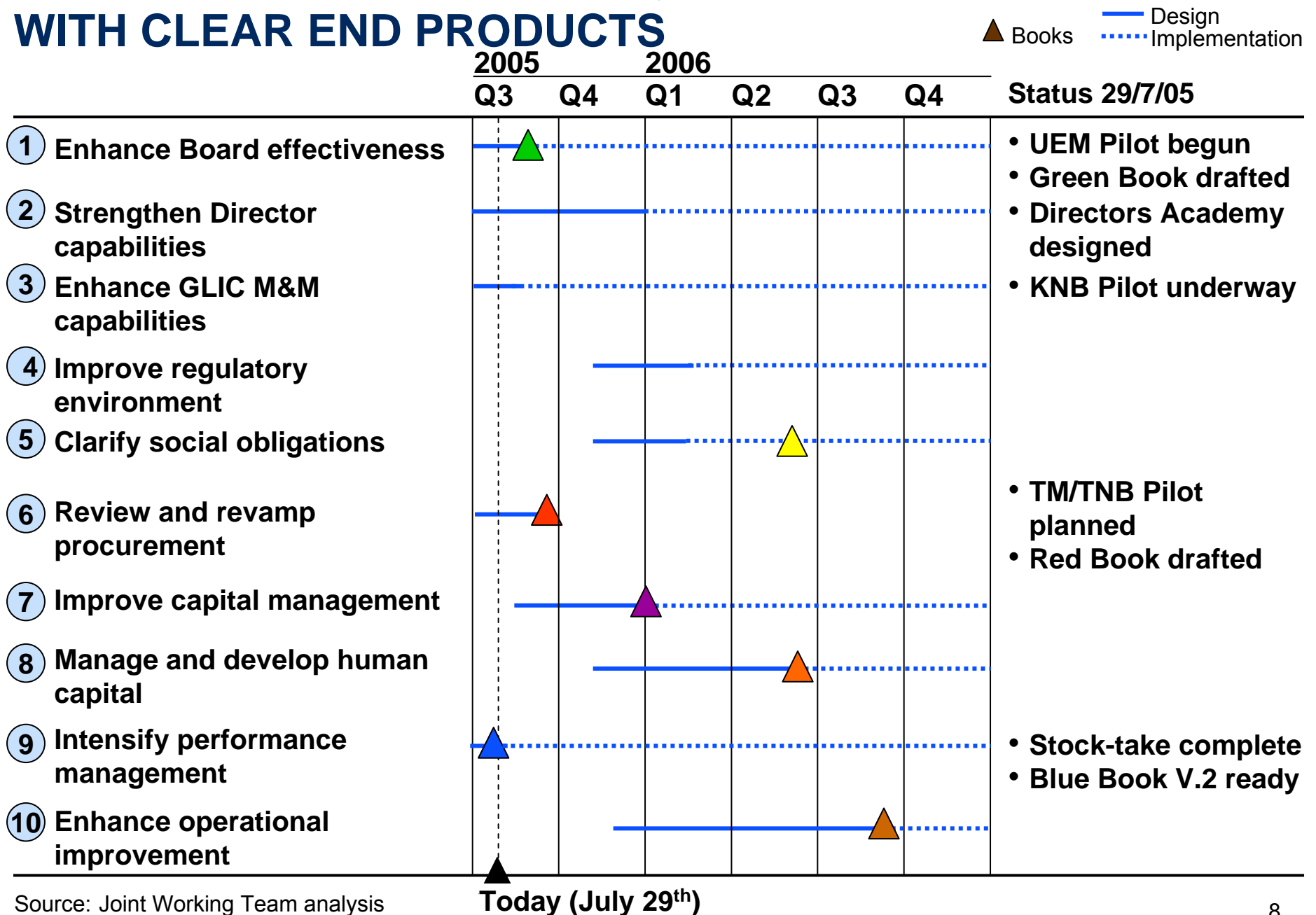
- (1) Over 100 interviews conducted
- (2) Detailed benchmarking of GLC performance
- (3) Stock-take of previous GLC transformation initiatives launched
- (4) Review of relevant Malaysian laws, policies, and guidelines

GLC TRANSFORMATION IS A LONG-TERM PROGRAM



Source: Joint Working Team analysis

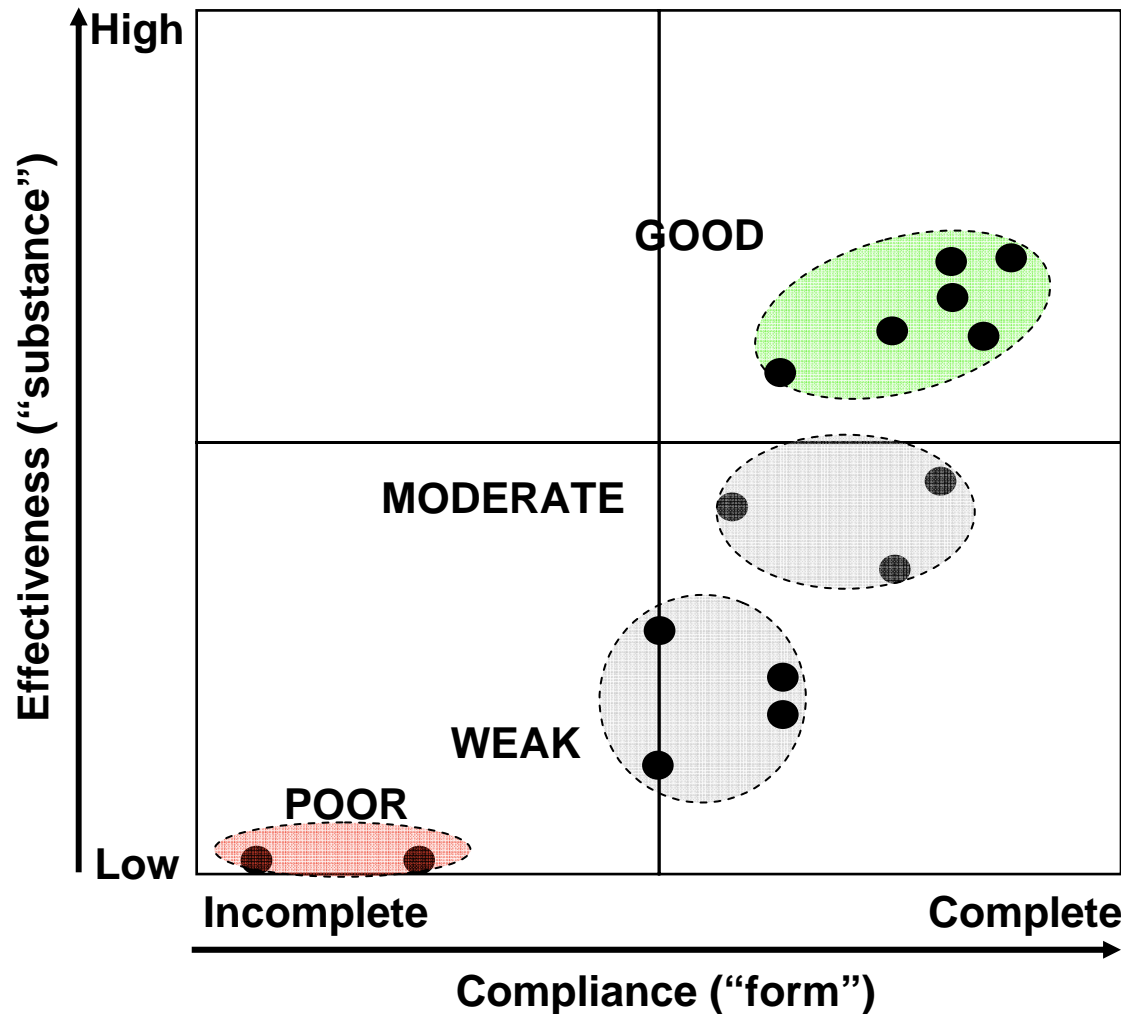
INITIATIVES CAREFULLY SEQUENCED AND LAUNCHED WITH CLEAR END PRODUCTS



Source: Joint Working Team analysis

RECENT STOCK-TAKE OF KPI/PLC IMPLEMENTATION SHOWS PROGRESS, BUT STILL ROOM FOR IMPROVEMENT

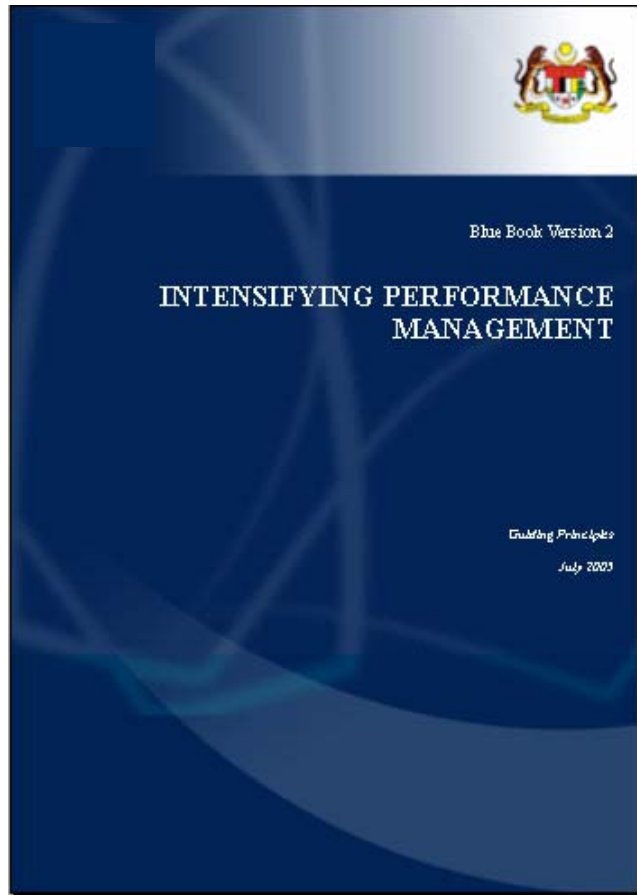
“G-15” Compliance-Effectiveness Grid



Key implementation gap – “Form” over “Substance” for some companies, e.g.,:

- KPIs not tightly linked to strategy
- KPIs and targets sometimes not fact-based
- Ratings lack differentiation → poor consequence management
- Lack skills to cascade down implementation
- Might not be self funding

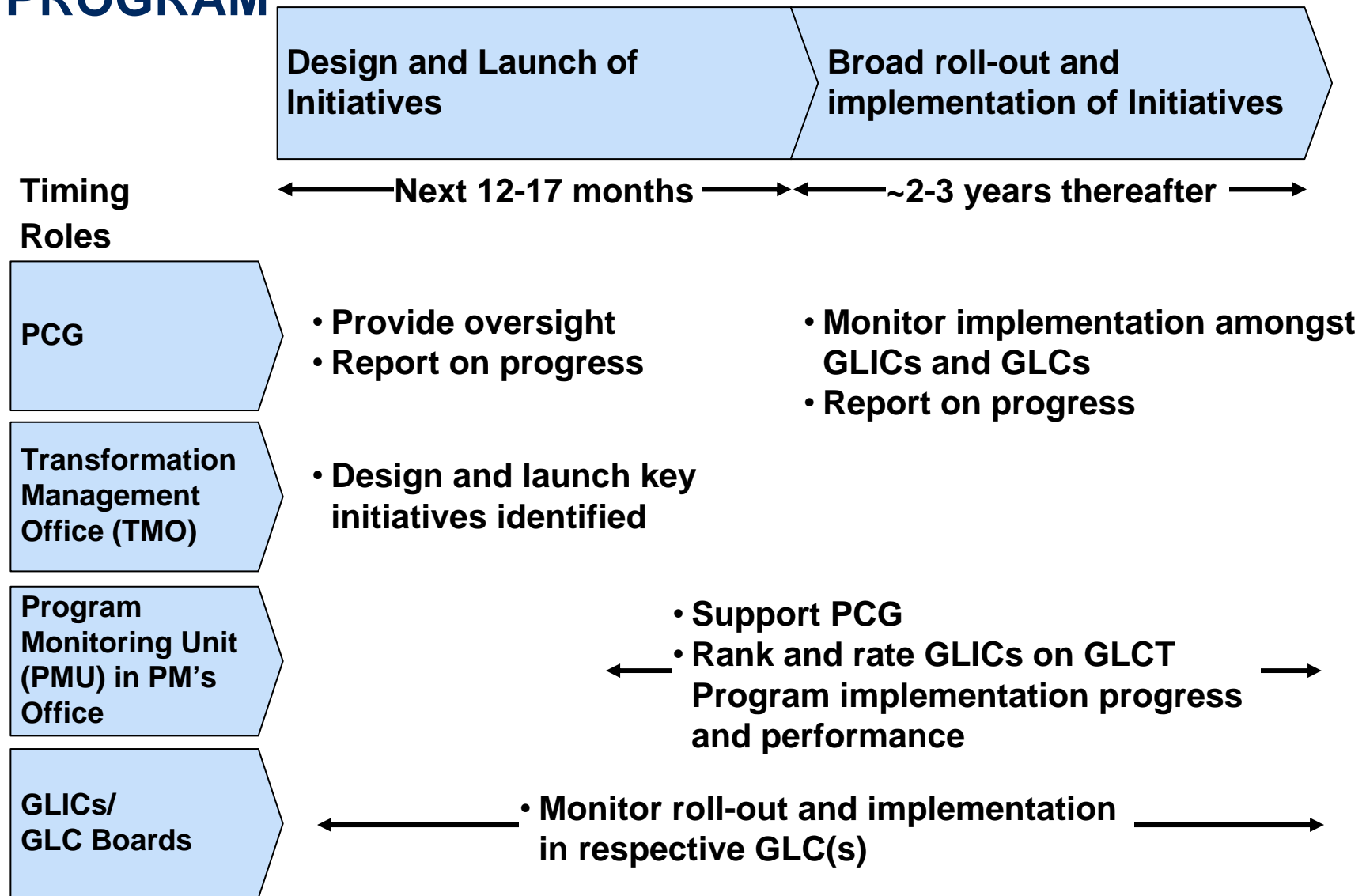
VERSION 2 OF THE BLUE BOOK HAS BEEN ISSUED BASED ON THE LEARNINGS FROM THE STOCK-TAKE



Consistent with Version 1

- **Expands on performance management, e.g.,:**
 - Emphasis on strategy, fact-based targets
 - Guidelines on performance reviews
- **Provides more details and best practice examples, e.g., case examples of:**
 - Target-setting process
 - Managing underperformers
- **Clarifies accountability for implementation**

GLICS AND GLC BOARDS ULTIMATELY ACCOUNTABLE FOR IMPLEMENTATION OF THE GLC TRANSFORMATION PROGRAM



NEXT STEPS ON GLC TRANSFORMATION

What YOU (GLCs) can expect in 2005

- ① GLIC MDs/CEOs attend GLC Board meetings to answer your questions
- ② TMO to follow-up on execution of initiatives
- ③ “Green Book” on Board Effectiveness and “Red Book” on Procurement to be issued

What WE expect to happen in 2005

- ① GLICs, GLC Chairmen and GLC CEOs accept Guidelines and Initiatives
- ② GLC Chairmen communicate Guidelines and Initiatives to their Board and senior management
- ③ GLCs and GLICs begin implementation