PUTRAJAYA COMMITTEE
GLC HIGH PERFORMANCE

Catalysing GLC Transformation to Advance Malaysia's Development

BERSEKUTU BERTAMBAH MUTU

Summary of Transformation Manual

March 2006

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ACRONYMS AND ABBREVIATIONS

CEO	Chief Executive Officer
CSR	Corporate Social Responsibility
EPF	Employees Provident Fund
EVA	Economic Value Added
GLC	Government-Linked Company
GLIC	Government-Linked Investment Company
JWT	Joint Working Team
Khazanah	Khazanah Nasional Berhad
KLCI	Kuala Lumpur Composite Index
KPI	Key Performance Indicators
KWAP	Kumpulan Wang Amanah Pencen
LTAT	Lembaga Tabung Angkatan Tentera
LTH	Lembaga Tabung Haji
M&M	Management and Monitoring
MAS	Malaysia Airlines System Berhad
Maybank	Malayan Banking Berhad
MKD	Menteri Kewangan Diperbadankan
MOF	Ministry of Finance
MSC	Multimedia Super Corridor
MCMC	Malaysian Communications and Multimedia Commission
PCG	Putrajaya Committee for GLC High Performance
PLC	Performance-Linked Compensation
PMU	Program Monitoring Unit
PNB	Permodalan Nasional Berhad
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
TMO	Transformation Management Office
VBM	Value-Based Management
VSS	Voluntary Separation Scheme

NAVIGATION GUIDELINE

This document is an Executive Summary of the GLC Transformation Manual which was launched on 29th July 2005.

The purpose of this "Navigation Guideline" is to guide the reader through the Executive Summary.

SECTION I
INTRODUCTION

SECTION I - INTRODUCTION

The transformation of GLCs into high-performing entities is critical for the future prosperity of Malaysia, and vital to achieve Vision 2020 - to be a comprehensively developed nation by 2020. To facilitate this transformation, the PCG has undertaken two sets of actions. First, the codification of Policy Guidelines, consisting of five policy thrusts and guidelines, with the objective of providing an enabling environment for GLCs to perform. The five policy thrusts outlined include:

- **Thrust 1** – Clarify the GLC mandate in the context of national development.
- **Thrust 2** – Upgrade the effectiveness of Boards and reinforce the corporate governance of GLCs.
- **Thrust 3** – Enhance GLIC capabilities as professional shareholders.
- **Thrust 4** – Adopt corporate best practices within GLCs.
- **Thrust 5** – Implementing the GLC Transformation Program.

Second, the translation of the Policy Guidelines into ten specific Initiatives that are targeted to driving and enhancing GLC performance. These ten Initiatives, known as the 2005/6 Initiatives will be gradually rolled-out and implemented in 2005 and 2006.

These Initiatives cover key areas of GLC operations and governance including, inter alia, Board effectiveness; Director capabilities; M&M capabilities of GLICs; Regulatory environment; Social obligations; Procurement; Capital management; Leadership and human capital development; Performance management and Operational improvements.

The Transformation Manual, which was launched on 29th July 2005, is the output of this endeavour and is intended to be a living document - with new Policy Guidelines and Initiatives to be added over time, and updates or amendments to be made to existing Policy Guidelines and Initiatives as necessary. This document, in turn seeks to summarise and serve as a guide to the Transformation Manual. Therefore, the structure of this document mimics that of the Transformation Manual and will make references to the Transformation Manual.

While it is expected that GLICs, GLC Boards, and senior management should adopt these Initiatives and Guidelines and complete their implementation within their respective organisations by the proposed timelines, these Initiatives are not meant to be all encompassing or 'silver bullets' to enhancing GLC performance. GLCs are expected to supplement and customise these Initiatives to better suit their individual situations.

A TMO has been established at Khazanah, the Secretariat to the PCG. This TMO will be responsible for managing the roll-out and implementation of these Initiatives. In the event that any clarification or further detail is required, enquiries can be addressed to PCG@treasury.gov.my

SECTION II
POLICY GUIDELINES

SECTION II - POLICY GUIDELINES

THE CONTEXT FOR CHANGE AND FOR GLC TRANSFORMATION

Vision 2020

"By the year 2020, Malaysia must be a comprehensively developed country - developed economically, developed politically, developed socially and culturally, progressive and caring."[1]

The year 2005 marks the half-way point of a thirty year development journey towards Vision 2020 that was first outlined in 1990. While the nation continues to build, develop and to grow with equity, many new challenges - and concomitant opportunities - have emerged in the interceding years since 1990.

Of note, the 1997-1998 Asian financial crisis has significantly impacted the structure of the Malaysian economy. The concerted efforts of the Government and the private sector at crisis management have resulted in the nation emerging on a stronger footing in all aspects of the economy. This period and the subsequent recovery also saw a greater role for the Government in economic management that resulted in several large and strategic corporations coming under Government ownership and control.

GLCs and their controlling shareholders, GLICs, constitute a significant part of the economic structure of the nation. GLCs account for approximately RM260 billion in market capitalisation or approximately 36% and 54% respectively of the market capitalisation of Bursa Malaysia and the benchmark KLCI[2]. Additionally, GLCs account for an estimated 5% of the national workforce. Even with active divestment and privatisation, GLCs remain the main service providers to the nation in key strategic utilities and services including electricity, telecommunications, postal services, airlines, airports, public transport, water and sewerage, banking and financial services.

In areas of industrial policy and development such as in automotive and semiconductors, GLCs play an important role in executing Government policies and initiatives and in building capabilities and knowledge in key sectors. Further, in the areas of building international economic linkages through investments in foreign ventures and investments in new growth sectors, GLCs and GLICs are increasingly playing a more active and significant role in line with a gradual internationalisation of Malaysian economic interests in tune with increased global economic liberalisation.

While much has been and continues to be done, to achieve the noble objectives of Vision 2020, greater urgency and impetus needs to be imbued in view of the increasing pace of international competition and the shorter timeframe available to complete the program, in part, due to the hiatus caused by the Asian financial crisis.

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1 *YAB Prime Minister at the Nikkei International Conference on "The Future of Asia", Tokyo, 25th May 2005; as adapted from 'Vision 2020 - Malaysia as a Fully Developed Country' which was presented to the Malaysian Business Council by Tun Dr. Mahathir Mohamad in 1990*

2 *As of 26th July 2005*

The urgency for transformation of GLCs is further underlined by its underperformance in terms of operations and financial indicators, at least over the last 15 years since 1990. In this regard, the YAB Prime Minister has made the transformation of our GLCs a critical pillar of this new impetus and has launched initiatives over the last 14 months in line with this broad strategy. It is also hoped that the Government's efforts at improving performance in companies under its control or stewardship will have a positive demonstration effect on the rest of the corporate sector.

This strategy of improving total factor productivity complements and builds upon the gains achieved in the intervening 48 years since independence; building on the political stability and consensus among the various races and communities, on the strong and diversified economic base and the first rate physical infrastructure. In particular, a cornerstone of the Government's and national consensus in nation building is the development of the Bumiputera community as enshrined in the national constitution. In this regard, the GLC Transformation Program will continue to be a significant policy instrument to execute Government's policies with regard to the development of the Bumiputera community, with the ultimate aim of preparing the Bumiputera community and the nation towards greater competitiveness.

Performance of GLCs critical to the future prosperity of Malaysia

New level of GLC performance required. GLCs have evolved significantly, some from branches of Government to incorporated entities, others entering or in some cases reentering into the ranks of GLCs through the Asian financial crisis, while others still arising out of greenfield start-ups. The different paths to the current state have resulted in varying levels and modes of performance cultures. One study found that GLCs underperformed the broader Malaysian market on all key financial indicators except for size.[3]

One indicator of performance is economic profit or EVA. For the "G-15" - a selection of 15 GLCs held by the GLIC constituents of the PCG, which represent approximately 65% of the market capitalisation of all listed GLCs - only 7 out of 15 GLCs created economic profit in financial year 2004, in spite of all 15 being profitable from an accounting standpoint.

Significant benefits from GLC Transformation. Using one of the methodologies to estimate the potential for value creation, PCG estimates that high performing GLCs could, in the next five to seven years, contribute a potential upside of RM250-300 billion in market capitalisation for Bursa Malaysia, or a doubling from current levels.

Beyond the economic and financial benefits to shareholders, high performing GLCs will benefit all stakeholders and contribute to Malaysia's future well-being in other important ways as described in Exhibit 1 on the following page.

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3 *CIMB study, "GLCs - Issues & Prospects", June 2004*

EXHIBIT 1
GLC TRANSFORMATION BENEFITS TO STAKEHOLDERS

Key Stakeholders	Benefits
CUSTOMERS	▶ Higher service and quality levels ▶ Better value-for-money propositions from more productive and efficient GLCs
LABOUR FORCE	▶ Better job prospects and human capital development at more dynamic and rapidly growing GLCs ▶ Likely to be preceded by phase of reduced employment to drive out inefficiencies
PRIVATE SECTOR	▶ Increased pressure for private sector to maintain competitiveness and skill levels, thereby increasing overall industry standards
SUPPLIERS	▶ Increased transparency with merit-based procedures favouring the highest value-for-money suppliers ▶ Reduce leakages, inefficiencies and corruption
BUMIPUTERAS	▶ Uplift in GLC performance will support the continued development of a more competitive Bumiputera community, through better skilled Bumiputera employees and more capable Bumiputera suppliers

Source: JWT analysis

The challenges are many and complex, but GLC Transformation is achievable

Clear challenges to address. To create a more enabled environment for performance for GLCs involves addressing many complex issues. From the findings of interviews by the JWT of the PCG as well as inputs from various independent analyses from consulting firms, investment banks and indeed from the Government itself and other stakeholders, the challenges to performance is complex and multi-fold. While the factors are manifold, several key themes on challenges to performance emerged strongly from the various interviews and analysis, summarised in Exhibit 2 below.

Objectives and goals are achievable - large-scale transformation of SOEs has occurred. Beyond the challenges, a closer look at GLCs, and a review of other nations' SOEs, clearly indicates that GLC Transformation is not an impossible goal. New Zealand's economic transformation of the past 10 to 15 years, while in a different socioeconomic context saw significant transformation at the micro-economic level in companies such as New Zealand Post and New Zealand Telekom. The journeys of individual SOEs like Telefonica in Spain and Unicredito Italiano in Italy also provide important lessons. These companies, once laggards, have become regional, and even global, champions.

While these experiences are necessarily context bound within the socio-political conditions of each nation at a particular point in time, there are nonetheless many lessons that are instructive for Malaysia. One lesson is that such transformation of GLCs is a long journey, which takes anything from 5 to 10 years.

EXHIBIT 2

CHARACTERISTICS TO ENHANCE PERFORMANCE OF GLCS

Performance Driver	Characteristics to enhance performance
Certainty and clarity of GLC objectives	▶ Increase focus on value-creation and/or clarity on social objectives ▶ Increase certainty as to how to achieve social objectives, what required standards are, and at what costs ▶ Make clear how GLC objectives fit with broader industry context/goals
Clear and transparent Board and management authority	▶ Clarify and streamline reporting lines of Boards to increase empowerment ▶ Improve interaction between Boards and management ▶ For some GLCs, need to improve continuity in view of relatively short, single-term tenure of CEOs resulting in disruption every 2 to 3 years
Effective Directors and Boards	▶ Need for more Directors with relevant operational, functional or where applicable, international experience – need for better selection processes, access to wider pool, and more attractive proposition for Directors
Strong performance management and financial discipline culture	▶ More competitive compensation, better performance management ▶ Greater financial and return on investment focus, more attention to 'at what cost' ▶ More disciplined access to funding
Credible and capable active GLICs	▶ Help equip GLICs to be more active in the monitoring and management of their portfolio companies

Source: JWT analysis

In addition to the long duration for change, the experience of such transformations all point toward the need for deep and lasting change in corporate culture that involves the highly challenging task of changing staff mindsets and behaviours. In turn, the learnings for successful and sustainable changes in corporate culture all broadly point toward three key success factors:

a. *Strong leadership* - intense personal conviction, commitment and involvement from corporations' senior management, which typically requires a change in mindset and behaviour at that level first.

b. *Large investments in human capital* are required as multiple aspects of the transformation require efforts that go beyond 'business as usual' resources and capabilities.

c. *Steadfastness and political will* - the learnings from successful transformations all have the common characteristics of making and sticking with many tough decisions. This includes divestments or closure of businesses that are structurally underperforming, changes of Chairman, CEO, Board members and senior executives, as well as large-scale redundancies. To last the journey, the companies and in the case of New Zealand, the nation, required constancy and steadfastness and strong political will.

A COORDINATED NATIONAL EFFORT TOWARDS GLC HIGH PERFORMANCE

Given its critical importance for the long-term prosperity of the nation, the YAB Prime Minister has made the transformation of GLCs a national priority. This transformation aims at a deep and sustained structural improvement in GLC organisational and performance practices where benefits are targeted to be reaped over the short and medium, but ultimately focused on sustainable longer-term benefits over the next 5 to 10 years.

2004 Measures launched GLC Transformation. As the foundation, and to kick-start the Program, the YAB Prime Minister initiated a set of '2004 Measures' in May 2004, including (i) guidelines on KPIs and PLC; (ii) reform on Board composition; (iii) revamp of Khazanah; and (iv) changes of senior management and Board members of GLCs.

PCG formed in 2005. To sustain the momentum created by the launch of measures in 2004, the PCG was formed in January 2005. The PCG is chaired by YB Minister of Finance II and reports to YAB Prime Minister. Membership of the PCG consists of the heads of PNB, EPF, Khazanah, LTAT and LTH, and representatives from MKD and the Prime Minister's Office. Khazanah also acts as the Secretariat to PCG and chairs and drives the PCG JWT which consists of representation from all GLICs.

The principal mandate of the PCG is to design and implement comprehensive national policies and guidelines to transform the GLCs into high performing companies, and establish the institutional framework to first program-manage and subsequently to oversee the execution of these policies and guidelines.

Deliverables of the PCG in 2005 and 2006. Over the course of 2005 and 2006, the main deliverables of PCG are in three interrelated areas, of which most had been fully or partially by the launch of the Transformation Manual on 29th July 2005:

1. **Policy Guidelines**[4] that set the policy framework for GLC Transformation addressed to the three principal agents for change, namely at the GLIC level, the GLC Board level, and within GLCs themselves - these are detailed in the following pages.

2. **GLC Transformation Program 2005/6 Initiatives**[5]. Building on the 2004 Measures, **Ten Initiatives,** highlighted in Section III, have been identified to be developed, launched and implemented across GLCs by December 2006. These have been identified on the basis of their importance as levers for change, their large potential impact on value, and the unique ability of PCG to drive change in these areas. However, as noted earlier, these Initiatives are not 'silver bullets' nor all encompassing and GLCs are expected to supplement and customise them for their individual situations.

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[4] *As contained in Section II of this Transformation Manual, pages 3 to 30 towards the achievement of the noble aspirations of Vision 2020*

[5] *As contained in Section III of this Transformation Manual*

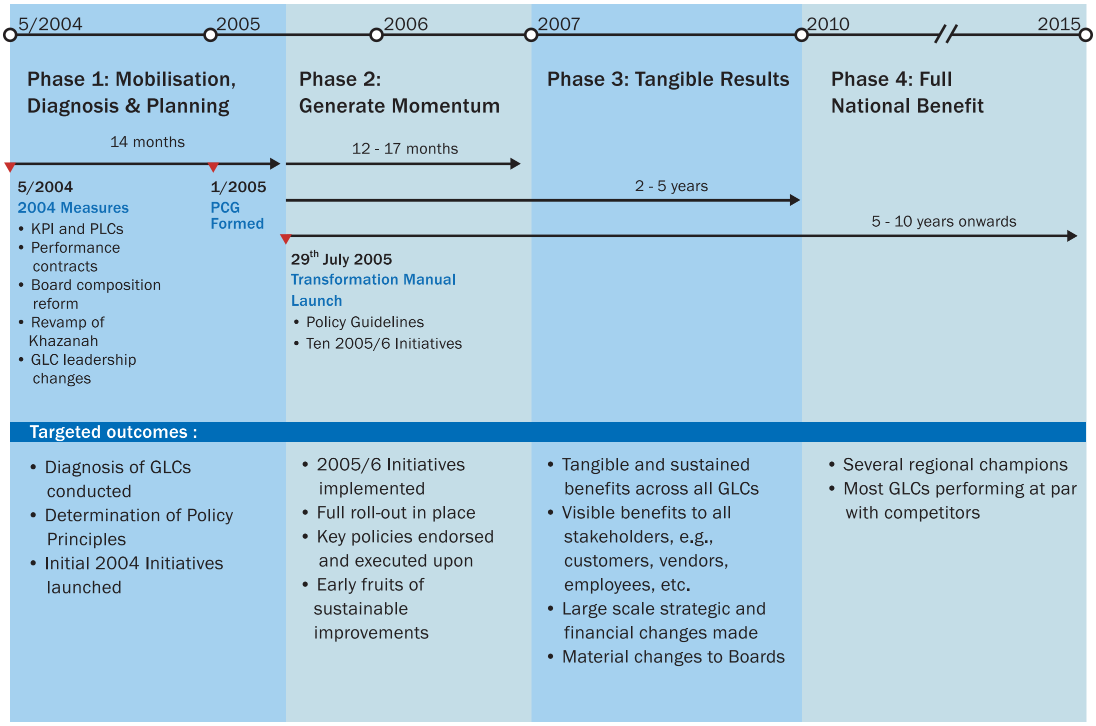
3. **A multi-level Communications Program** to address various stakeholder groups involved in and impacted by the GLC Transformation Program. A GLC Transformation Program Communications Team is being formed within the JWT of the PCG located at Khazanah.

The two first deliverables, combined, are referred to as the ***"GLC Transformation Manual"***, of which this document seeks to summarise.

Next steps and execution timeline. The GLC Transformation Program is a long-term program where the full benefits are expected to be gained over the long run. PCG has set a target of ten years to 2015 (see Exhibit 3 below) for the nation to reap the full benefit with intermediate phases where partial yet significant impact can be achieved.

EXHIBIT 3

GLC TRANSFORMATION IS A LONG-TERM PROGRAM



Source: JWT analysis

The following section highlights Policy Guidelines grouped under five Policy Thrusts that are designed to spearhead the program. While the Government is providing this enabling environment for GLCs to perform, it will be the collective and individual determination of Chairmen, Boards, and CEOs of GLCs and GLICs to lead and execute on this journey. The success of this Transformation Program will be an important building block in the journey towards the achievement of the noble aspirations of Vision 2020.

POLICY THRUSTS AND GUIDELINES

To facilitate the transformation of GLCs, Policy Guidelines have been codified within five thrusts and are summarised in the table below.

Table 1: GLC Transformation Policy Thrusts and Guidelines

Policy Thrusts	Guidelines
Thrust 1: Clarify the GLC mandate in the context of national development	**1.1 Define the underlying principles for GLC Transformation** **1.2 Define GLCs and the applicability of the Guidelines and Initiatives** **1.3 Clarify the objectives and roles of the Government, GLICs and GLCs** **1.4 Promotion of the Bumiputera community**
Thrust 2: Upgrade the effectiveness of Boards and reinforce corporate governance of GLCs	**2.1 Refocus the role and mandate of GLC Boards** 2.1.1 Refocus the Board on critical roles 2.1.2 Define conditions under which the Board can legitimately take on a more active role 2.1.3 Create clear separation between role of Chairman and CEO **2.2 Strengthen GLC Board composition** 2.2.1 Expand pool of potential GLC Directors 2.2.2 Cap on number of Directorships in listed companies to five 2.2.3 Reinforce the role of the Nomination Committee 2.2.4 Establish Directors' Academy to upgrade Directors learning **2.3 Intensify GLC Board performance management** 2.3.1 Align Directors' compensation to benchmarks 2.3.2 Conduct an annual review of Director and Board performance **2.4 Upgrade Board structure and processes** 2.4.1 Tighten structure and operating mode of Board Committees 2.4.2 Implement standard Board processes to best practice levels
Thrust 3: Enhance GLIC capabilities as professional shareholders	**3.1 Clarify and prioritise the mandates and strategies of GLICs** **3.2 Build best-in-class functions in line with individual mandates** 3.2.1 Build shareholder capabilities commensurate with that required to support respective mandates 3.2.2 Align professional profiles, compensation and performance expectations with private sector benchmarks 3.2.3 Select Nominee Directors based on skills necessary to fulfil GLC needs 3.2.4 Build GLC Transformation Program monitoring capabilities and processes

Policy Thrusts	Guidelines
Thrust 4: Adopt corporate best practices within GLCs	**4.1 Improve regulatory environment** 4.1.1 Develop regulatory relations capabilities at GLCs 4.1.2 Develop regulatory knowledge network at GLICs **4.2 CSR and clarifying social obligations and investments** **4.3 Review and revamp procurement practices** **4.4 Optimise capital management** **4.5 Manage and develop leaders and other human capital** **4.6 Intensify performance management practices** **4.7 Enhance operational improvement** 4.7.1 Focus on core businesses 4.7.2 Identify options for 'right-sizing' GLC organisations 4.7.3 Develop customer charters
Thrust 5: Implementing the GLC Transformation Program	**5.1 Clear implementation applicability, responsibility and timeline for GLCs and GLICs** **5.2 Task and equip PCG to implement and monitor** 5.2.1 Review GLC Transformation progress quarterly 5.2.2 Publish a GLC Transformation Annual Report **5.3 Establish a program management approach to implementation** 5.3.1 PCG to continue to launch and monitor GLC Transformation Program Initiatives through the TMO 5.3.2 Establish a GLC Transformation PMU within PMO **5.4 PCG and eventually PMU within PMO as a channel to ensure compliance**

POLICY THRUST 1 :

CLARIFY THE GLC MANDATE IN THE CONTEXT OF NATIONAL DEVELOPMENT

Guideline 1.1: Define the underlying principles for GLC Transformation

From the foregoing, there are three underlying principles of the GLC Transformation Program summarised as follows:

1. **National development foundation** - the GLC Transformation Program is a subset of the broader national development strategies that include the principles of growth with equity, improving total factor productivity, the development of human capital, and the development of the Bumiputera community.

2. **Performance focus** - the underlying rationale of the GLC Transformation Program is to create economic and shareholder value through improved performance at GLCs.

3. **Governance, shareholder value and stakeholder management** - the GLC Transformation Program, while being led by the Government, fully observes the rights and governance of shareholders and other stakeholders. Hence, the policy measures to be implemented come in the form of Policy Guidelines rather than rules that GLCs are expected to implement through their Board of Directors in line with good governance. In addition, and within the context prescribed above, GLCs are expected to engage in managing other valid stakeholder interests, in particular those of employees, customers, suppliers and the Government itself as regulators and policy makers.

The specific Policy Guidelines, Initiatives and other pronouncements described in the GLC Transformation Program, the Transformation Manual and all other related documents, current and future, will be subject to the proper interpretation and context of the preamble and underlying principles as laid out in the previous pages.

Guideline 1.2: Define GLCs and the applicability of the Guidelines and Initiatives

The test of what constitutes a GLC is defined by control rather than percentage ownership. Essentially, a GLC as defined in this Transformation Program, is where control of a company is exerted by a GLIC, either in terms of super control (where one GLIC is the majority shareholder) or simple control (where a GLIC is the single largest shareholder). Control is defined by the ability to exercise and influence major decisions such as appointment of Board members and senior management, award of tenders and contracts at the Board and so on.

Guideline 1.3: Clarify the objectives and roles of Government, GLICs and GLCs

Clarity of objectives and roles of each component of the GLC ecology. To begin a proper understanding of the objectives of the main components within the GLC ecology, namely GLCs, GLICs and the Government itself, is required. In the analysis and interviews conducted by the PCG, unclear and multiplicity of objectives of GLCs is generally cited as a challenge for the Boards and Management of GLCs.

Recognising the various roles of Government in socio-economic management as a Social Developer, Economic Developer, Regulator and Investor.[6] While there are some overlaps between these roles, proper delineation, in general, allows for better focus, clarity of objectives and division of duties and accountability.

It should nonetheless be noted that there are several national development policies and initiatives that run across all functions such as the drive for greater integrity, improving the public delivery and promotion of local and Bumiputera vendors.

Understanding the relationship between the Government and GLICs/GLCs. In the governing of GLICs and GLCs, proper balance and process needs to be observed in respect of the relationship and interaction between the Government and the GLIC/GLC.

In its role as an investor, in wholly-owned GLCs, the issue of minority interests does not arise and hence, the Government as a 100% investor is free to drive key decisions without reference to any other shareholder. In non-100% owned and especially listed companies where there are significant minority shareholders, the Government's position is similar to a major shareholder in companies with multiple shareholders in that the rules and regulations of corporate governance apply whereby interaction is generally done through the channels of the Board of Directors, where the Government or GLIC may be represented in the majority.

In its role as a regulator or as a developer, the interaction between the Government and the GLIC/GLC is generally similar to that of the Government and any other non-GLC, except that a GLC by virtue of being controlled by the Government may be subjected to a greater requirement to comply with Government policies, including additional social obligations. In cases where GLCs are subjected to higher than usual social or noncommercial obligations, the recommended practice framework is covered in Guideline 4.2 on *CSR and clarifying social obligations and investments.*

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6 *To illustrate, examples of the various roles, respectively, include provision of law and order and national security services such as Police and Armed Forces, promotion and development of the MSC, the exercise of regulatory functions by the MCMC, and Khazanah as the investment arm of the Government*

Guideline 1.4: Promotion of the Bumiputera community

PCG reiterates that a fundamental principle of the Government's economic policy in pursuing the objectives of Vision 2020 is to strive for growth with equity. A cornerstone of this policy is the continued promotion and development of the Bumiputera community. In this regard, the GLC Transformation Program will continue to be a significant policy instrument to execute Government's policies with regard to the development of the Bumiputera community, with the ultimate aim of preparing the Bumiputera community and the nation towards greater competitiveness.

PCG believes that the objectives of making GLCs better performing companies and the development of genuine Bumiputera suppliers and vendors as well as the development of Bumiputera human capital within GLCs are not mutually exclusive but, rather, are mutually reinforcing objectives. The aim is to strive towards a mutually reinforcing relationship where stronger GLCs are able to be better developers of Bumiputera SMEs and human capital that in turn contribute back to the strengthening of the GLCs itself.

There will be specific areas where Bumiputera development will be strengthened under the GLC Transformation Program. In particular, it is envisaged that the Initiatives of improving procurement practices will include targeted improvements in the Bumiputera Vendor Development Program.

Implementation Timeline

Guidelines 1.1 to 1.4 will take effect immediately.

POLICY THRUST 2 :

UPGRADE THE EFFECTIVENESS OF BOARDS AND REINFORCE THE CORPORATE GOVERNANCE OF GLCS

Although in itself not sufficient, a fundamental upgrade of GLCs' Board effectiveness and the corporate governance of GLCs will be necessary to catalyse the transformation of GLCs. Globally, a strong correlation exists between companies with good corporate governance and long-term financial out-performance. Further, institutional investors do value good Board governance as much as strong financial indicators when evaluating investments.

In Malaysia, while Board effectiveness and corporate governance have improved significantly in recent years especially after the introduction of the Malaysian Code of Corporate Governance (the Code) in March 2000, more progress is required, especially with regard to the impact and role of GLC Boards. A review of the governance of GLCs, including that of top-performing GLC Boards, revealed several opportunities for improvement. To address this, the PCG recommends several changes and improvements to the governance of GLCs, with the following objectives:

1. Refocus the role and mandate of GLC Boards;
2. Strengthen GLC Board composition;
3. Intensify GLC Board performance management; and
4. Upgrade Board structure and processes.

These Guidelines reinforce the recommendations contained in the Code.

Guideline 2.1: Refocus the role and mandate of GLC Boards

GLC Boards need to devote enough time and attention and refocus on the core responsibility of Boards.

Guideline 2.1.1: Refocus the Board on critical roles

In general, the role of the Board covers two broad areas of strategy and development of the company and in governing management. While the list below is not exhaustive, PCG expects six areas of focus for GLC Boards:

1. *Shareholder value.* To adopt and understand a shareholder's perspective, including understanding the capital markets' views of the company's performance and the capital market implications of strategic and financial decisions. To also ensure that all shareholders are treated fairly;

2. *Strategy development.* To contribute to corporate strategy development and setting stretch aspirations for management;
3. *Oversight on management.* To monitor performance and health of the company and senior management;
4. *Succession planning.* To develop senior management and drive succession planning;
5. *Risk management.* To understand and manage key risk factors of the company; and
6. *Stakeholder management.* To balance valid stakeholder interests, where appropriate, in line with Government policies and to balance with increasing shareholder value.

Guideline 2.1.2: Define conditions under which the Board can legitimately take on a more active role

The Board can take on a more active role in operations if both of the following conditions are met:

- The company is in major turnaround situation, under sudden external threat (e.g., acquisition, changes in competition, new regulation), or is undergoing a period where a major internal risk has materialised; and

- The existing management team does not have sufficient capabilities nor the capacity to respond quickly as the situation demands.

Where the Board decides it is necessary to take on a greater executive role, it should only be as an interim or transitional measure, and generally, as a guide, should only be for a maximum of six months and certainly no longer than 12 months. In that time, a key target for the Board is to actively recruit a new management team.

Guideline 2.1.3: Create clear separation between role of Chairman and CEO

While there have been many successful examples of individuals playing both the role of the Chairman and the CEO, PCG reiterates the recommendation of the Code that the roles of Chairman and CEO be clearly separated to ensure a balance of power and authority, such that no one individual has unfettered powers of decision.

To reinforce the importance of the Chairman's position, the selection criteria for Chairmen should be more stringent than that of normal Directors - the onus lies with the Chairman and the nominating GLIC to ensure that he or she must have sufficient time and capacity to focus on the task by limiting his or her presence on other Boards and responsibilities as appropriate.

Guideline 2.2: Strengthen GLC Board composition

In 2004, important measures were already put in place to strengthen the Board of GLCs, including a cap on the number of Directors on a Board to ten and the removal of direct sector regulators on Boards in view of inherent conflicts. To further build on these measures, PCG recommends a further strengthening of the composition of the GLC Board through four main steps:

Guideline 2.2.1: Expand pool of potential GLC Directors

The current pool of GLC Directors is too small and results in some Directors holding too many mandates. In addition, with the evolving strategic, operational and geographic priorities of GLCs, Boards are beginning to require new types of expertise, particularly in deeper functional skills such as marketing, organisational design, and change management. While recognising that not every Director will individually possess all necessary and relevant knowledge and experience, the objective is to ensure that on a collective basis, every Board will be as balanced and reasonably complete in its availability of these skills as possible. Therefore, the PCG recommends an augmentation of the potential pool of individuals suitable for GLC Director roles.

Guideline 2.2.2: Cap number of Directorships in listed companies to five

As described above, due to the limited pool from which Directors are drawn today, many Directors could be overstretched. Therefore, to ensure that Directors have the time to focus and be effective Board members, it is recommended that the cap on the number of listed Boards that a Director of GLCs can sit on be limited to five.

Guideline 2.2.3: Reinforce the role of the Nomination Committee

To reinforce that as laid out in the Code, the Nomination Committee should be responsible for nominating candidates for the Board (including the role of the Chairman) according to the pre-set selection criteria and for assessing Directors on an on-going basis.

Guideline 2.2.4: Establish Directors' Academy to upgrade Directors learning

Even the most experienced individuals require a greater amount of training and development to be able to perform their Board member roles effectively. Therefore, one of the Initiatives identified is the creation of a Directors' Academy to be established by the third quarter of 2006, which will focus on equipping Boards of GLCs with Directors that have world class knowledge, skills and mindsets.

Guideline 2.3: Intensify GLC Board performance management

As the diversity and experience/expertise of GLC Directors increases, so does the need for more rigorous performance management. The PCG recommends two important steps to intensify GLC Board performance management.

Guideline 2.3.1: Align Directors' compensation to benchmarks

In line with the compensation philosophy advocated by PCG, GLC Boards should review the compensation of their Chairman and Directors, and align them to the 50th percentile of an appropriate peer group.

Guideline 2.3.2: Conduct an annual review of Director and Board performance

The Code recommends that all Boards should conduct an annual evaluation of Board and Directors' performance. A review of major GLCs found that this has not been uniformly implemented across all GLCs. Further, based on a survey of Main Board companies that have a formal performance evaluation process, only a few actually follow through with actual consequence management for under-performance. for example by ensuring that the affected Director is not re-elected. PCG reiterates that Boards should conduct an annual review of Directors and Board performance as advocated by the Code.

Guideline 2.4: Upgrade Board structure and processes

Guideline 2.4.1: Tighten structure and operating mode of Board Committees

Though most Boards have established Audit, Remuneration and Nomination Committees, their structure and operating mode should be more clearly developed and implemented. A starting point to review is to ensure that the charters or terms of reference of Board Committees are up to date and relevant.

Guideline 2.4.2: Implement standard Board processes to best practice levels

To ensure Board meetings are effective and Directors are adequately prepared, basic Board processes need to be in place. Boards should appoint an in-house company secretary with relevant experience and skills, bearing in mind the size and complexity of the company. For listed companies, it is crucial that the company secretary maintains up-to-date knowledge of listing and regulatory requirements and is in a position to advise the Board and its Committees on compliance matters as appropriate. In addition, an effective Board requires certain processes to be put in place. Given the onerous responsibility of Directors, the Board should also ensure that the Company takes out adequate Director's Liability insurance.

Implementation Timeline

The recommendations laid out above are broad principles which will be further supplemented by detailed guidelines through the 'Green Book on Enhancing Board Effectiveness'. It should be the responsibility of the Chairmen of all GLC Boards to implement these principles, guidelines and actions by 1st January 2007.

GLICs should also monitor the implementation of these principles, guidelines and actions across their portfolio companies and report on progress to PCG on a quarterly basis.

POLICY THRUST 3 :

ENHANCE GLIC CAPABILITIES AS PROFESSIONAL SHAREHOLDERS

While the emphasis of the Program remains on GLCs, GLICs play a critical role, particularly as catalysts or triggers of change. In many cases, GLICs are controlling shareholders with Board representation and therefore have significant oversight responsibilities. Where GLICs are small stakeholders, they are increasingly active, even if this is merely through exercising their shareholder rights. Further, as detailed under Policy Thrust 1, GLICs are the key conduit for the Government to support and influence GLCs.

In order for GLICs to be effective shareholders (and Board members), their strategy and mandate needs to be affirmed, and their internal organisation, capabilities, and processes need to be upgraded to fully deliver on their mandates and strategies. This Policy Thrust provides corresponding guidelines for GLICs.

Guideline 3.1: Clarify and prioritise the mandates and strategies of GLICs

There are two distinct categories of GLICs - those fully-owned by the Government, namely, Khazanah and MKD, and the 'privately funded' but where Government plays an important statutory or guarantor role, namely EPF, LTAT, LTH, PNB, and KWAP. It is critical to restate that these GLICs have different shareholders, hence different mandates and different investment strategies. Consequently, GLICs have differing interests, priorities and perspectives with regard to investment opportunities, divestment strategies and time horizons, and approach to monitoring and influencing their portfolio companies.

As the key lever for Government to influence GLICs is via its mandate, the existing mandates of GLICs, and therefore corresponding investment strategies and performance targets, should be subject to periodic review to test its continued relevance.

Guideline 3.2: Build best-in-class functions in line with individual mandates

GLICs, as professional shareholders, play a critical role in guiding, influencing and, if required, sanctioning GLCs, hence complementing the capital market role in this regard. It is therefore critical that GLICs are fully equipped with the necessary skills, functions and processes to effectively play this role.

Guideline 3.2.1: Build shareholder capabilities commensurate with that required to support respective mandates

Based on a GLIC's mandate (and corresponding strategic and performance targets), GLICs should review and align their internal organisation, processes and capabilities to relevant benchmarks. These peer benchmarks should include private equity firms, active or passive institutional investors (including pension funds), or a mix of the above depending on the nature of a GLIC's mandate.

Guideline 3.2.2: Align professional profiles, compensation and performance expectations with private sector benchmarks

The guidelines on compensation that apply to GLCs also apply to GLICs that include inter alia, the principles with regard to KPIs, PLC and performance contracts.

Guideline 3.2.3: Select Nominee Directors based on skills necessary to fulfil GLC needs

In line with good corporate governance, GLICs will independently nominate Nominee Directors, based on the relevance of their qualifications for individual GLC needs. In line with Guideline 2.2.3 above, once identified, the identity of the candidate should be provided to the Nomination Committee that then proposes the candidate to the Board for final approval.

Guideline 3.2.4: Build GLC Transformation Program monitoring capabilities and processes

GLICs have oversight responsibility for ensuring the effective roll-out and implementation of GLC Transformation Program Initiatives. As such, on a quarterly basis, GLICs should submit a report on the progress of their portfolio companies to their respective Boards and to the PCG in respect of the progress of implementation of the GLC Transformation Program. GLICs should, therefore, ensure that they build the necessary capabilities and processes to ensure that this monitoring function is carried out effectively.

Implementation Timeline

The Guidelines should be implemented by GLICs by end 2006.

POLICY THRUST 4 :

ADOPT CORPORATE BEST PRACTICES WITHIN GLCS

At the core of the Transformation Program is a need to fundamentally improve, organically, the underlying strategic, operational, and organisational performance of GLCs. In addition to strategic clarity, and short term economic measures to raise performance to benchmark levels, there is also a need to enhance the quality of human capital at GLCs and develop appropriate measures to monitor and evaluate the performance of management and employees.

Based upon PCG's analysis, seven areas for corporate best practices were identified as opportunities for the greatest value creation. These areas are not intended to be exhaustive does not preclude GLCs from continuing with existing ongoing work of continuous operational improvements. On the contrary, the identification of these Guidelines and Initiatives around the seven areas for best practice reinforces ongoing work in these areas.

Guideline 4.1: Improve regulatory environment

Many GLCs operate in regulated sectors, where arms-length, proactive and constructive relationships with the regulators is of significant importance not only to the GLC, but also to the nation in terms of contributing towards an orderly development of the sector.

Guideline 4.1.1: Develop regulatory relations capabilities at GLCs

GLCs should devote sufficient resources to engage in constructive dialogue with regulators in a proactive and ongoing basis. Significant value, or even competitive advantage, can be derived from being at the forefront of regulatory knowledge within any specific industry.

Guideline 4.1.2: Develop regulatory knowledge network at GLICs

As active shareholders, GLICs can share this expertise with GLCs and advise GLCs to determine how best to shape their strategy in the context of evolving regulation. In addition, GLICs, in their role as a national trust agency, can ensure that a broader more optimal regulatory environment is achieved that is beneficial for its GLCs and all other stakeholders, such as the private sector and customers.

The recommended best practices for regulatory management are targeted to be issued by mid-2006.

Guideline 4.2: CSR and clarifying social obligations and investments

The duality of commercial and social objectives, when excessive, potentially creates a number of less than optimal outcomes. Firstly, the ambiguity of objectives may create conditions for non-performance and moral hazards, in that management may selectively hide behind one or the other objectives. Secondly, such uncertainty usually translates into excessively high, incommensurate risk premiums that result in higher costs of capital and lower capital values for GLCs. However, on the reverse, it should be noted that in practice, in return for taking on a higher than usual responsibility of social obligations, GLCs often may receive certain preferential treatment.

In regard to CSR and social obligations, as a guide GLCs should consider the following steps as a codification of minimum best practice:

a. Clarify their social obligations in coordination with relevant regulators and ministries, as well as attempt to identify the costs, and benefits, if any, of such obligations;

b. Where such social roles and related costs are significant and beyond the affordability of the GLC, then the GLC should review and seek alternative funding options, for example from relevant Government ministries.

Guidelines codified in a "Silver Book" to assist GLCs are targeted to be developed and distributed by PCG in the third quarter of 2006. GLCs are encouraged to identify, clarify, measure and, where appropriate, make transparent their social obligations by mid-2007.

Guideline 4.3: Review and revamp procurement practices

The total procurement spend of the "G-15" GLCs is estimated to be around RM55 billion per annum. Therefore, any optimisation in procurement practices would result in significant savings, for both capital and operating expenditure. Such realised savings will go straight to the GLCs' bottom lines. Additionally, better procurement practices could also lead to higher revenues for GLCs, for example, as better quality products are purchased at lower prices, service delivery lead times could be reduced and service quality could be enhanced, therefore leading to higher customer retention.

Furthermore, greater integrity and efficiency in procurement processes will also enhance Malaysia's standing in corporate governance and transparency. This, in turn will increase Malaysia's attractiveness as an investment and business destination.

A 'Red Book' with guidelines on procurement policies is targeted to be launched in the second quarter of 2006 and for GLCs to start implementation by third quarter of 2006.

Guideline 4.4: Optimise capital management

Effective capital and balance sheet management can also be a source of value and competitive advantage for many GLCs - particularly those in capital intensive businesses.

GLCs should therefore review existing capital management policies, in particular, options to (i) improve capital expenditure efficiency, (ii) enhance working capital management and (iii) determine the optimal capital structure, through amongst others, developing (and communicating) a dividend policy, and establishing guidelines for share buyback programs.

A 'Purple Book' with guidelines on capital management policies will be issued by PCG to all GLCs by the third quarter of 2006 and GLCs to commence implementation by end of 2006.

Guideline 4.5: Manage and develop leaders and other human capital

In a knowledge-driven world, a company's human capital will increasingly be the most important competitive advantage and differentiator. GLCs must enhance their approach to human capital management and quickly close the gap between GLCs and the best private sector companies in Malaysia and their peers internationally. Learning from other companies that manage talent exceptionally well, PCG recommends that all GLCs develop programs to identify and cultivate leaders and other human capital by the end of first quarter of 2007. To assist GLCs in this endeavour, an "Orange Book" with Guidelines on developing and managing leaders and other human capital will be developed and distributed by PCG to all GLCs in the fourth quarter of 2006.

Guideline 4.6: Intensify performance management practices

Intensifying performance management practices across all GLCs is an important lever to improve overall performance. The emphasis on performance management will ensure the organisation focuses on the right business priorities and improves the attraction, development and retention of outstanding talent.

In terms of sequencing, performance management, involving inter alia, KPIs, PLC, and performance contracts were among the key GLC Measures launched in May 2004. An updated version of "Intensify Performance Management", i.e., "Blue Book" Version 2.0 was launched on 29th July 2005 along with the Transformation Manual. PCG recommends that all GLCs begin implementing the Guidelines contained within this "Blue Book" by 1st January 2006, with completion by 1st January 2007.

Similarly, over the course of the next six to nine months, PCG is expected to design and launch other initiatives with the objective of intensifying performance management practices at GLCs. As with the "Blue Book", it is recommended that GLCs implement those initiatives within the determined timeframe.

Guideline 4.7: Enhance operational improvement

A key element to improving GLC operational performance will be to enhance overall operating excellence, both on the cost and revenue side.

Guideline 4.7.1: Focus on core businesses

As part of their ongoing strategic and performance assessment, PCG recommends that GLC Boards should regularly review their portfolio of businesses and activities, identifying those that are non-core (legacy or underperforming), and determine an appropriate disengagement approach, based on recommendations from management.

In particular, GLICs by virtue of having a common parentage of GLCs, are in a unique position to identify synergies between GLCs in their portfolio, in terms of potential merger, acquisition and divestment possibilities.

PCG recommends that GLCs identify options to manage non-core assets by end of 2006. A "Yellow Book" with Guidelines to assist GLCs in this endeavour will be developed by PCG and distributed to all GLCs by the fourth quarter of 2006.

Guideline 4.7.2: Identify options for 'right-sizing' GLC organisations

Options to right-size an organisation could include, but are not limited to VSS, outsourcing, franchising or re-engineering certain key activities to drive down the current cost levels, yet maintain (or enhance) current levels of productivity.

GLCs should identify options for 'right-sizing' their organisations by the end of 2006.

Guideline 4.7.3: Develop customer charters

Customers are a critical stakeholder and high performing companies continuously strive for a high level of customer satisfaction in order to build customer loyalty. Customer charters and agreements are particularly relevant for GLCs operating in monopolistic conditions, as they act as an enabler to ensure focus on customer needs and raises the accountability of the organisation to providing the correct level of customer service.

PCG recommends that GLCs operating in natural monopolies, particularly those in the service sectors, should develop and issue customer charters by the end of 2006. Guidelines contained within a 'Brown Book on Customer Charters' is targeted to be distributed by PCG to GLCs by fourth quarter of 2006.

Implementation Timeline

PCG recommends that the Boards and senior management teams of GLCs should ensure complete implementation of the 2005/6 GLC Transformation Program Initiatives by the proposed deadlines as established for each individual initiative.

GLC Boards, and similarly GLICs (via their Nominee Directors and monitoring departments) should monitor the progress of the implementation of these Initiatives.

POLICY THRUST 5 :

IMPLEMENTING THE GLC TRANSFORMATION PROGRAM

Given the magnitude of the Transformation Program and the interdependencies between its various components, a deliberate and well-coordinated execution effort will be necessary to meet its objectives. Given its significant impact on Malaysia's future economic competitiveness, the Program's full and timely implementation will be a national level imperative.

Ultimately, GLC Boards and GLICs bear the responsibility of overseeing the transformation of GLCs. However, as described in the preceding chapters, the current capabilities and configuration of GLC Boards and GLICs may not be sufficient in their current state to carry out the whole set of tasks required to successfully execute the GLC Transformation Program.

EXHIBIT 4

ULTIMATELY, GLICs AND GLC BOARDS WILL BE ACCOUNTABLE FOR IMPLEMENTATION OF THE GLC TRANSFORMATION PROGRAM

<table>
<tr><th></th><th>Design and Launch of Initiatives</th><th>Broad roll-out and implementation of Initiatives</th></tr>
<tr><td>Timing</td><td>Next 12 - 17 months</td><td>2 - 3 years thereafter</td></tr>
<tr><td>Roles</td><td></td><td></td></tr>
<tr><td>PCG</td><td>• Provide oversight
• Report on progress</td><td>• Monitor implementation amongst GLICs and GLCs
• Report on progress</td></tr>
<tr><td>TMO</td><td>• Design and launch key Initiatives identified</td><td></td></tr>
<tr><td>PMU in Prime Minister's Office</td><td colspan="2">• Support PCG
• Rank and rate GLICs on GLCT Program implementation progress and performance</td></tr>
<tr><td>GLICs / GLC Boards</td><td colspan="2">• Monitor roll-out and implementation in respective GLCs</td></tr>
</table>

Source: JWT analysis

Therefore, in order to ensure that implementation is executed well, PCG is undertaking a program management approach with the following four guidelines and action points:

Guideline 5.1: Clear implementation applicability, responsibility and timeline for GLCs and GLICs

To be clear, the GLC Transformation Program as embodied in this Transformation Manual and associated pronouncements and documentation is intended to apply to all GLCs and GLICs.

The Policy Guidelines and Initiatives should be implemented through the Boards of Directors and management of GLCs and GLICs. The Guidelines and Initiatives are part of Government policy. While there are no specific sanctions for non-compliance to the Guidelines and Initiatives, the Government expects that the Guidelines and Initiatives will be implemented within the timeframe allotted, and that these policies will represent best practice for GLCs with a view to imbuing a culture of high performance within the national development framework.

Guideline 5.2: Task and equip PCG to implement and monitor

From January to July 2005, PCG was tasked with the analysis and design of the GLC Transformation Program. However, since then PCG has moved into roll-out and implementation mode. In line with this new phase, the PCG's role will shift from that of a policy advisory committee to one that should now focus on (i) monitoring the progress of the GLC Transformation Program, (ii) providing guidance to GLICs and Boards of GLCs on implementing the Program Initiatives, and (iii) reviewing, amending, and updating Policy Guidelines and Initiatives whenever required. During this phase, the JWT of the PCG is evolving into a TMO that will also act as a secretariat to the PCG and will be housed as per the JWT at Khazanah.

With reference to the anticipated ten-year horizon of the GLC Transformation Program, it is envisaged that the PCG will be required for up to half of the duration from 2005 to 2010 before its functions can be taken over by GLICs.

Guideline 5.2.1: Review GLC Transformation progress quarterly

PCG is expected to meet on a quarterly basis to assess the progress of the implementation of the Initiatives. In this review, PCG should rely on four separate inputs, namely:

- Economic and financial performance of GLCs as reported in publicly available information;
- Overview from TMO of the progress in launching the various Initiatives as described in Policy Thrust 4;
- Update by each GLIC on progress in rolling-out and implementing Initiatives across individual portfolio companies;
- Presentations by select GLCs on relevant Initiatives and transformation related topics.

Over and above this, the PCG through the TMO will be conducting ongoing interviews, research and analysis with a view to continuously update and improve the Transformation Manual as a source of reference and driver of the program. The PCG itself will also report to the YAB Prime Minister on a quarterly basis as to the progress of the program.

Guideline 5.2.2: Publish a GLC Transformation Annual Report

PCG will publish an Annual Report on the status of the GLC Transformation Program. This Report will highlight progress achieved, identify areas for improvement, and make recommendations with respect to policy changes, if any. The first Annual Report will be published in 2006 and is envisaged to be a modular section within the MOF's annual Economic Report that is released by convention with the annual federal budget usually in September/October every year.

In addition, it is envisaged that the PCG will at periodic intervals as necessary, communicate progress of the GLC Transformation Program to shareholders and key stakeholders, including employee groups, suppliers, customers, and members of Parliament.

Guideline 5.3: Establish a program management approach to implementation

In order to ensure there is constancy and follow through, a program management approach is being established, first through the TMO during the program design and roll-out phase over the next 17 months, and subsequently through a PMU within the Prime Minister's Office.

Guideline 5.3.1: PCG to continue to launch and monitor GLC Transformation Program Initiatives through the TMO

Moving forward, the PCG recommends that GLICs continue to commit to maintaining the TMO as the core team to drive the design and launch of the Transformation Program Initiatives. The responsibilities of the TMO shall be the following:

- Develop, evaluate and prioritise new Initiatives in line with themes and objectives as laid out in Section III;
- Launch the Initiatives identified above, including identifying pilots, assembling the relevant working team, monitoring progress, managing interdependencies across initiatives and de-bottlenecking any execution issues, whenever required;
- Ensure codification and dissemination of learnings/best practices from pilots and Initiatives across GLCs and GLICs. For example, via the creation and dissemination of "Books" with guidelines, workshops led by pilot candidates, facilitating the creation of 'Centers of Excellence' at GLICs and/or GLCs.

The ten Initiatives for 2005/6 are detailed in Section III of the Transformation Manual but highlights are indicated in Section III of this document.

Guideline 5.3.2: Establish a GLC Transformation PMU within the Prime Minister's Office

As TMO completes its role in launching and implementing the Initiatives, a PMU shall be set up within the Prime Minister's Office to support PCG in its GLC Transformation oversight tasks. This Unit should have three main roles:

a. Assemble, consolidate, benchmark, and analyse information on the economic and financial performance of GLCs. This information should be sourced from the respective GLICs on a quarterly basis;
b. Codify the progress of the overall GLC Transformation Program, including rating and ranking individual GLCs and GLICs on their progress in implementing Program Initiatives. This information should be sourced from the respective GLICs and also the PCG on a quarterly basis;
c. Assist PCG in preparing its communications to various stakeholders, including the publication of its Annual Report.

This PMU should be established approximately six months prior to TMO completing its role (estimated mid-2006), and should initially be supported by the TMO up until a full dedicated team can be assembled.

Guideline 5.4: PCG and eventually PMU within the Prime Minister's Office as a channel to ensure compliance

There is a high degree of variability amongst the types and performance levels of GLCs today, and therefore the starting points for individual GLCs is unequal. It is inevitable that the time taken and the magnitude of success that each GLC will achieve will also vary. Over time, with strengthened governance, strictly enforced policies and strong senior management, key corporate decisions should be progressively made on a purely commercial basis, with the exception of any formal non-commercial role that GLICs or GLCs are mandated to take on.

SECTION III
GLC Transformation Program 2005/6 Initiatives

SECTION III -
GLC TRANSFORMATION PROGRAM 2005/6 INITIATIVES

The Policy Guidelines have been translated into specific Initiatives that are targeted to driving and enhancing GLC performance. Ten Initiatives have been identified covering key areas of GLC operations and governance, and are summarised in Table 2 below.

Table 2: GLC Transformation Initiatives

No	Initiatives	Description	Expected Output	Launch
1.	Enhance Board effectiveness	To enhance Board effectiveness through revamping Board practices and processes.	Green Book	2nd Quarter, 2006
2.	Strengthen Directors capabilities	To develop a strategy to match Directors to the right Boards and also to establish a Directors' Academy.	Directors' Academy	3rd Quarter, 2006
3.	Enhance GLIC M&M functions	To reinforce the ability of GLICs to monitor and manage subsidiary GLCs.	Blueprint for GLCs	2nd Quarter, 2006
4.	Improve regulatory environment	To enhance regulatory capabilities at GLCs and create a Regulatory Knowledge Network.	Guidelines Regulatory Knowledge Network	2nd Quarter, 2006
5.	Clarify social obligations	To understand and make transparent GLCs' social obligations and the implications of meeting them.	Silver Book	3rd Quarter, 2006
6.	Review and revamp procurement	To enhance the effectiveness and efficiency of the procurement process in GLCs.	Red Book	2nd Quarter, 2006
7.	Optimise capital management practices	To establish guidelines for GLCs to optimise their capital structure.	Purple Book	3rd Quarter, 2006
8.	Manage and develop leaders and other human capital	To improve GLCs capabilities in attracting, developing and retaining talent through the adoption of best practices.	Orange Book	4th Quarter, 2006
9.	Intensify performance management practices	To encourage adoption of performance management best practices at GLCs.	Blue Book Version 2 Headline KPIs EVA/VBM	Launched in July 2005 2nd Quarter, 2006 3rd Quarter, 2006
10.	Enhance operational improvement	To enhance value creation of GLCs through managing non-core assets. To establish guidelines for GLCs to enhance their customer service levels.	Yellow Book Brown Book	4th Quarter, 2006 4th Quarter, 2006

Updated as of 1st March 2006

Initiative 1: Enhance Board effectiveness

Objective is to establish Guidelines for GLC Boards to enhance the effectiveness of their interactions, particularly through revamping Board practices and processes. These Guidelines should augment the Code, either through the introduction of new principles, or by further illustrating with practical details and examples, the actions Boards should take to comply with the spirit and intent of the Code.

Initiative 2: Strengthen Directors capabilities

Initiative 2.1: Revamp sourcing for Directors

Objective is to develop and implement a strategy for sourcing, screening and matching "effective" Directors to the right Boards, in accordance with skills and capabilities needed at each GLC.

Initiative 2.2: Establish Directors Academy

Objective is to establish a Directors' Academy focused on equipping Boards of GLCs with Directors who possess world-class knowledge, skills and mindsets. The Academy will help build and sustain a professional community of Directors by providing worldclass training and services. This Academy will become the top Malaysian platform for Directors in terms of knowledge transfer, skill building, and best practice exchange. In addition, the Academy will also contribute filling the gap of "effective" Directors across Malaysia through providing comprehensive training, conditioning and certification.

Initiative 3: Enhance GLIC M&M functions

Objective is to reinforce the role and enhance the organisational structure processes and capabilities of the departments within GLICs which monitor and manage the GLICs' investee companies. This includes establishing "nominee director term sheets" in order to clarify the nominee Directors' roles and interaction mode with the GLICs.

Initiative 4: Improve regulatory environment

Initiative 4.1: Enhance regulatory capabilities at relevant GLCs

The objective is to enhance GLCs' capabilities, through the establishment of strong regulatory teams, to develop regulatory strategy, dialogue with regulators, and ensure compliance to regulation.

Initiative 4.2: Establish a regulatory knowledge network

The objective is to create a Regulatory Knowledge Network involving relevant GLCs, GLICs and other stakeholders in order to improve GLC performance and building nationwide regulatory capabilities.

Initiative 5: Clarify social obligations

The objective is to understand and make transparent GLCs' social obligations and the implications of meeting them (i.e. well beyond normal private sector practices of CSR) by clarifying the trade-offs made between social development and shareholder value creation.

It is not the objective of this Initiative to discontinue the provision of such obligations. Such obligations are likely to be necessary given the state of development of the nation. However, this Initiative is potentially a precursor to developing mechanisms to either (i) manage these additional social obligations based on affordability, or (ii) develop new mechanisms to finance these social objectives outside of the shareholder value creation framework, i.e., 'placing the right objectives in the right boxes'.

Initiative 6: Review and revamp procurement

The objective is to develop Guidelines for GLCs on procurement targeted at Board members and CEOs of GLCs, with 4 objectives; (i) provide a reference manual for procurement best practices, (ii) provide clarity on government policies affecting procurement, (iii) define/clarify role of GLCs in developing local and Bumiputera suppliers, and (iv) act as a guide in establishing procurement best practices.

Initiative 7: Optimise capital management practices

The objective is to establish Guidelines for GLCs to optimise their capital structure, taking into account any existing dividend policy guidelines established by MOF. These Guidelines will provide GLCs direction on improving their capital management, in particular to optimise capital expenditure, working capital and balance sheet design.

Initiative 8: Manage and develop leaders and other human capital

Objective is to develop Guidelines that contain best practices on how to attract high potential individuals. In a knowledge-driven world, a company's talent is a key competitive advantage. Attracting, developing and retaining a talented team of staff is critical for any organisation. Therefore, these Guidelines will be developed in order to address the issues of GLCs' value proposition to attract and retain the best talent, and ensure their development.

Initiative 9: Intensify performance management practices

Initiative 9.1: 'Blue Book v2.0' on Performance Management

'Blue Book v2.0' was launched on 29th July 2005 and builds upon the earlier Blue Book of 2004. This version seeks to (i) illustrate the Guidelines with more details and best practice examples; (ii) clearly pin points the accountability for implementation; and (iii) includes essential aspects of performance management, namely deriving KPIs from the strategy and the value drivers of the company; conducting rigorous and differentiating reviews of performance; ensuring meaningful financial and non-financial rewards and consequence management.

Initiative 9.2: Enhance market monitoring of GLCs

The objective is for GLCs to report relevant Headline KPIs (e.g., revenue growth, Return on Equity or other profitability measures) and Economic Profit to the financial markets on a quarterly basis, thus enabling shareholders and the market to better monitor the performance of GLCs.

Initiative 9.3: Tighten CEOs KPIs

The objective is to strengthen performance management by focusing on the CEO and other senior management members, based on the Guidelines in the 2005 version of the "Blue Book". This entails tightening the "personal KPIs" and performance linked compensation schemes for the CEO and senior management members with the appropriate consequence management (i.e. rewards and consequences) put in place.

Initiative 9.4: Manage non-performers

The objective of this Initiative is twofold: (i) to develop best practices and case examples on how to manage low- and/or non-performers including identifying root causes for low performance, providing training, deployment, and potentially termination; and (ii) to clarify the current labour laws for the benefit of all GLCs, in particular to better understand the existing labour laws and required processes in managing low- and non-performers.

Initiative 9.5: Implement EVA

The objective of this Initiative is to implement EVA/VBM at GLCs to improve management processes and systems in order to help manage the main value drivers of the company. This Initiative will help the GLCs to develop a stronger emphasis on value creation within corporate culture. In the longer term it will help improve both the health and performance of GLCs - supporting the "Intensifying Performance Management" effort.

Initiative 10.0: Enhance operational improvement

Initiative 10.1: Manage non-core assets

The main goal of this Initiative is to enhance value creation of GLCs through more efficient capital usage by freeing up cash from non-core assets and increasing focus on core businesses.

Initiative 10.2: Options for 'right-sizing' organisations

The objective of this Initiative is to increase the efficiency and/or effectiveness of GLCs through the identification of "right-sizing" options. These options include, but are not limited to VSS, outsourcing, franchising, re-engineering of certain functions, and redeployment (or retraining).

Initiative 10.3: Customer charter for GLCs in monopoly sectors

The objective of this Initiative is to establish Guidelines for GLCs operating in natural monopolies to enhance their customer service levels by explicitly committing to specific service obligations, e.g. via a customer charter.

SECTION IV
APPENDICES

GLCs

GLCs are defined as companies that have a primary commercial objective and in which the Malaysian Government has a direct controlling stake.

Controlling stake refers to the Government's ability (not just percentage ownership) to appoint BOD members, senior management, make major decisions (e.g. contract awards, strategy, restructuring and financing, acquisitions and divestments etc.) for GLCs either directly or through GLICs.

Includes companies where GLCs themselves have a controlling stake, i.e. subsidiaries and affiliates of GLCs.

GLICs

GLICs are defined as Federal Government linked investment companies that allocate some or all of their funds to GLC investments.

Defined by the influence of the Federal Government in appointing/approving Board members and senior management, and having these individuals report directly to the Government, as well as in providing funds for operations and/or guaranteeing capital (and some income) placed by unit-holders.

This definition currently includes seven GLICs: EPF, Khazanah, KWAP, LTAT, LTH, MKD and PNB.

G-15

The "G-15" is a selection of 15 GLCs held by the GLIC constituents of the PCG and includes Maybank, Telekom Malaysia Berhad, Tenaga Nasional Berhad, Sime Darby Berhad, Bumiputra-Commerce Holdings Berhad (formerly Commerce Asset Holdings Berhad), Golden Hope Plantations Berhad, MAS, Proton Holdings Berhad, Kumpulan Guthrie Berhad, Affin Holdings Bhd, UEM World Berhad, Boustead Holdings Berhad, BIMB Holdings Berhad, Malaysian Resources Corporation Berhad, and Malaysia Building Society Berhad. The "G-15" accounts for about 65% of the market capitalisation of listed GLCs.

MARKET CAPITALISATION AND SHAREHOLDING LEVELS OF LISTED GLCS[7]

No	Company	Market Cap (RM millions)	Total Govt shareholding (%)
1	Malayan Banking Berhad	44,708	63.5
2	Telekom Malaysia Berhad	34,871	63.8
3	Tenaga Nasional Berhad	32,966	73.7
4	Malaysia International Shipping Corporation Berhad	29,387	72.1
5	Sime Darby Berhad	14,214	57.3
6	Petronas Gas Berhad	14,148	89.8
7	PLUS Expressways Berhad	13,350	77.0
8	Bumiputra-Commerce Holdings Berhad (formerly Commerce Asset Holdings Berhad)	12,495	47.9
9	Golden Hope Plantations Berhad	5,466	78.8
10	Malaysia Airline System	4,838	80.8
11	Proton Holdings Berhad	4,586	68.8
12	Petronas Dagangan Berhad	3,954	78.0
13	Island & Peninsular Berhad	3,781	56.3
14	UMW Holdings Berhad	2,523	58.6
15	Kumpulan Guthrie Berhad	2,224	82.5
16	Affin Holdings Berhad	2,112	54.3
17	Malaysia Airports Holdings Berhad	1,639	77.3
18	Bintulu Port Holdings Berhad	1,568	71.3
19	POS Malaysia & Services Holdings Berhad	1,471	35.4
20	NCB Holdings Berhad	1,298	60.2

MARKET CAPITALISATION AND SHAREHOLDING LEVELS OF LISTED GLCS [7]

No	Company	Market Cap (RM millions)	Total Govt shareholding (%)
21	UEM World Berhad	1,291	50.8
22	Malaysian Industrial Development Finance Berhad	1,259	40.1
23	Boustead Holdings Berhad	1,004	71.3
24	BIMB Holdings Berhad	963	67.6
25	Chemical Company of Malaysia Berhad	881	69.4
26	Malaysian Nasional Reinsurance Berhad	714	69.3
27	MNI Holdings Berhad	707	84.6
28	UDA Holdings Berhad	692	56.7
29	Malaysian Resources Corporation Berhad	542	30.6
30	Pelangi Berhad	429	43.2
31	Time Engineering Berhad	336	51.9
32	Malaysia Building Society Berhad	252	79.1
33	Faber Group Berhad	127	41.4
34	Formosa Prosonic Industries Berhad	111	28.5
35	Central Industrial Corporation Berhad	66	38.6
36	Ya Horng Electronic (M) Berhad	51	29.6
37	Hunza Consolidation Berhad	47	19.1
38	D'Nonce Technology Berhad	41	24.4
39	Johan Ceramics Berhad	31	73.4

[7] *Shareholding as of March 2005 and market capitalisations numbers are estimates from the same time period*

MARKET CAPITALISATION OF SUBSIDIARIES OF GLCS[8]

No	Company	Holding Company	Market Cap (RM millions)
40	CIMB Berhad	Bumiputra-Commerce Holdings Berhad (formerly Commerce Asset Holdings Berhad)	4,371
41	Highlands & Lowlands Berhad Kumpulan	Guthrie Berhad	2,176
42	Sime UEP Properties Berhad	Sime Darby Berhad	1,739
43	UEM Builders Berhad	UEM World Berhad	1,002
44	Time DotCom Berhad	Time Engineering Berhad	974
45	Boustead Properties Berhad	Boustead Holdings Berhad	939
46	Tractors Malaysia Holdings Berhad	Sime Darby Berhad	785
47	Pharmaniaga Berhad	UEM World Berhad	551
48	Guthrie Ropel Berhad	Kumpulan Guthrie	467
49	Sime Engineering Services Berhad	Sime Darby Berhad	441
50	UAC Berhad	Boustead Holdings Berhad	366
51	Negara Properties (M) Berhad	Golden Hope Plantations Berhad	280
52	Cement Industries of Malaysia Berhad	UEM World Berhad	231
53	Syarikat Takaful Malaysia Berhad	BIMB Holdings Berhad	172
54	Vads Berhad	Telekom Malaysia Berhad	163
55	Acoustech Berhad	Formosa Prosonic Industries Berhad	131
56	Mentakab Rubber Company (Malaya) Berhad	Golden Hope Plantations Berhad	129
57	Opus International Group PLC	UEM World Berhad	128

8 *Shareholding as of March 2005 and market capitalisations numbers are estimates from the same time period*

SUMMARY FACTS ON GLCS AND G-15 (AS OF 26TH JULY 2005)

	G-15	GLCs
Total number	15	57
Total market capitalisation	RM 169 billion	RM 261 billion
% of KLCI	35%	54%
% of total Bursa Malaysia	23%	36%
No. of employees (estimate)	250,000	400,000

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