



Corporate Governance – Khazanah’s experience

KHAZANAH
NASIONAL

18th May 2011

**Views of the speaker are his; usual caveats apply in that the views may or may not reflect those of Khazanah’s.*

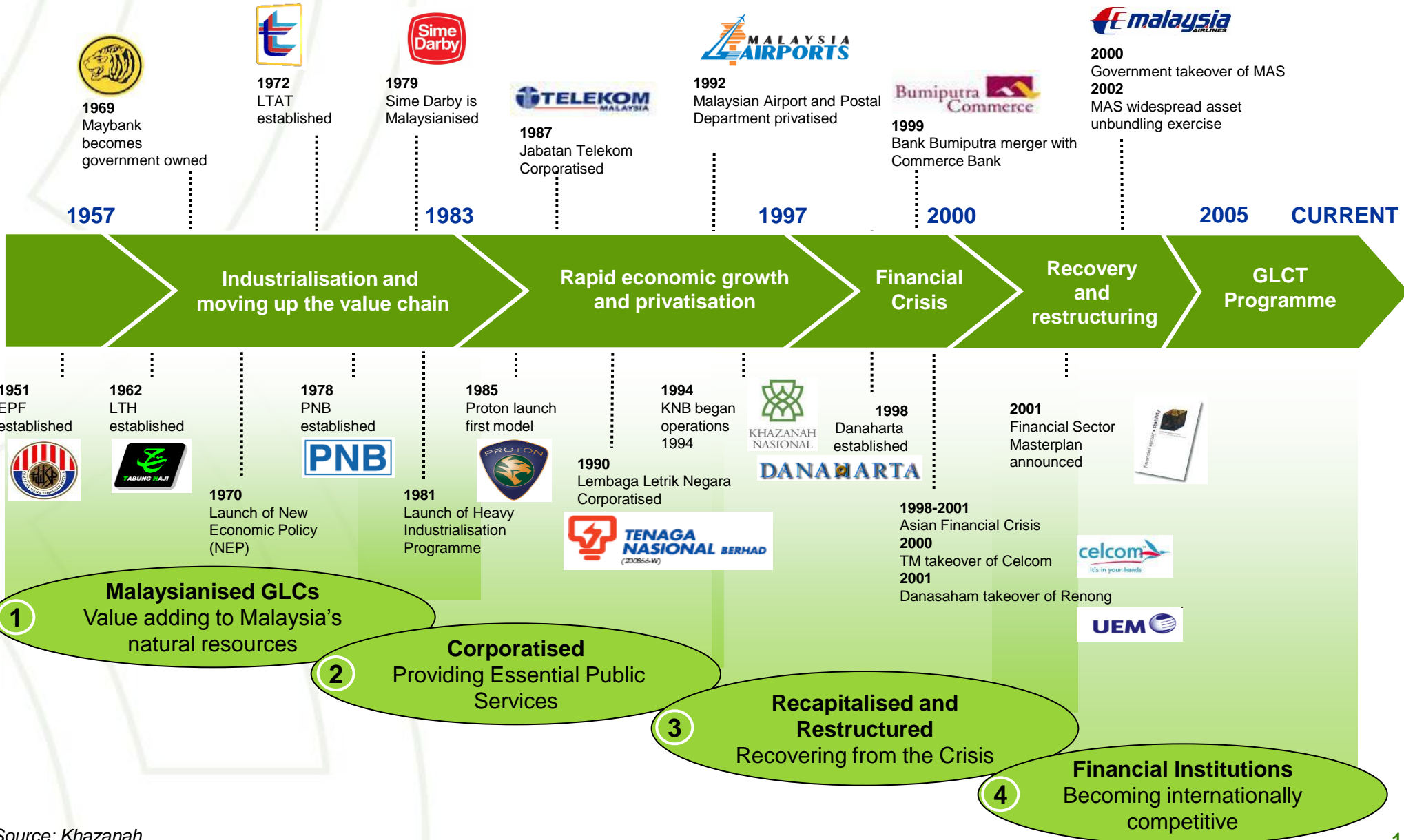
- A**
Government Linked Companies (GLCs)
1. History and evolution of GLCs
 2. Roles of Government
 3. Reporting structure of GLICs and GLCs

- B**
GLC Transformation Programme
4. GLC Transformation Programme
 5. Driving shareholder value creation
 6. GLCs have brought increasing benefits to all stakeholders

- C**
Khazanah
7. Roles of Khazanah and GLCs in national transformation
 8. Equities Portfolio by Sector and Geography

- D**
Corporate Governance & Conclusion
9. Evolution of Corporate Governance in Malaysia
 10. Khazanah's Monitoring & Management Framework
 11. Tenaga Nasional Berhad ("TNB")
 12. Corporate Governance of TNB
 13. Conclusion

1. History and evolution of GLCs



Source: Khazanah

2. Roles of Government

Developer/ Public Goods

- Provider of public goods, infrastructure or services
- Provision of law and order
- More socio-economic in nature

Regulator

- Provide level and conducive playing field
- Protection of public interest
- Enforcement

Financial

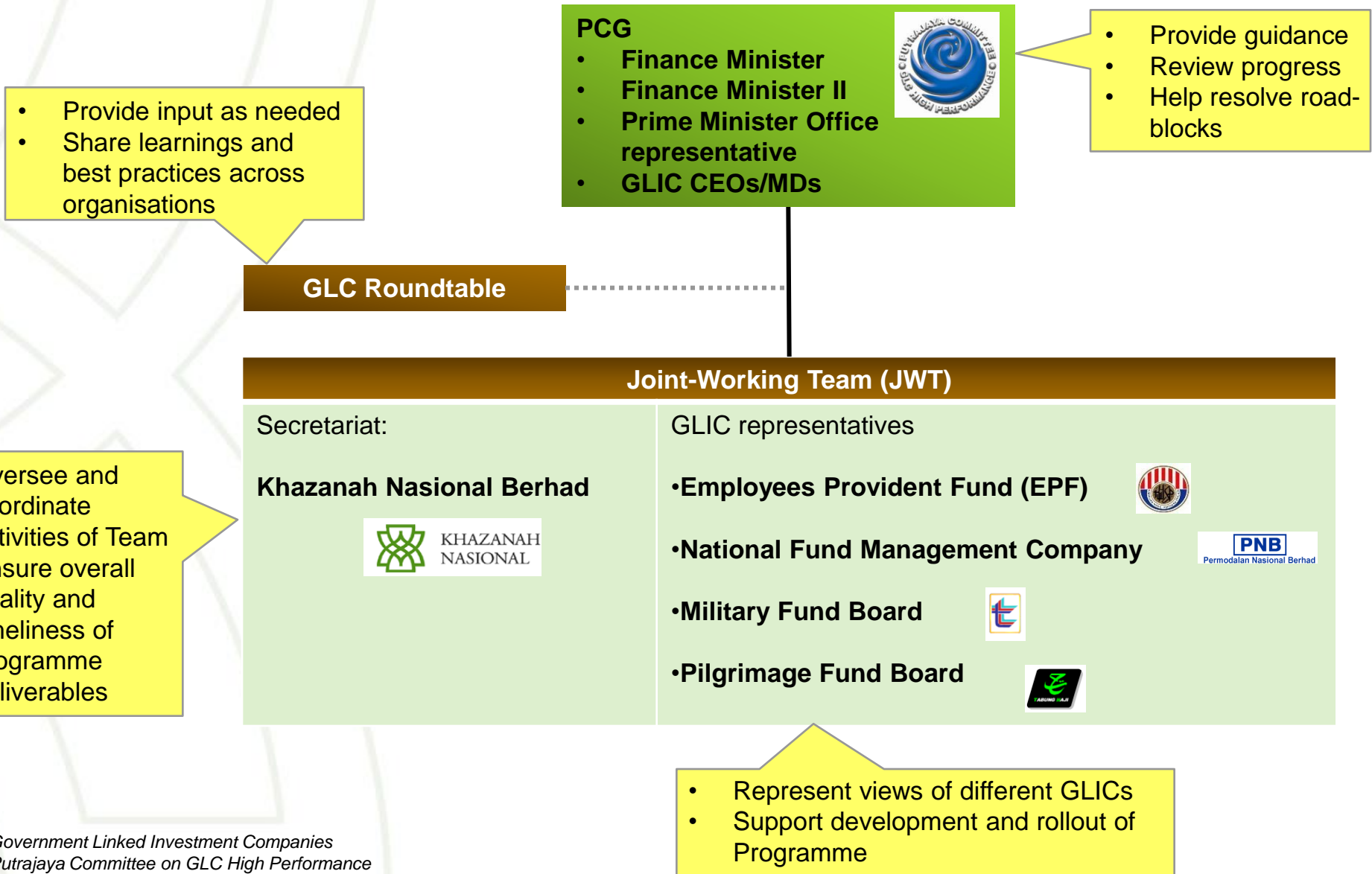
- Some entities continue to be controlled by the Government for historical reasons
- Create sustainable economic value

Khazanah as Government's strategic investment arm

- Focus on shareholder value creation
- Careful not to crowd out private sector
- Optimal and evolving holdings in companies and sectors
- Strengthen management capabilities
- Financial returns as principal measure of KPIs



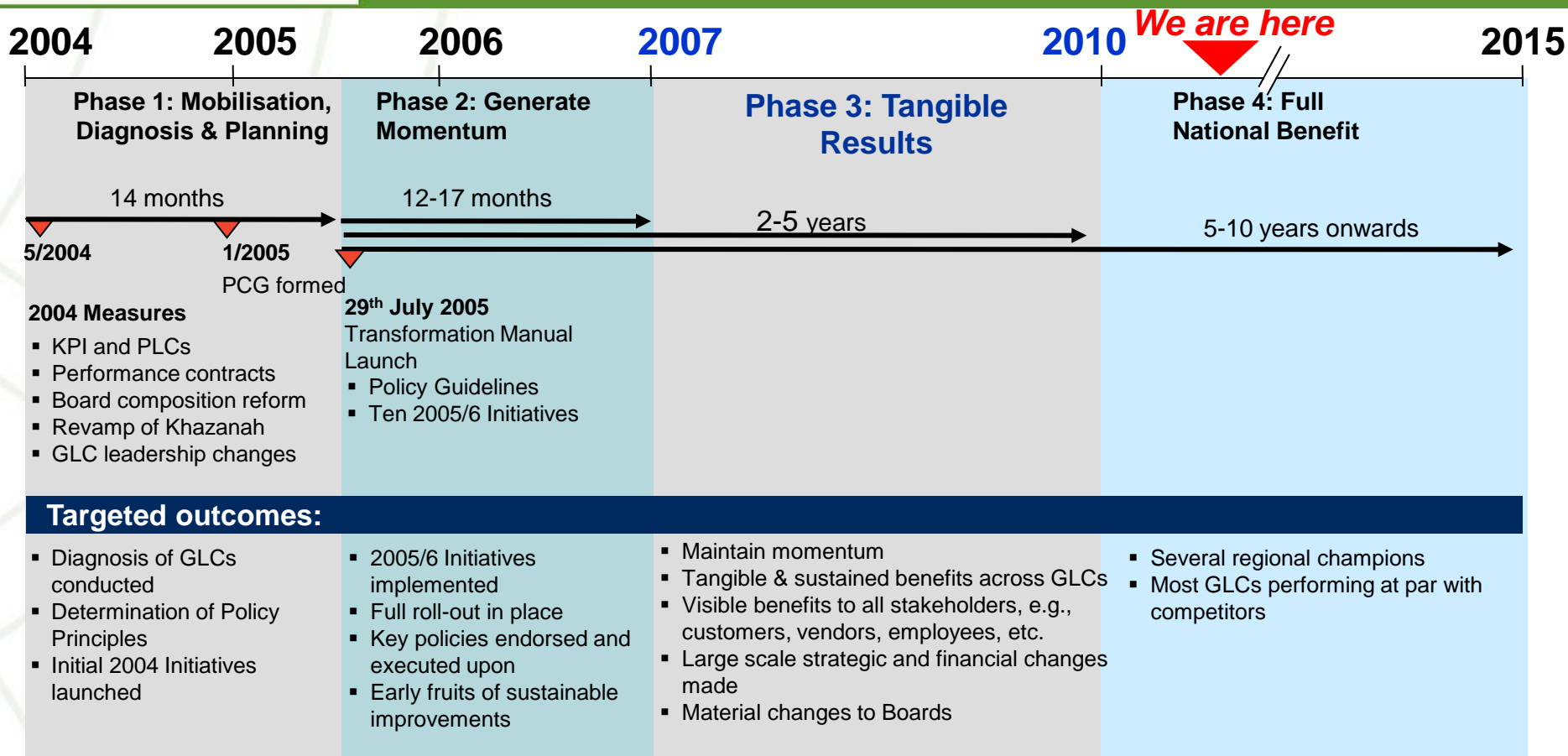
3. Reporting structure of GLICs and GLCs



GLIC = Government Linked Investment Companies
 PCG = Putrajaya Committee on GLC High Performance

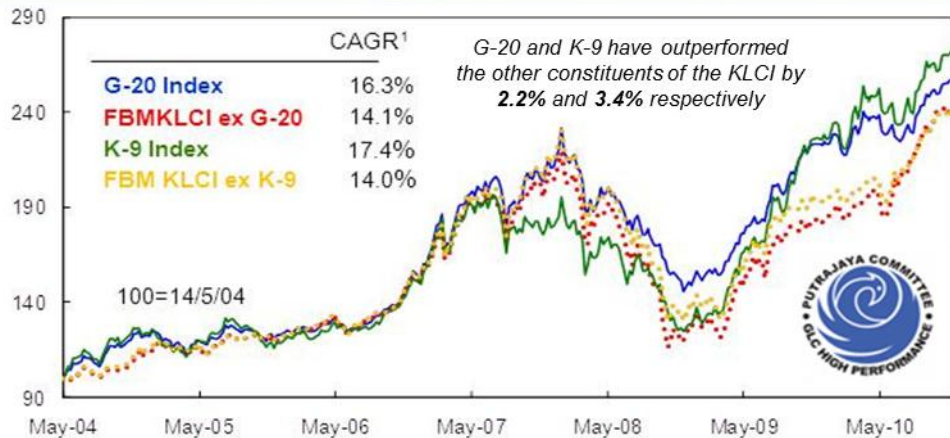
Source: Joint Working Team Compilation

4. GLC Transformation Programme

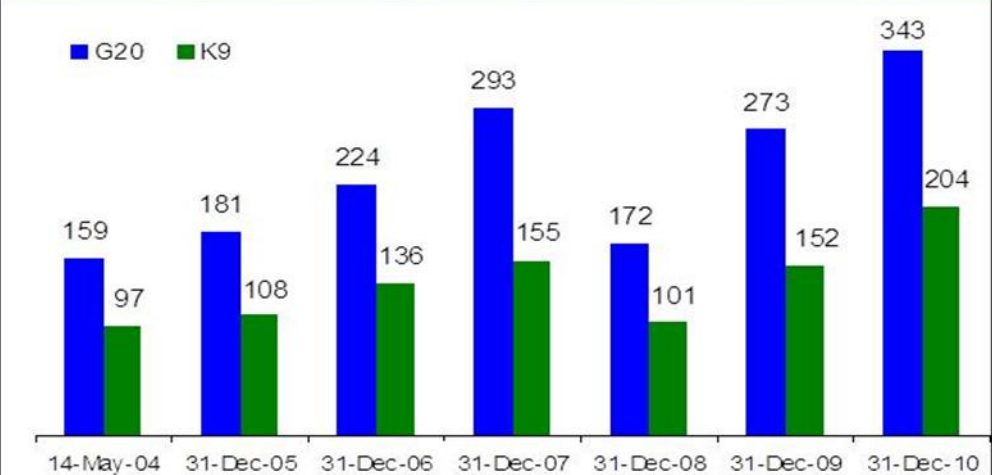


5. Driving shareholder value creation

TSR Index from 14 May 04 to 31 December 10

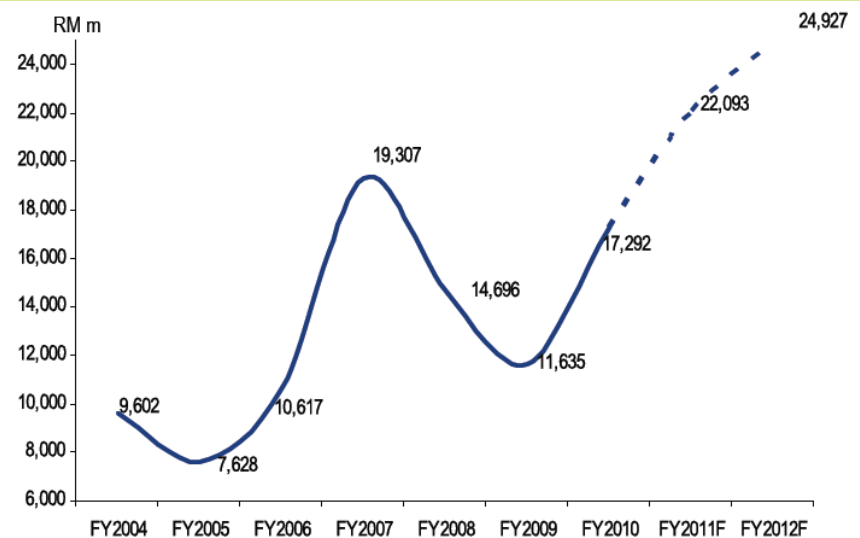


Market Capitalisation (RM bn)



GLC Transformation work continues, with strong results from K-9 companies and benefits to multiple stakeholder groups

G20 Aggregate Earnings



6. GLCs have brought increasing benefits to all stakeholders



- GEMS benefited **6,000** participants with **80%** employability rate
- **34** members adopting **213** schools, benefiting over **106,000** students
- In 2010, number of students who scored straight As from PINTAR schools was **11.15%** versus National Average **10.2%**, an increase of **1.53%** from **2009**



- **2371** families have benefited across the nation



Source: PCG, GLCs

COMMUNITY AND CSR

GLCs
BENEFIT ALL
STAKE-
HOLDERS

CUSTOMERS

VENDORS AND SUPPLIERS

EMPLOYEES & HUMAN CAPITAL

- **BIMB, Boustead, Proton, UMW** received awards for best products
- **Axiata, CIMB, MAHB, MAS, Maybank, Pos, TM & TNB** received several awards as best service providers



- TM's vendor **IC Microsystem** has been awarded **Malaysia's Top Most Innovative SME** in 2010 with grand prize worth **RM 1 Million**

- TNB organises trade mission to promote its vendors' products overseas & **more than 10 vendors** have ventured into foreign markets to-date



- Proton & CIMB collaborated to provide **financial assistance** to their dealers

- More than **130** vendors graduated under Vendor Development Programmes since 2004



- Study on impact of GLCT on GLC Employees indicates that welfare of G20 employees have improved since the programme began in 2004



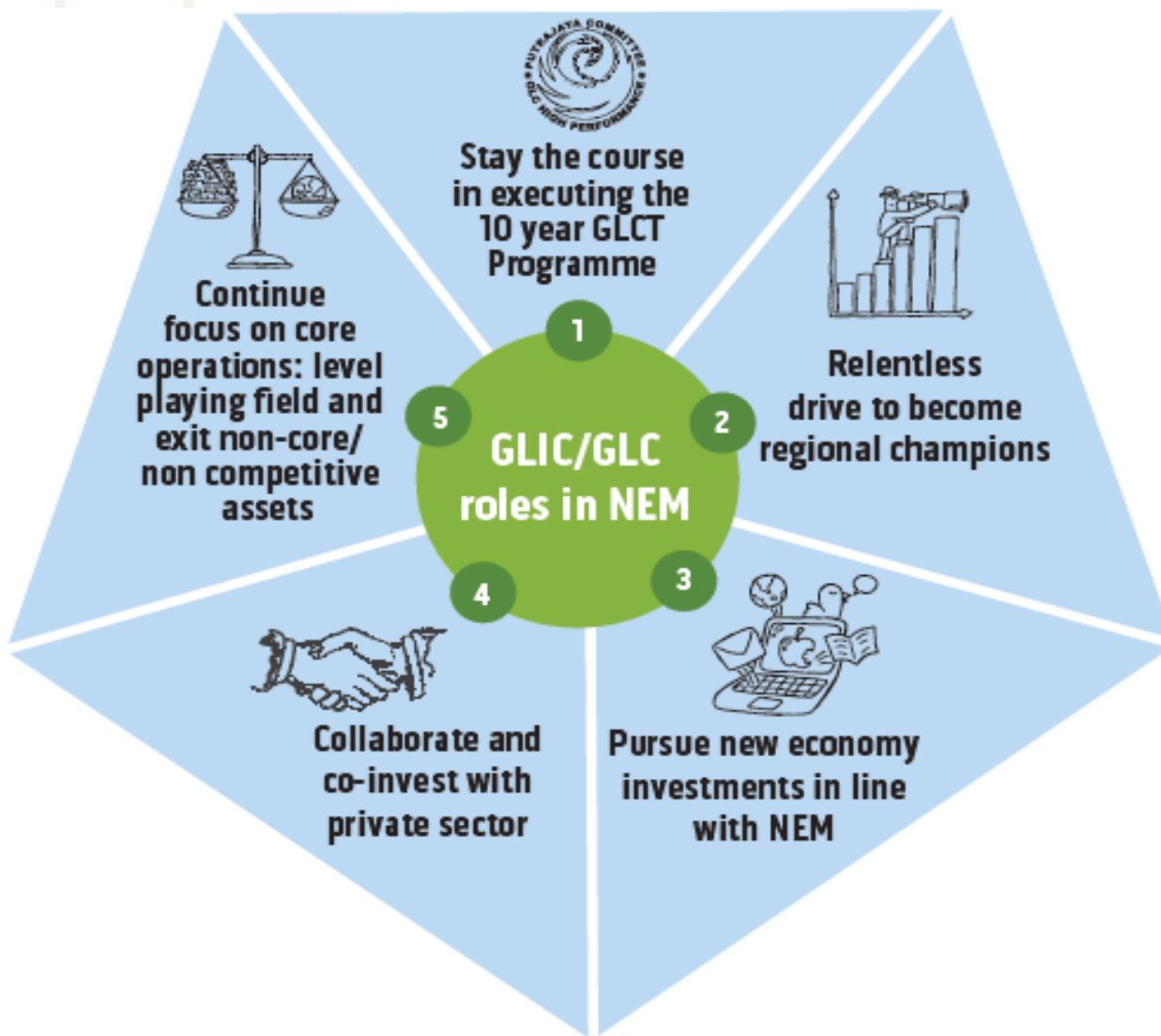
- Pos Malaysia develops partners from their employees through **PETER** (Promoting of Employees to Entrepreneurs)



Source: GLCs

Source: PCG

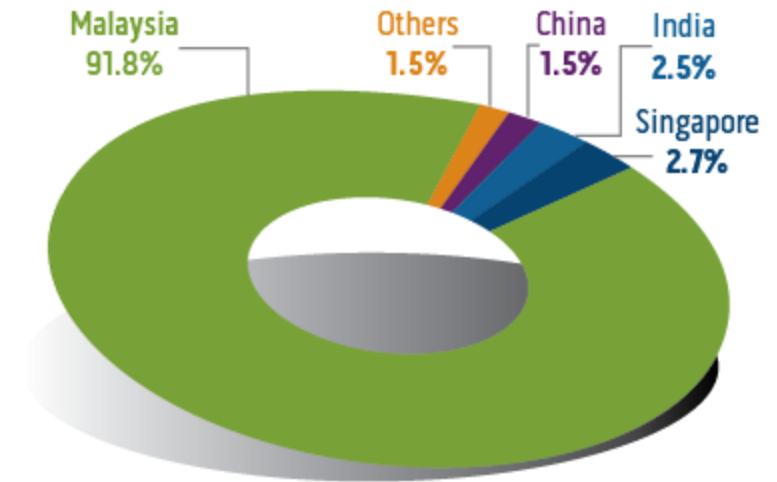
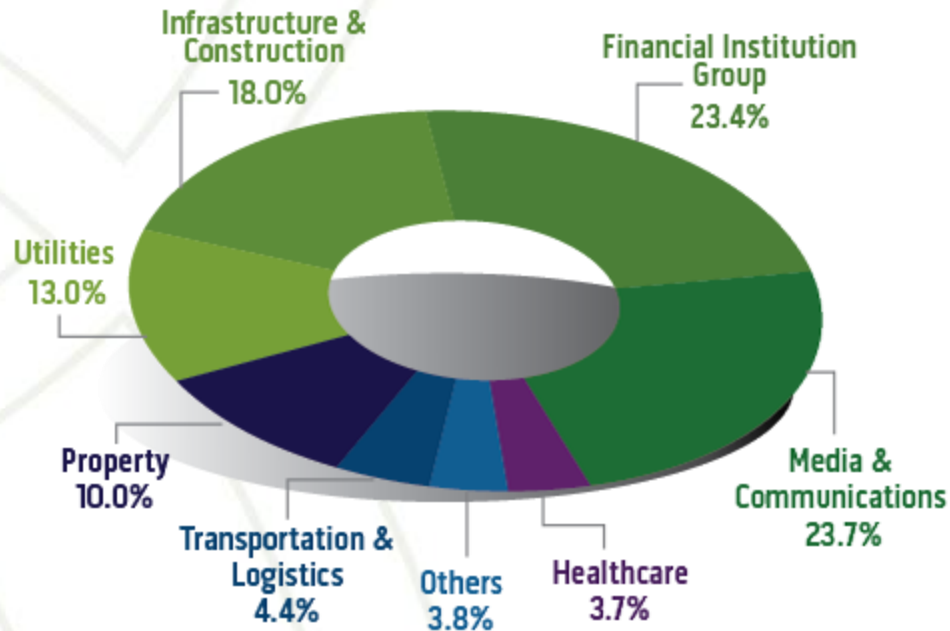
7. Roles of Khazanah and GLCs in national transformation



8. Equities Portfolio by Sector and Geography

Malaysian investments make up almost 92% of Khazanah's equities portfolio

Breakdown of Equities Portfolio by Sector and Geography as at 31 Dec 2010



9. Evolution of Corporate Governance in Malaysia

2001

2002

2003

2004

2005

2007

2008

2009

2010

- Major **revamp of KLSE Listing Requirement**: new chapter on corporate governance.
- Issuance of **guidance for directors on statement of internal controls**.
- **Director's Mandatory Accreditation Program** commences.
- **Minority Shareholder Watchdog Group** established.
- IIA issues **guidance for internal audit** function.
- Securities Commission introduced **Merit-demerit incentives in Guidelines** on Issues/Offer of Securities.
- Director's **Continuing Professional Education ("CPE") Program** commences.
- Introduction of provisions governing by Securities Commission: 1) **Whistle-blowing**; 2) **Enhancing enforcement/redress mechanisms** for breeches of securities laws.
- Launched "**Best Practices in Corporate Disclosure**".
- High Level Committee on **Corporate Governance Enforcement** established.
- Issue **guidelines to facilitate shift to post-vetting of prospectuses**.
- **Bank Negara Malaysia issues Guidelines on Corporate Governance for Licensed Financial Institutions**.
- **Institutional Shareholders Pro-tem Committee** formed led by MSWG.
- Revised **Malaysian Code on CG to strengthen boards**, audit committees and internal audit functions.
- **Listing requirements mandate disclosure** of state of compliance with the Code (above)
- Amendments to Companies Act 1965, focusing on **directors' responsibilities**.
- **Public Company Accounting Oversight Board** formed.
- **Capital Market & Services Act 2007** substituted Securities Industry Act 1983.
- Establishment of the **Malaysian Investor Relations Association (MIRA)** and the **Institute of Corporate Responsibility (ICR)**.
- SC and Bursa Malaysia introduced the **Corporate Governance Guide**.
- Bursa Malaysia launched the **new unified board** (main market) and the ACE market.
- Audit and Assurance Standards **Board and the Ethics Standards Board** established.
- **International Corporate Governance Consultative Committee** formed.
- Introduction of **Whistleblowers Protection Act 2010**.

2012

- The Malaysian Competition Act 2010 is expected to be implemented in January 2012

10. Khazanah's Monitoring & Management Framework

**Khazanah's
Five-Pillar
Terms of
Engagement
Framework
with Its
Investee
Companies**

1. Leadership Bench – Board and Management

2. Strategy – Clear strategic direction

3. Systems and Controls – Strong processes and good accountability

4. Industry Structure – Right structure & regulation

5. Monitor & Empower – Performance management

11. Tenaga Nasional Berhad (“TNB”)

1949

Establishment of Central Electricity Board (CEB)

1965

Renaming CEB to National Electricity Board (NEB)

1978

National Load Despatch Centre (NLDC) was established

1990

NEB was corporatised as TNB



2011

TNB today

- CEB became the owner of **34 power stations** with a generation capacity of **40MW**.
- CEB award scholarships to young Malaysians to **study electrical engineering** in British technical colleges.

- **Grid Control Centre** was set up to cater for integration of the network.



- It was officially opened by the **Prime Minister** of Malaysia.
- Equipped with a computer based **Supervisory Control and Data Acquisition (SCADA) system**.
- Completion of **National Grid**.

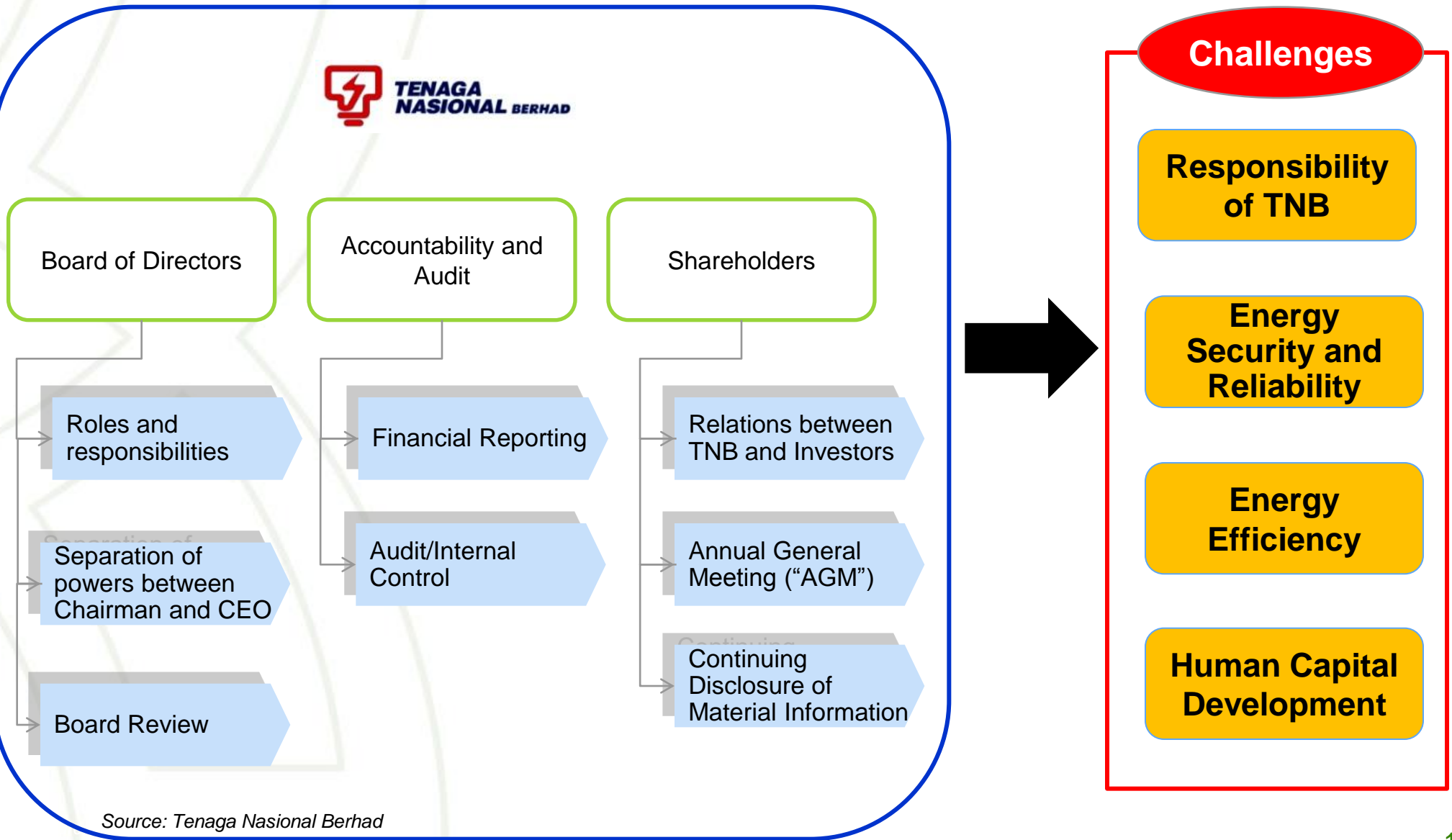


- TNB was listed in **February 1992**.
- **TNB Initial Public Offering** exceeded expectations with share applications worth **USD3.6 billion**.
- 1993 – TNB entered the **Power Purchase Agreement** with the first **Independent Power Producer** in Malaysia.

- **Top 10 largest stocks** on Bursa Malaysia based on market capitalisation (ex-banks)
- TNB’s market capitalisation reached **USD13.7 billion**.
- **7 million** customers.



12. Corporate Governance of TNB



Source: Tenaga Nasional Berhad

13. Conclusion

- Effective and good governance is absolutely fundamental.
- All parties must play their parts in the eco-system including:
 - ✓ Employees, shareholders, public, media, government and regulators.