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“In Search of Gold and the Golden Mean”  
*Transforming and Re-balancing in the New Malaysia Inc.:  
The Role of Khazanah and the GLCs*

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KHAZANAH  
NASIONAL

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



*Distinguished audience, ladies and gentlemen*

### **Section 1: Introduction**

Thank-you once again to Bursa Malaysia and Maybank Investment Bank, the title sponsors, for inviting me back to deliver to this august gathering. The last time I took this stage on 1<sup>st</sup> July 2009, the World was a rather different place. In mid-2009, the World and the developed markets in particular, were deeply mired in the Global Financial Crisis, although Malaysia and the Bursa itself were relatively sheltered. The lessons in the intervening two years or so have been both cyclical and structural.

#### ***Some underlying macro trends and its implications on Malaysia***

In cyclical terms, 2010 will likely be consigned into the footnotes of economic history as a year when the economy and the markets surprised on the upside but quite disappointingly did little to fundamentally and permanently change for the better the post-crisis world. While global output rebounded by a commendable 5% in 2010, this has been rather short-lived, and into 2011, a new set of challenges has emerged. The symptoms of deeper causes abound; and not just the structurally slower growth outlooks or the inflationary fears especially in energy and food prices. But perhaps more significantly, and certainly more shockingly, the speed and intensity at which ecological and social/geopolitical backlashes have unfolded. If there is a byline for 2011 and the year to date, it is that the world is a fundamentally unstable place.

Markets, or at least efficient markets, are supposed to be mirrors of that unstable world. Of late, the mirrors have often become amplifiers as well. We do indeed live in volatile times.

I wish I could be a bit more upbeat. Moreover, in structural terms, it is hard not to conclude that the World seems to have wasted what was indeed a first-rate crisis. The

relative success of the “war-time” crisis management of 2009 has given way to a more predictable drudgery of low equilibrium outcomes at both national and multi-lateral levels. Take your pick of any of the big issues and the big problems of the global commons; trade, capital flows, financial stability, banking reforms, poverty and development, and indeed, climate change. They all fell short, often significantly short, of the bold, honest and collective leadership the world was crying out for. Those of us who have seen (and if you have not, you should<sup>1</sup>) the recent Oscar winning movie “Inside Job” would come away shaking our heads in disbelief and even in anger as to how did we allow the Global Financial Crisis of 2008 to happen, a big blot in our common human history.

So, we ask the question as to whether we just let it end there? Do we just resign ourselves to be consumed by these big and overwhelming mega-trends? Is that it?

As we have come to expect and I have over the years come to learn, the answer is of course not! While we do indeed live in volatile times, we are also living in seismic times and with such big shifts come big inflexion points and big opportunities. The one major caveat is that opportunities only knock for those who are prepared and for those who are bold, determined and steadfast enough to take them.

Indeed, at the outset, while Malaysia posted a robust 7.2% GDP growth in 2010, more importantly, the authorities have candidly recognized that this is not good enough and there are many structural challenges that we need to address. To my mind, there are two significant consequences of these trends for Malaysia in 2011 and beyond. First, we can’t rely too much on others, on global demand and investment nor on global governance for the solutions. That means greater self reliance yet remaining firmly plugged into global supply chains and global markets. On balance, our natural and adduced endowments mean that we are well placed to benefit from the acceleration of the economic shift from West to East, from the financial to the real economy, and from a more narrow growth focus to a more inclusive and sustainable stakeholder economy.

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<sup>1</sup> There is a wonderful cameo interview with some of the best lines of the movie by Tan Sri Andrew Sheng, an illustrious son of Malaysia, member of our National Economic Advisory Council and a Board member of Khazanah.

And second, as we have heard from the Prime Minister and others, we are now witnessing the strong momentum of the rollout of various national transformation programmes. For the Government Transformation Programme, the New Economic Model and the Economic Transformation Programme, with the clear plans and the momentum generated to date, we have a clear opportunity in 2011 to truly seize the moment for a significant remake. To do this, like all national transformation programmes, it critically needs a strong national compact if not quite a full national consensus. The task of building a more responsible and relatively non-partisan compact will be a task that is rooted in political and social transformations. In this regard, the sequencing has been orderly, in starting with the critical public goods and economic transformation programme first and in the process building momentum.

***Restating the national challenge: Delivering Gold and Constructing the Golden Mean***

It is against this backdrop that I would like to humbly submit our contribution to Invest Malaysia this year. That is to speak on the topic “In Search of Gold and the Golden Mean”, with a subtext of “Transforming and Rebalancing in the New Malaysia Inc. – The Role of Khazanah and the GLCs”.

In the 7<sup>th</sup> year of a ten-year Khazanah and Government-Linked Companies (“GLC”) Transformation Programme, as will be obvious later, this is very much about the same things me and my colleagues have been talking about and doing over our seven-year journey to date. Firstly, it will be about what is real and valuable and about value-creation, about finding or producing the “Gold”. It’s quite apt that Gold is at an all time high as we speak, and that this is very much the performance focus and value creation mandate of the Khazanah and GLC Transformation Programme.

And secondly it’s about what is called the Golden Mean. The Golden Mean, as we know, is a term and an *ilmu* (or knowledge) we inherited from the ancients. It is a fundamental truth deeply embedded in mathematics, in art, in architecture and indeed in life form itself, in that the creation of robust and sustainable systems critically rests on the principles and the Golden Mean of balance and proportionality. It was not just the ancient Greeks, but it is indeed found in all the great texts and the great cultures

and traditions; in the Chinese *Tao*, the Buddhist *Middle Path*, the Muslim *Al-Mizan*, to the Swedish *Lagom*, through to the work of latter day thinkers including Pareto and Nash. In one way or other, all have recognized the universal and primordial truth that the only sustainable way for all of us to prosper together, is to do so in a balanced, proportionate and equitable manner. Indeed, inherent in the Malay proverb “*Buat baik berpada-pada, buat jahat jangan sekali*” (loosely translated as: never ever do bad, but do good in moderation) is an implicit reminder of the timeless wisdom of moderation and proportionality, even in doing good.

Ergo, in a world of great imbalances, such seismic times that we live in is but a great opportunity for rebalancing to happen. Indeed, there are many dimensions of rebalancing. What is the right balance, the right “Golden Mean” between state and markets, between public and private, between shareholder and other stakeholders, between being purely meritocratic and being purely developmental?

Put in another way, what Khazanah, Bursa, the markets or indeed any institution including the Government does, has to ultimately be judged against its ability to help deliver and support this collective Golden Mean. And this morning I hope to therefore explain this by way of explaining both how we are striving to continue to “deliver the Gold” but perhaps given the significant impact that GLCs and Khazanah have on our surroundings, just as importantly how we help support the construction of a higher equilibrium, of a higher Golden Mean.

## **Section 2: “Producing the Gold”: an update on Khazanah and GLC results to date**

Two years ago, I had spoken about catalyzing a new domestic economy<sup>2</sup> through, among others, the so-called mathematics of value creation – of organic growth (or addition by addition), through divestment (addition by subtraction), through exponential growth including by M&A (addition by multiplication) and indeed

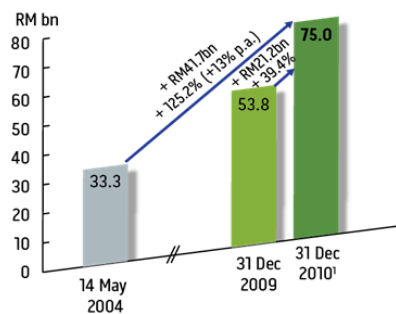
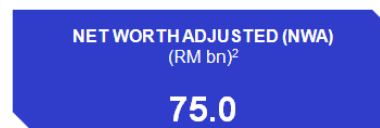
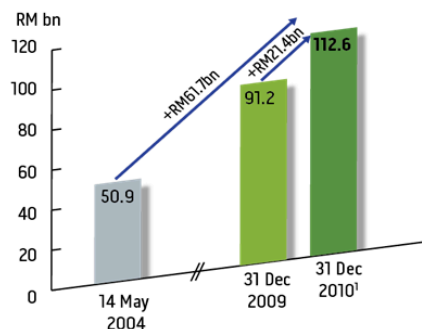
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<sup>2</sup> Invest Malaysia 2009 speech, “Graduating to a Higher Class – Catalyzing a New Domestic Economy” 1<sup>st</sup> July 2009

through greater focus (addition by division). Two years on, we have been busy executing our plans and much has happened and much of it, as it turns out, anticipated and predicted by the framework outlined in 2009. The roll call is a fairly busy one. From the likes of the UEM Land-Sunrise takeover and merger, the strategic divestments of TIME dotCom and POS Malaysia, the ongoing delisting and restructuring of PLUS, the takeover of Parkway and subsequent partial divestment of Integrated Healthcare, and the emergence of regional champions in CIMB and Axiata. These we believe are a varied and rich case book of different methods of value creation. To be sure, we have had some frustrations too, and there have nonetheless been other areas, mostly in the more regulated sectors such as electricity, autos and aviation, where value has stagnated or even declined.

Nonetheless, thankfully, I am pleased to report that overall, by and large both at the Khazanah portfolio level and the aggregate GLC level where Khazanah is the secretariat to the GLC Transformation Programme, 2010 has been a sterling and, on many counts, a record year. Alhamdulillah and thank-you to everyone – and there are very many – who have contributed to this.

Portfolio Value as at	14 May 04	31 Dec 09	31 Dec 10 <sup>1</sup>
RAV (RM bn)	50.9	91.2	112.6
NWA (RM bn) <sup>2</sup>	33.3	53.8	75.0
RAV/Liability Cover (x)	2.9	2.4	2.9



<sup>1</sup> Note: Based on unaudited accounts  
<sup>2</sup> NWA: RAV less Total Liabilities and adjusted to measure value created  
Source: Khazanah analysis

In January, Khazanah at its Annual Review had announced record results for the year 2010, with the Net Worth of our portfolio jumping 39% in 2010 to RM75 billion, translating into an annual compounded growth rate of 13% since the current management team started in mid 2004. Moreover, when we segmentalize between the old, legacy investments and the newer, discretionary investments, there is a starkly different performance record that emerges, with the newer investments posting more than 20% average annual growth against the drag of about 5% per annum for the older investments<sup>3</sup>.

Further, in 2010, while investment and divestment activity was fairly active, our investment stance was essentially neutral, with total investments at RM6.5bn only marginally exceeding total divestments of RM6.2bn, with the divestments generating some RM3.5bn of gains. In total over the seven years to December 2010, we have completed a total of 36 major divestment transactions with total proceeds of RM24.0bn generating some RM11.6bn of gains upon divestment.

Investments	No. of transactions	Investment Amount (RM bn)
<b>2004-2009</b>	66	33.6
<b>2010</b>	12	6.5
<b>Total</b>	<b>78</b>	<b>40.1</b>

Divestments	No. of transactions	Divestment Proceeds (RM bn)	Gains on Divestments (RM bn)
<b>2004-2009</b>	29	17.8	8.1
<b>2010</b>	7	6.2	3.5
<b>Total</b>	<b>36</b>	<b>24.0</b>	<b>11.6</b>

*Source: Khazanah analysis*

To further highlight that into 2011, this overall trend continues. Last week for example, we had announced a 30% divestment of our consolidated regional healthcare flagship, Integrated Healthcare Holdings (“IHH”), to Mitsui & Co. of Japan for proceeds of RM3.3bn. In addition to strengthening the capital base and

<sup>3</sup> Refer to the “Seventh Khazanah Annual Review” dated 18 January 2011, a copy of which has been included in your packs today.

underpinning the capex plans of IHH, the transaction also effectively places an equity value on IHH of RM11.0bn and enterprise value of RM14.6bn. With strong underlying operating and EBITDA growth averaging close to 20% p.a. currently, we are confident that this asset, with a strong partner in Mitsui, is well on its way to being an even stronger regional champion. We look forward, subject to market conditions, over the near to medium term to relist the company and offer to share this exciting growth story with you and to complete the market validation further, for us and our partners.

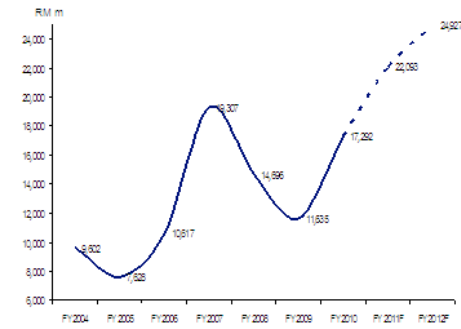
Today, we are also issuing our GLC Transformation Programme Annual Progress Review for 2010<sup>4</sup> (which is also included in your pack). The picture is also similarly positive. GLCs have conclusively shown their resilience during the crisis period and as a group have come out even stronger. They are also firmly back on the growth trajectory with aggregate earnings for the G20 group of the largest GLCs rising by 49% in 2010 to RM17.3bn. TSR (“Total Shareholder Returns”) performance, at 16.4% per annum since mid 2004, has continued to significantly outpace the rest of the KLCI that lags at 14.5% per annum. The G20 has also managed to deliver on 74% of their Headline KPIs in 2010, an increase from 64% in 2009.

The quality of growth in the G20 also continues to improve, with aggregate ROE rising to 10.5% from 7.7% and Aggregate Debt to Equity Ratios dropping to 32% from 42%. Economic Profit, while still small at RM765m in aggregate, nonetheless has swung back into the black from an aggregate loss of RM647m in 2009.

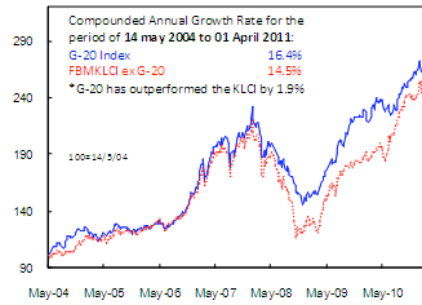
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<sup>4</sup> Refer to the GLC Transformation Programme Progress Review 2011 dated 13 April 2011, also included in the deck distributed

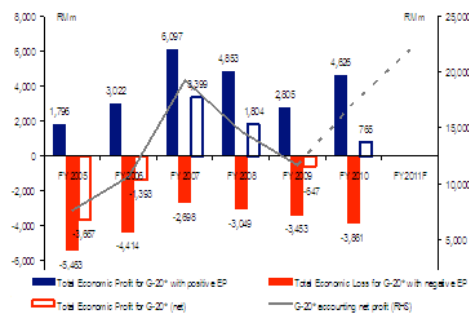
**G-20 Aggregate Earnings**



**G-20 Total Shareholder Returns**

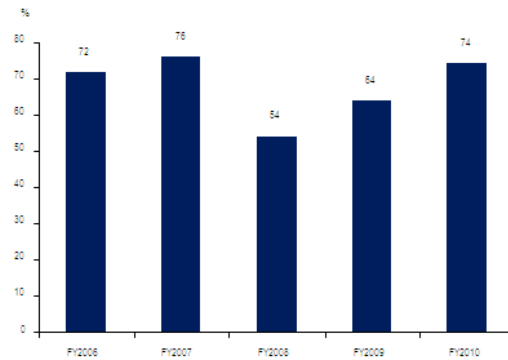


**G-20 Economic Profit**



Source: G-20 financial reporting, PCG analysis; Bloomberg

**G-20 Headline KPIs Success Rate**



Nonetheless, while we are pleased and thankful of these good results, we are also very conscious that this is still very much a work-in-progress and that the ten-year Transformation Journey that started in 2004 is still only two-thirds way through.

**Section 3: The evolution and rebalancing of “Malaysia Inc.”**

If the audience would allow me some indulgence to delve into our economic history of the last 25 years or so from the mid 1980s in order to set the stage for a discussion on finding the right balance in the political economy. That is the right balance between state and markets, between the public and private sectors, and the related and important stance of the policy in addressing the underlying trade-offs between growth with equity, between production and distribution. At some risk of over-simplification, but with the interest of trying to chart a way forward, I would like to submit that the last 20 years and the current phase could be restated as three distinct phases or versions of the political economy balance or what is sometimes known as “Malaysia Incorporated”.

Many in the audience would recall that in the 1980s, one of the key micro-economic concepts introduced was that of “Malaysia Incorporated” or “Malaysia Inc.” for short. Malaysia Inc., to recap, called for a symbiotic, mutually supportive relationship between the public and private sectors, as partners in business and as partners in development. Indeed, as a response to the severe recession of the mid 1980s, Malaysia Inc. gathered pace, led by the private sector. By the late 1980s, under its ambit, we had begun to successfully mobilize the then excess capacity in the economy; receiving large FDI inflows, opening export markets and driving an infrastructure building boom. This build and boom period coincided and resulted in a significant privatization and capital markets expansion, characterized by speed and size.

As we know, this high-growth decade ended abruptly with the onset of the Asian Financial Crisis in July 1997. Indeed, the first part of “Malaysia Inc. v2.0” from 1997 to circa 2002 was a period of crisis management, stabilization and then restructuring. During this period, the balance moved firmly to the state taking centre stage with institutions such as the NEAC (National Economic Action Council), Danaharta and Danamodal and measures such as the selective capital controls were instrumental in ensuring that stabilization was carried out with minimal socio-economic costs. Indeed, we also took advantage of the crisis backdrop to push through a thorough and successful banking consolidation that saw 56 banks merging into ten at that time.

While some gains were made and much loss averted, in terms of instituting better risk management and corporate governance rules and enforcement, many also felt that some of the what Keynes referred to as the (good) animal spirits so critical to drive the energy of both the real economy and the capital markets was lost during this period. It was against this backdrop that while the nation had successfully stabilized and minimized the cost, both social and economic, it was also obvious that something went amiss in the translation. Of course, this caricature would not be complete without also highlighting several important exogenous factors, none more so than the reawakening of China and India during this period.

While Malaysia had indeed done well in handling the immediate shocks from the crisis, we struggled to meet the challenges of a fast changing and more competitive world. Indeed GDP per annum halved to 4.3% during this decade from the 8.7% average for the decade preceding it. A world where size, speed and ferocious competition is the order of the day, and where almost three billion new people – half the world’s population – from not just China and India, but also from the former Eastern bloc nations and large countries in a more stable Latin America, such as Brazil and Mexico, entering the competition in a big way.

It was against this backdrop that the second part of this phase was undertaken, from around about 2001/2002 onwards. This took shape first with the takeover and restructuring of many high-profile companies such as Renong, MRCB, DRB-Hicom, Celcom, MAS and others, and subsequently in short order consolidating under the launch of the GLC Transformation Programme in 2004 with the revamp of Khazanah. The programme as we know also covers not just the erstwhile privately-held companies, but also the legacy ex-Government agencies in essential and strategic services such as Tenaga, Telekom, Malaysia Airports and so on.

The second part of this phase of Malaysia Inc., from about 2003 to 2008 also coincided with the first half of the GLC journey to date. It was against this backdrop of slower growth, need for better governance and public accountability and more intense external competition that the GLC Transformation Programme was launched in 2004. Indeed, at the core of our GLC Transformation Manual and the ten “rainbow-coloured books” that was officially launched in and from 2005 onwards are three fundamental core principles of 1) driving better performance and value creation, 2) promoting national development and 3) practicing good governance. Alhamdulillah, as highlighted earlier, into its seventh year now, the programme has ostensibly delivered on its promise of delivering better value, good governance and, to an extent, contributing to national development.

In the interest of stimulating an honest national dialogue, I do nonetheless acknowledge that the national development role is still contentious in some or even many circles. This is not necessarily our position, as we believe much has been done

to address national development matters by GLCs. Nonetheless, this remains a matter of public debate and we should approach it objectively. We have in the past talked about the issues of crowding out, or indeed if GLCs themselves are the victims of crowding out through excessive private value capture or less than optimal regulatory practices. Indeed there are perhaps two polar forms of micro-economic “evil”. On the one hand, there is the evil of excessive and unfair private value capture, of rent seeking and corruption, where gains are privatized and losses socialized. This is the familiar stereotype of the crony and the bad entrepreneur. On the other hand, there is also the scary piece of work that is the debilitating and stifling inefficiencies of empire builders and little and big Napoleons of the Government and GLCs, and yes, this could include a form of rent seeking and corruption too.

Suffice to say at this stage that it’s a long and deep subject and that in our view there are both good private sector companies and good GLCs in as much as there are “not good” or bad private sector companies and “not good” or bad GLCs. We should not be bound by dogmatic and ideological frameworks which dictate that ownership structures (whether private, Government or indeed GLCs) are fundamentally right or wrong, but rather we should judge these firms by their actual behaviour. If the action is good then the firm is fundamentally good, if the action is bad, then the firm is fundamentally bad. The Global Financial Crisis of 2008-2009 has spectacularly shown that in as much as there are state and regulatory failures, there are also shocking market failures and wanton and blatant greed and private value capture. We would do well to remember that indeed, as has been reminded by our elders, that pragmatism and a non-dogma dogma, or a no-ideology ideology is indeed a touchstone principle established by the founding fathers of modern Malaysia. And this principle has served us well, and so long as we remain honest and sincere in our analysis, in our planning and then in our application, I believe it will continue to serve us well. Indeed, as Deng Xiao Ping memorably said, it does not matter whether the cat is black or white, so long as it catches mice.

	v1.0 BUILD & BOOM	v2.0 STABILISE & RESTRUCTURE	v3.0 TRANSFORM & REBALANCE
1. Period	~ 1988-1997	~ 1998-2008	2009 and beyond
2. General Description	<ul style="list-style-type: none"> <li>• Boom</li> <li>• Industrialisation &amp; privatization</li> <li>• GDP growth 8.7% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>• Stabilization</li> <li>• Recovery &amp; restructuring</li> <li>• GDP growth 4.3% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>• 1Malaysia</li> <li>• Rebalancing political economy</li> <li>• GDP growth 2009: -1.7%, 2010: 7.2%</li> </ul>
3. Key Triggers	<ul style="list-style-type: none"> <li>• Plaza Accord 1985</li> <li>• Mid 1980s recession</li> <li>• Privatization</li> </ul>	<ul style="list-style-type: none"> <li>• Asian Financial Crisis 1997-98</li> <li>• Post-Crisis recovery</li> <li>• Reawakening of China, India &amp; Eastern bloc</li> </ul>	<ul style="list-style-type: none"> <li>• Global Financial Crisis 2008-09</li> <li>• Global paradigm shifts: acceleration of West to East, Financial to Real</li> <li>• 12th General Elections</li> </ul>
4. Iconic Events/Entities	<ul style="list-style-type: none"> <li>• Private sector-led</li> <li>• FDI influx</li> <li>• Industrialisation</li> <li>• Privatization boom</li> <li>• Mega projects: <ul style="list-style-type: none"> <li>◦ NSE</li> <li>◦ KLIA</li> <li>◦ KLCC</li> <li>◦ Putrajaya</li> <li>◦ Bakun</li> </ul> </li> <li>• Rapid growth of capital markets</li> </ul>	<ul style="list-style-type: none"> <li>• Capital Controls</li> <li>• Danamodal, Danaharta, CDRC</li> <li>• Nationalisation of private assets</li> <li>• Banking consolidation</li> <li>• Clarity of direction: <ul style="list-style-type: none"> <li>◦ Financial Sector Masterplan</li> <li>◦ Capital Markets Masterplan 1</li> <li>◦ Code of Corporate Governance</li> </ul> </li> <li>• Start of GLC Transformation</li> <li>• Start of regionalisation</li> </ul>	<ul style="list-style-type: none"> <li>• Stimulus packages</li> <li>• Unsustainable fiscal deficit</li> <li>• National Transformation Programmes (1Malaysia, GTP, ETP, NEM, SRI, TalentCorp, CMP2)</li> <li>• Rebalancing political economy <ul style="list-style-type: none"> <li>◦ Divesting non-core</li> <li>◦ Collaboration</li> <li>◦ Better regulation</li> <li>◦ New Economy Investments</li> </ul> </li> <li>• Petronas and Felda listings, PLUS, UEMLand-Sunrise, TdC, Pos Malaysia</li> </ul>
5. Key Principles and Characteristics	<ul style="list-style-type: none"> <li>• Speed</li> <li>• Opacity</li> <li>• Large</li> </ul>	<ul style="list-style-type: none"> <li>• Restructuring &amp; revamp</li> <li>• Corporate governance</li> <li>• Risk management</li> <li>• Sovereignty</li> <li>• GLC Transformation (from 2004)</li> </ul>	<ul style="list-style-type: none"> <li>• National Transformation</li> <li>• Good governance, transparency</li> <li>• Innovation and global competitiveness</li> <li>• Collaborations: GLC-private, 1Malaysia supply chain</li> <li>• Sustainability</li> <li>• Targeted and meritocratic inclusiveness</li> </ul>

Source: Khazanah analysis

That brings us to the heart of this paper. *Quo vadis* then, where do we go from here? I would like to provoke further discussion and submit that we have already entered into an updated period of a new Malaysia Inc., a Malaysia Inc. version 3 if you like. This period that started in 2009 coincides with this period of National Transformation, further triggered by the Global Financial Crisis of 2008-2009. This is a critical period, and the decade before us is the last before our national goal of achieving developed nation status by 2020. Given the preceding and cumulative factors of such intense and rising global competition, slower income growth and widening income disparities and a more demanding and informed public, this is clearly an age if not an epoch that demands higher performance and a higher accountability.

As we try and chart the micro-economic political economy balance of our times, our task at this point is thankfully made easier by the formulation of the national transformation plans with the New Economic Model at its heart. In this regard, unreserved credit I believe is due to the Government for giving us a clear framework. For sure, there are numerous trade offs and implementation challenges and for sure,

the devil will be in the execution detail. Those are the challenges for the present and indeed and surely for the future, but we are thankful that there is at least a clear and unambiguous direction with its triple bottom-line of being pro-growth, pro-inclusiveness and pro-sustainability.

In translating this national imperative into the new Malaysia Inc. it follows that the key precepts of this period will require a relentless pursuit of greater efficiency, performance and competitiveness at its heart, and always with greater accountability, better governance and greater inclusiveness. This is a very tough task and I would submit, it's a job too big for any one segment of the economy. Indeed precisely because it's a very wide and challenging task, it will need most of all, greater trust and collaboration between all component parts of the economy – between the Government, the private sector, between GLCs and non-GLCs, and between foreign and domestic investors. If we can co-exist based on a fierce, proper and honest commitment towards a merit-based yet inclusive performance, towards good governance and public accountability and with trust and mutual respect, it will form the basis of a new economic compact, a new, more balanced and better Malaysia Inc.

We must dare to dream a new Golden Mean and then to be wise and disciplined enough to wake up, and then to dare to do.

#### **Section 4: Khazanah and GLC roles in National Transformation**

While the big macro plans are of critical necessity, they are also clearly insufficient on its own. Value will always be created, or indeed lost, at the firm or micro-economic level. At Invest Malaysia in March last year, at the launch of the New Economic Model (NEM), Khazanah had outlined a five-point approach to playing our part in executing the NEM. This remains our guiding framework and it is worth reiterating:

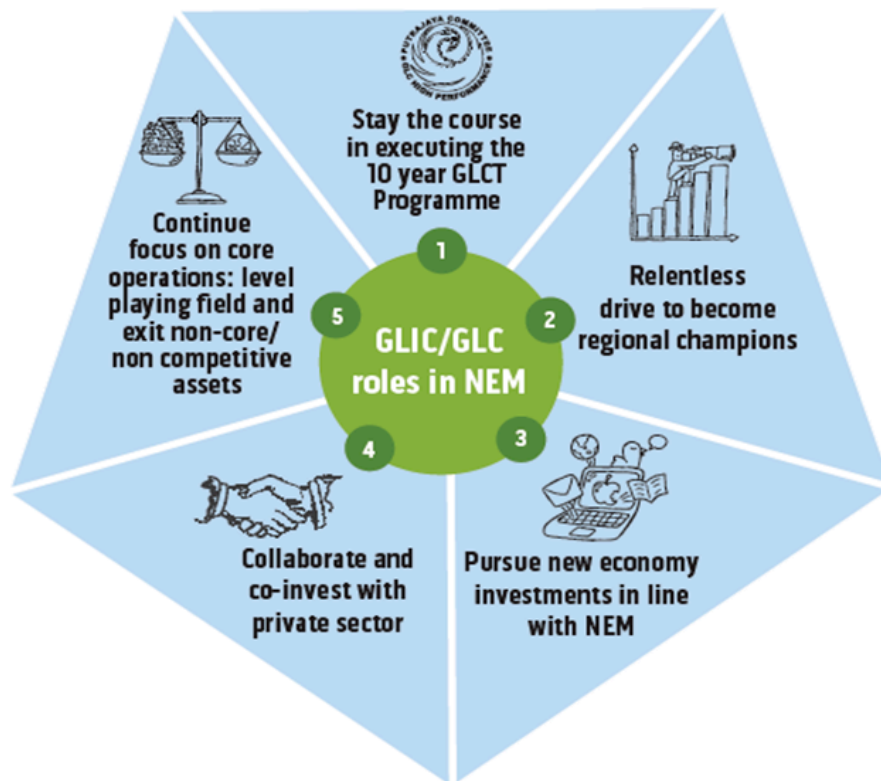
First, for the GLC Transformation Programme, to diligently stay the course as we move into the seventh year of the ten-year programme.

Second, to continue with the gradual regionalization programme of our key companies so as to benchmark and integrate our national champions to compete to become regional champions and beyond.

Third, to contribute significantly to private sector investments in new areas of growth for the new economy, especially in targeted sectors including, inter alia, leisure & tourism, healthcare, education services, Islamic finance, information and communication technology (ICT) and creative industries.

Fourth, to intensify the collaboration and co-investments between Khazanah and GLCs and non-GLCs private sector, both at home and abroad.

Fifth, to diligently focus on core competencies. This means continuing with the orderly exit of non-core and non-competitive assets at the appropriate time. A corollary of this is for a better, more level playing field and better regulatory management to emerge, working with the Government and other industry players in the process.



Source: Khazanah analysis

These are the five key roles of GLCs that we have charted and are indeed implementing, our collective response to not just produce the “Gold” in the New Economic Model era and the new Malaysia Inc. but, more so, to help contribute towards a new and better equilibrium, a new Golden Mean if you like.

Indeed, I would draw upon the relatively busy casebook of the last two years as examples of these principles of the new Malaysia Inc. in action. To elaborate further:

First, before we get too enamoured about new, new things, one key success factor in delivering results we believe has been the discipline and doggedness of execution, of relentless and continuous improvement and of detailed programme management. These are the simple, even boring, incremental building blocks of transformation work. Staying the course is at the heart of this and indeed I am reminded by the wisdom of the American comic and sometimes philosopher Woody Allen, who rightly observed that “Ninety percent of life (and success) is showing up”. A variation, no doubt on Edison’s famous line that “Genius is 1% inspiration and 99% perspiration”. We have outlined clearly the various programmes and “rainbow-coloured books” and the use of KPIs and so on in delivering this first principle. Governance and integrity is also part of this track, and it is critical as the program grows, and even more so as it gets some successes, that we must remain vigilant against such impostors that can breed complacency and hubris. Indeed we must continue to maintain a zero tolerance policy on any breaches of integrity.

There are also several recent cases that have been extensively covered in the media that encapsulates the zeitgeist of this new Malaysia Inc. This is encapsulated in the spirit of better collaboration between non-traditional bedfellows in the UEM Land-Sunrise takeover and subsequent merger. Everyone is and ought to be happy shareholders; UEM Land since its listing in November 2008 had risen by a momentous 311% up to the announcement of the takeover and merger of Sunrise, and a further 22% since then. There are indeed earlier and successful examples of collaboration including the Shuaibah IWPP (Independent Water and Power Plant) in Saudi Arabia, with Tenaga and an IPP, Malakoff being successful shareholders of a plant that was delivered on time and on budget and already yielding dividends after only its first full year of operations.

The earlier strategic divestment of TIME dotCom that was done in a bidding environment has thus far successfully catalyzed a new more entrepreneurial owners and performance. In its first full year of its new owner-management, it recently delivered its maiden profits after 5 consecutive years of losses. Early days yet, but encouraging indeed and we have used this template in the strategic divestment of POS Malaysia. As highlighted by the Prime Minister yesterday, a rigorous and objective process has been applied and we will announce the results imminently upon the approval by the Khazanah board.

We have already highlighted earlier the building of our healthcare franchise over the last few years, as one of the new economy and growth sectors and how we have built value both organically and through the M&A route. An emerging sector where we are devoting significant time and resources is the Leisure and Tourism sector where the announcement late last year of our co-investment and collaboration in Teluk Datai in Langkawi with the original founding investors and also new investors in the form of the Shangri-La Group resulting in investment commitments of some RM1 billion.

In the regionalization agenda, while the likes of CIMB and Axiata are the more visible success stories, progress has been across the board. Our latest survey of the G20 companies shows that between FY2004 and FY2010, the composition of foreign assets and the share of foreign revenue have risen from 9% to 25% and from 26% to 33% respectively over the period. No doubt, going abroad will continue to be risky, however GLCs like all companies have no choice but to embrace the change and the competition, as this change and competition is enveloping us, whether offshore or indeed, increasingly onshore. The only sure defense is indeed offense and by constantly upgrading our competitiveness.

It is in this regard, that we take this opportunity to remind our GLCs that the principle of focusing on core competencies, of taking no free lunch, but to instead build a strong kitchen and develop good cooks, continues to be at the top of our agenda. Again, we should only take what we earn and deserve, as doing otherwise will only weaken us and hasten the inevitable. This is the new Malaysia Inc. and this has to be the new GLC, in this era of National Transformation. We must continue to be part of the solution, because we certainly do not want to be part of the burden.

While those are the five specific roles for GLCs under the New Economic Model, indeed, there is now, in addition, a sixth role, specifically for Government Linked Investment Companies (“GLICs”) highlighted yesterday by the Prime Minister. That is the imperative to better optimize the pools of national savings and funds residing in GLICs through a streamlining of investment styles and mandates. Perhaps an early manifestation of this is the co-investment and streamlining of ownership between EPF and UEM in the ongoing PLUS acquisition and toll restructuring. In this case, with some careful design and proper execution, we will be able to solve concurrently and balance the interests of minority shareholders, bond holders, toll users, taxpayers and indeed better match the different risk appetites and return objectives of two different GLICs. We are striving to complete this imminently and if I may say, we see this as a wonderful example of innovative and proper rebalancing that serves the interests of all valid stakeholders.

### **In Closing**

As a closing thought, perhaps it is worth highlighting that while producing Gold (or creating value, in this case in Khazanah and the GLCs) is both a challenge and an end in itself, it is not a sufficient condition to help build the greater good of the Golden Mean for the nation. That is to say, that the “gold production” of creating value and driving superior performance at Khazanah and GLC transformation alone, is a necessary but of course not, in itself, a sufficient condition for the more important task of building the “Golden Mean”. Indeed, for that kind of collective and proper alchemy to happen, it will require all parts of the equation – between public and private, GLCs, non GLCs, Government and markets to work in the right balance and in the right sequence.

It’s no doubt a work in progress, but we believe the wheels of the various constituent parts are now in motion. While the first half of our ten-year journey till about 2009 was very much about incremental, linear, building blocks and arithmetic kind of value addition, with the national transformation engines now having being ignited, the second five years hint at the promise of a potentially more exponential and dynamic growth.

Thankfully, the financial and strategic results of 2010 and the years preceding that from 2004 have been encouraging. The programme is, in aggregate, well on track and on schedule. Entering the home stretch to 2020, we are embracing a new Malaysia Inc. and New Economic Model against a backdrop of a fundamentally unstable world. In that turmoil, there is nonetheless much opportunity that knocks. Armed with a clear plan, we must now rally around our commonalities rather than our narrow differences to carry the common interests. Searching and delivering the Gold of value creation is but one part, and part of the bigger aim of achieving a better, Golden Mean for all. The task is big and the challenges many, but I ask and call on all of us to play our respective roles in this noble task. The prize is indeed great and if we can do that, we would be able to seize the moment for a once-in-a-generation opportunity to execute meaningful change.

Thank you.