



EPF'S CORPORATE GOVERNANCE PRINCIPLES AND VOTING GUIDELINES



EMPLOYEES PROVIDENT FUND

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CHIEF EXECUTIVE OFFICER TAN SRI AZLAN ZAINOL

A decade has passed since a report on corporate governance commissioned by the High Level Finance Committee on Corporate Governance of Malaysia was launched. With the maturing capital markets in Malaysia and the region, fueled by the belief that sound governance is imperative for creation of wealth and development of the nation, it is our greatest pleasure to present this booklet on the EPF's Corporate Governance Principles and Voting Guidelines.

The modern corporate ownership structure brings about a conflict of interest between owners and managers of the company. A series of major corporate collapses throughout the globe, nearly all of which involved the failure or direct override by managers of corporate governance systems, are living evidence that strong corporate governance structures are essential to align the interest of managers and shareholders, and to ensure that the assets are deployed in the best interests of shareholders.

In response to the crisis, legislators and regulators are introducing tighter regulatory frameworks, in order to restore the trust of the investors. Nevertheless, the new regulations do not address all outstanding corporate governance problems and were not uniform across all capital markets. Thus, as the largest institutional investor in Malaysia, EPF would like to institutionalise corporate governance standards, by introducing the EPF's Corporate Governance Principles and Guidelines.

Thank You,

Azlan Zainol

INTRODUCTION TO CORPORATE GOVERNANCE

Corporate Governance

Corporate governance refers to the structures and processes for the direction and control of companies. Corporate governance concerns the relationship among the management, Board of directors, shareholders and stakeholders. Good corporate governance contributes to sustainable economic development by enhancing companies' performance and increasing their access to capital.

"The choice of a common stock is a single act, its ownership is a continuing process. Certainly there is just as much reason to exercise care and judgment in being a shareholder as in becoming one."

- Benjamin Graham and David Dodd (1934)

Importance of Corporate Governance in Malaysia

As a provident fund, EPF continually invests in capital markets and relies on market returns to generate dividends to our members. Corporate governance within the capital market, in particular, equity investments by EPF, is crucial for preserving value of our investment. Good corporate governance reduces companies' vulnerability to financial crisis and improves transparency which will lead to sustainable capital market development. On the contrary, weak governance reduces investors' confidence and discourages investment.

EPF's efforts in promoting the Corporate Governance Principles and Voting Guidelines are parallel to the regulators' championing of sound corporate governance practices in Malaysia. In recent years, a number of initiatives have been undertaken by Securities Commission and Bursa Malaysia to raise the standards of corporate governance practices amongst listed companies. Among the initiatives are:-

1. Launch of Bursa Malaysia's Corporate Governance Guide that serves as an educational and practical tools to assist directors in understanding their roles and duties;
2. Corporate Governance Week, a joint effort by Securities Commission and Bursa Malaysia which serves as a platform for Securities Commission, Bursa Malaysia and other corporate governance advocates and proponents to propel the corporate governance agenda forward;
3. MSWG together with Bursa Malaysia Berhad had launched the Malaysia Corporate Governance Index to promote the best practices in corporate governance amongst public-listed companies in Malaysia, to incentivise firms to adopt better corporate governance standards through recognition and to provide information and guidance on corporate governance standards;
4. At the same time, other organisations like MIA had launched the Audit Assurance Standards Board (AASB) & Ethics Standard Board (ESB) to promote and support high-quality standards as well as to maintain the confidence levels of the public and the capital markets; and
5. Establishment of the Malaysia Alliance of Corporate Directors (MACD) to cultivate and develop a higher appreciation for board governance and professionalism in corporate directorship.

In addition to these initiatives, EPF will continue to undertake and exercise its role and responsibility as an institutional shareholder to promote sound corporate governance practices among its Investee companies.

Evolution of Corporate Governance in EPF

The Malaysian Code of Corporate Governance was developed by the 'Working Group on Best Practices in Corporate Governance' and subsequently approved by the High Level Finance Committee on Corporate Governance represented by both the Government and industry players, which was formed to identify and deal with corporate governance weaknesses highlighted by the 1997 financial crisis.

Subsequently in 2001, as proposed in the report on corporate governance commissioned by the Ministry of Finance on how to enhance corporate governance in Malaysia, the Minority Shareholders Watchdog Group was established, funded by the five founding members: Employees Provident Fund Board, Permodalan Nasional Berhad, Lembaga Tabung Haji, Lembaga Tabung Angkatan Tentera and Social Security Organisation.

Throughout the years, EPF has transformed from a passive shareholder to a major practitioner of sound corporate governance. The injunction taken by EPF to stop Golden Hope Bhd's sale of its subsidiary to Island & Peninsular Bhd, and EPF's success in pushing for higher prices in the privatisation of Malaysian Oxygen Bhd in 2007, are some of the recent evidences of our increasing awareness of the importance of corporate governance in preserving shareholders' interest. In November 2008, EPF published its stance on common corporate governance issues, again highlighting our concern on the development of corporate governance in Malaysia. Through pro-active interaction and engagement with the Board and management of investee companies, and on-going participation in the companies' shareholders meetings, EPF aims to promote the best practices of corporate governance amongst our investee companies.

EPF'S PRINCIPLES OF CORPORATE GOVERNANCE

- Conflicts of interest, especially those between the managers, shareholders and other stakeholders should be minimised or mitigated;
- The assets of the company should be used efficiently and productively in the best interests of its shareholders;
- Every institution should be led by an effective Board, which is sufficiently strong and independent to exercise objective judgment on all corporate affairs; and
- Asymmetric information between the management and shareholders should be minimised, through timely disclosure on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

EPF'S APPROACHES IN CORPORATE GOVERNANCE

In the past few years, EPF has made significant efforts to enhance awareness and adoption of good corporate governance among its investee companies. EPF is committed to further improve the corporate governance practices by promoting greater transparency, integrity, accountability and responsibility amongst the public listed companies.

EPF aims to achieve these targets through a five pronged action plan, simplified as the "IDEAL" concept, which means:

Interaction:

To broaden and improve interaction with regulators and corporate bodies.

Dialogues

To identify specific issues on corporate governance and to communicate these issues and ideas to achieve a consensus among shareholders.

Exchange

To exchange information, experience and knowledge about best practices in corporate governance worldwide through conferences, knowledge sharing seminars, roundtable discussions and attachments.

Action

To promote the adoption of corporate governance best practices through constant engagement with the companies and other shareholders.

Legislation

To align EPF Corporate Governance Principle and Proxy Voting Guidelines to the regulators existing corporate governance framework.

This booklet is presented as another major step in EPF's effort to promote and communicate our stance on corporate governance to the general public, the capital market and the regulators.

This corporate governance guideline is one of the criteria for selection of EPF's stock universe. It also serves as the EPF proxy voting guidelines for companies listed on Bursa Malaysia.

This booklet highlights EPF's stance on issues including: authority to allot shares under Section 132D of the Companies Act 1965, share buy-back scheme, remuneration disclosures, companies' employees share options scheme (ESOS), and related party transactions.

EPF hopes that the guidelines could be integrated into the public listed companies' corporate governance practices, acting as a platform for the development of an effective, practical, and comprehensive standard of corporate governance in Malaysia.

“The Content Of This Booklet Acts Only As A Guideline For EPF”

EPF'S CORPORATE GOVERNANCE GUIDELINES

Part A: General

EPF's corporate governance guidelines seek to ensure that:

1. Board of Directors always act in the best interests of shareholders;
2. The company acts in a lawful and ethical manner in all its dealings;
3. All rights of shareholders are clearly delineated and communicated;
4. All shareholders should receive fair treatment from the Board and management;
5. The Board and its Committees are structured to act independently from the management, individuals or entities that have control over management;
6. Appropriate controls and procedures are in place covering management's activities in running the day-to-day operations of the company; and
7. The company's operating and financial activities, as well as its governance, are consistently reported to shareholders in a transparent, fair, accurate, timely, reliable, relevant, complete and verifiable manner.

Part B: Shareholders Meetings

1. Proxy Disclosure

The company is encouraged to disclose and present the collective voting results to shareholders during the general meeting.

2. Other Business

EPF believes that resolution on “Other Businesses” should not be tabled for voting unless notice has been disseminated to shareholders within the stipulated timeframe. EPF believes that this will put non-attending shareholders at a disadvantage as they are not informed of the resolution and cannot exercise their voting power. Furthermore, appointed proxies may not have the mandate to vote on behalf of their shareholders.

3. Combined Resolutions

Shareholders' permission should be sought if the company intends to combine resolutions to be voted during the general meeting. Nevertheless, EPF believes that voting on resolutions on re-election and re-appointment of directors should be conducted individually.

4. Minutes of the Meeting

EPF believes that minutes of the shareholder meetings should be made available for shareholders inspection upon request. This will enable the shareholders to verify that issues raised during the meeting have been adequately deliberated and addressed by the Board.

5. Accessibility of Information

Adequate information regarding the resolutions proposed should be readily accessible by the shareholders.

Part C: Board of Directors

The responsibility of the Board is to ensure success of the company over the long term and at the same time to necessitate their fiduciary duty to the shareholders.

1. Size and Composition of the Board

1.1. Board Size

The size of the Board should be optimised according to the structure and circumstances of the company. It should be sufficiently large to capture the diversity of skills and expertise required to evaluate what is in the best interests of shareholders, while not too large to ensure an effective decision making process, and active participation of every director.

EPF believes a Board size in the range of seven to twelve directors, depending on the diversity of the company's business, is appropriate. This will allow the Board to be most effective in decision making, promoting discussion and participation by individual Board of Director.

1.2. Executive and Non-Executive Director

The Board should include a balance of independent and non-independent non-executive directors such that no individual or small group of individuals can dominate the Board's decision making.

Bursa Malaysia's requirement that at least one-third of the number of directors on Board should be independent, must be observed by EPF's investee companies.

EPF believes that only the Managing Director should be appointed on the Board, representing all other Executive Directors. Other Executive Directors could be invited to participate in Board discussion. This could minimize the size of the board and enhance the effectiveness of the board.

The performance of the Board of Directors should be annually evaluated to determine whether they meet the current and future needs of the company. Such review is encouraged to be disclosed in the annual report.

2. Accessibility of Information

EPF believes that the Board will act effectively in making business decision only if material information is delivered to directors in a timely manner. Therefore, all Board of Directors must have access to all types of material information to make informed decision.

There is a need for internal mechanisms to support the independent assignment of the Board, including the authority to appoint independent consultants. This mechanism alone provides the Board with the ability to obtain expert opinion in specialised areas, to circumvent potential areas of conflict with management, and to preserve the integrity of the Board's independent oversight function.

3. Separation of Power Between Chairman and CEO of Company

EPF believes that the position of Chairman of the Board and the Chief Executive Officer (CEO) should not be held by a single person. Clear separation of roles will promote constructive debate and discussion at the Board's level. Combining the two positions may render biasness and impair the ability and willingness of Independent Directors to exercise their independent judgment.

For companies where there is no clear separation of power between the Chairman and CEO, such companies are recommended to:

- (i) Explain in the Annual Report on how the company differentiates the roles; and
- (ii) Identify and nominate a senior independent, non-executive director to balance the power of the Board.

4. Directors' Attendance at Board Meeting

Directors should meet regularly, depending on the issues, size and the complexity of the company.

Attendance of directors and the frequency of the meeting held by the Board and the Board Committees in the year under reviewed should be disclosed in the annual report.

Each director MUST fulfil more than 50% attendance of the Board and Audit Committee meetings.

5. Re-election of Directors

As provided under the Companies Act 1965, all directors shall submit themselves for re-election at regular intervals and at least once in every three years.

5.1 Directorship Limit

EPF believes that an individual should not serve as a Board Director on more than five public listed companies. This is to ensure adequate commitment of the director in serving the company.

EPF believes that the company needs to have a succession plan for all its Board of Directors particularly those directors exceeding 70 years old.

5.2 Term Limit for Independent Director

EPF believes that the company should establish and disclose fixed terms of services for all Independent Board of Directors, with the intention to encourage fresh views and ideas, as well as to ensure independency of the Board.

EPF believes that an Independent director should serve the board for a maximum period of 12 years. The long term participation of an Independent Director could impair his/her independency to act in the best interests of all shareholders.

6. Board Committee

The company is recommended to have the following Board Committees:

- (i) Audit Committee;
- (ii) Risk Management Committee;
- (iii) Remuneration Committee; and
- (iv) Nomination Committee.

The Audit and Nomination Committees should be wholly comprised of non-executive directors majority of whom are independent. The Remuneration Committee should be wholly or mainly comprised of non-executive directors.

The decision to combine the Nomination and Remuneration committees will be made by the company.

Terms of reference should be disclosed, specifying the role and responsibilities assumed by each of the Board Committee.

6.1 The Audit Committee

The Board should establish an Audit Committee comprising of non-executive directors, a majority of whom are independent. The Board should provide the Audit Committee with written terms of reference which deal clearly with its authority and duties.

All members of the Audit Committee should be financially literate and at least one should be a member of an accounting association or body.

Material audit findings by the Committee should be disclosed in the Audit Committee Report within the company's annual report.

6.2 Risk Management Committee

The Risk Management Committee is responsible to assist the Board in overseeing all risk management activities, reviewing key risks inherent in the organisation and the system of internal control necessary to manage them and reporting its findings to the Board.

The risk measurement, risk capital allocation, risk policies, processes and limits should be regularly reviewed by the Committee to ensure long term viability of the company.

The Committee should continuously carry out enterprise-wide efforts to maintain its risk conscious culture, which can be instilled through policies, procedures, organisational structure, training programs and properly defined roles and responsibilities.

The Committee should establish a business continuity management program, as a basis for understanding, developing and implementing business continuity of the company.

6.3 Remuneration Committee

The Remuneration Committee should be constituted of wholly or mainly by non-executive directors, and chaired by an independent director.

The Committee is responsible to ensure that the compensation and other awards are adequate to encourage executive management to act in ways that enhance the company's long-term profitability and value.

The Committee is also responsible to ensure that the remuneration packages offered to management are commensurate with the level of responsibilities of the executive, and appropriate in view of the company's performance.

Non-executive directors should be adequately remunerated based on their experience and contribution to the Board, and their responsibilities to the shareholders.

EPF believes that the remuneration policy and detailed remuneration of each individual director should be adequately disclosed. With such transparency, shareholders will be able to evaluate executive and directors pay packages as compared to the company's performance and the industry norms.

6.4 Nomination Committee

The Nomination Committee should be constituted exclusively of non executive directors majority of whom are independent and chaired by an independent director.

The company should accord its shareholders the flexibility to nominate new Board of Directors to meet changes in the marketplace from time to time.

The company is encouraged to disclose the following information:

- (i) Criteria for appointment of new director on the Board;
- (ii) Composition, background and areas of expertise of existing Board of directors, and whether new nominees complement the Board's current portfolio of talents;
- (iii) Attendance records of Board of Directors at regular and special meetings; and
- (iv) Succession plan for top management and the Board.

EPF'S VOTING GUIDELINES

Directors' Attendance at Board Meeting

EPF will vote **AGAINST** the re-election of a director who has failed to attend at least 50% of the Board and Audit Committee meetings.

Re-election of Directors

EPF will vote in **FAVOUR** of the re-election of a Director if:

- (i) The director possesses the qualification, experience, and sound reputation which could contribute positively to the company's business; or
- (ii) The director is the founder of the company.

EPF will vote **AGAINST** the re-election of a Director, if based on our on-going observation, that:

- (i) The director has a poor reputation and conduct;
- (ii) The director does not act in the best interest of shareholders; or
- (iii) The director has a poor record in any other company.

EPF will **ABSTAIN** from voting in any resolution concerning re-appointment of directors exceeding 70 years old (with exception given to founder of the company).

EPF will vote **AGAINST** the re-appointment of directors exceeding 80 years old (with exception given to founder of the company).

EPF will vote **AGAINST** the re-election of Independent, Non-Executive Director who has served on the Board for more than 12 years.

Directors' Fee

EPF will vote **AGAINST** resolution on approving the directors' fees if EPF observes that past decisions from the Board has brought the company into a financially distressed position.

Part D: Other Matters

1. Authority to Allot and Issue Shares Pursuant to Section 132D of the Companies Act, 1965

Companies listed on Bursa Malaysia are required to disclose the purpose and utilisation of proceeds arising from the issuance of new shares under Section 132D. EPF will monitor closely on investee companies that are seeking shareholders' approval on this general mandate.

2. Employees Share Options Scheme ("ESOS")

Employees Share Option Scheme ("ESOS") is a plan that grants the employees an option to purchase the shares of the company at a future date at a price determined at the time of option had been awarded.

The company is encouraged to set a vesting period for the ESOS.

ESOS should be granted based on certain performance target being met.

3. Dividend Policy

Company is recommended to establish a dividend policy; as such policy reflects the management's confidence on the growth prospects of the company.

The dividend policy could serve as a mechanism to align the management's interests with the shareholders.

The company is recommended to disclose its dividend policy in the annual report.

4. Related Party Transaction

The Board should, in its best endeavour, disclose all material information related to the transaction to all shareholders in a transparent, accurate, and timely manner, not limited by the minimum disclosure in the Bursa Listing Requirement.

EPF does not encourage the company to table any ratification resolution during the annual and extraordinary meeting of the company particularly when it is material in nature. However, EPF will analyse on a case to case basis the ratification resolution before exercising its voting rights as a shareholder.

EPF'S VOTING GUIDELINES

Authority to Allot and Issue Shares Pursuant to Section 132D of the Companies Act, 1965

EPF will vote in **FAVOUR** of the resolution if the proposed utilisation of proceeds is deemed to benefit both the company and ultimately its shareholders.

EPF will vote in **FAVOUR** of such resolution tabled by financial institutions in Malaysia, on the basis that these financial institutions have to continuously comply with more stringent capital requirement imposed by the Bank Negara Malaysia.

EPF will vote **AGAINST** the resolution if the company fails to state specifically the purpose and planned utilisation of the proceeds to be raised from such mandate.

Authority for Purchase of Own Shares by the Company

Company has to ensure that the share buy-back scheme is conducted in the best interest of the shareholders.

EPF will vote in **FAVOUR** of such resolution if:

- (i) The company has a strong balance sheet and cash flow; and
- (ii) The company has a good dividend payment record.

Employees Share Options Scheme ("ESOS")

EPF will vote in **FAVOUR** of the proposed ESOS if:

- (i) It is offered to Executive Directors and other employees of the Company; and
- (ii) The criteria and basis of ESOS offering are performance driven.

EPF will vote **AGAINST** the proposed ESOS if:

- (i) The total ESOS issued exceeds 10% of the company's paid-up capital;
- (ii) 100% of the ESOS could be vested immediately; or
- (iii) The company intends to award the ESOS to Non-Executive Directors of the company.

Transactions

EPF will vote **AGAINST** transactions which do not disclose adequate material information relating to the transactions to all shareholders.

CONTACT DETAILS

Should you need further clarification on the EPF's Corporate Governance Principles and Voting Guidelines, please submit your inquiry to:

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Employees Provident Fund