Invest Malaysia 2006 Conference

Luncheon Address

23rd March 2006

Executing GLC Transformation

Staying the Course

Dato' Azman Hj. Mokhtar*

Khazanah Nasional Berhad

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

Distinguished audience, ladies and gentlemen

Introduction

Thank you to the organizers for inviting me … again. Exactly a year and a day ago I delivered the luncheon address at Invest Malaysia 2005 on the subject of *"Executing the Remaking of Khazanah and the GLCs"*. An eventful year has passed and my friends (I still have a few left!) say that I have grown, and that the hair has turned a silver white. Many of us on this transformation journey have also had heart check ups, and some have even recently had heart tune-ups. The challenges are of course many, but mostly anticipated, and I remain generally positive and upbeat; after all white hair and heart tune-ups mean there is still hair and there is still heart!

Today, I will be giving an update on where we are in executing the GLC Transformation Program. To my mind, there are three main sets of questions to be answered.

- First, looking back, what is our assessment of performance to date?
- Second, looking forward, what is the outlook, the challenges, and our assessment as to whether the program is on track and indeed our commitment to stay the course?
- And third, 22 months into the program, and a little wiser, whether our experience to date indicate that the objectives and aims of the program are still valid?

I will get the last, and easiest question out of the way first as I read from the excerpts of the GLC Transformation Manual issued by the Putrajaya Committee for GLC High Performance.[1]

[1] Page 8, Summary of Transformation Manual, issued March 2006

"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 organizational and performance practices where benefits are targeted to be reaped over the short and medium (term), but ultimately focused on sustainable longer-term benefits over the next 5 to 10 years."

GLCs remain a major engine of the economy, the stock market, and as significant providers of essential services and employment. Certainly, these noble objectives of raising the performance bar with 14 years left to 2020 remain valid today and possibly more so than when it was first expressed 22 months ago.

Ladies and gentlemen,

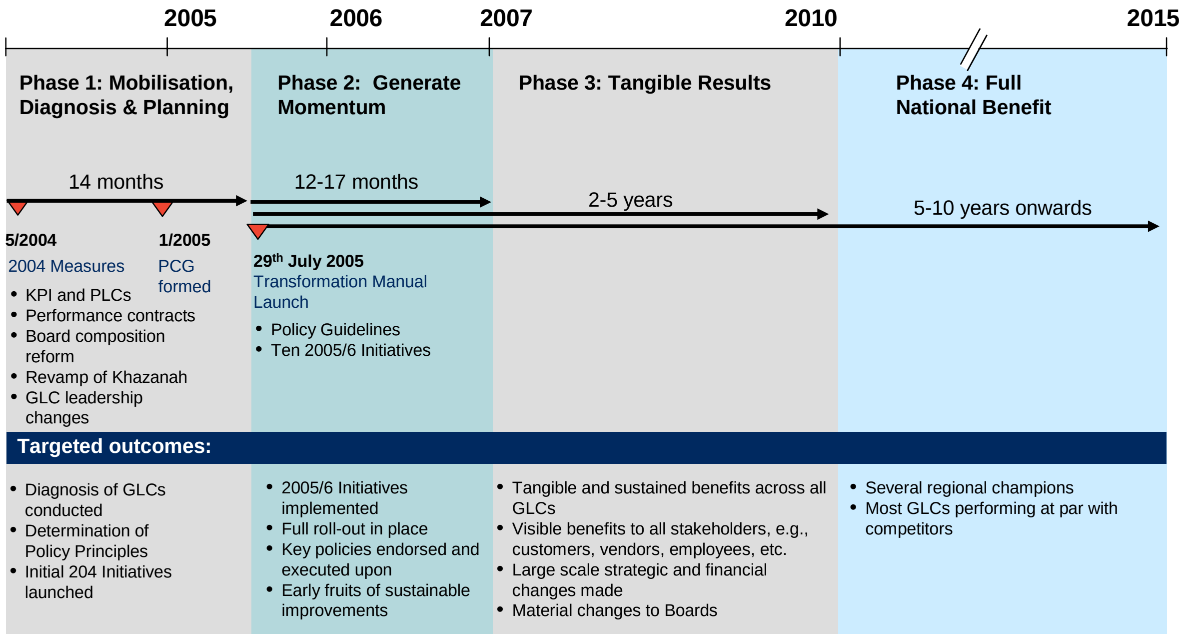
Thank you again for this return invitation to lunch that I can interpret in a number of ways. While it is reasonable to assume that the subject at hand remain a flavor of the times, the more pertinent question is perhaps how is the dish being served? To the first two questions of performance to date and the outlook henceforth, allow me to start by being a little indulgent in asking as to whether the subject of *Executing GLC Transformation* is a dish served baked, grilled or fried?

Horizon, accountability and expectations

The first point I would make is that GLC Transformation is a medium to long-term program and is not ready, nor intended to be fully baked as yet. Neither is it half-baked as extensive research and design has gone into the program. While we can expect some benefits over the short and medium term, as stated, the recipe after all clearly requires us to do the baking over three years at least with a target for sustained tangible benefits only between 5 to 10 years[2].

[2] GLC Transformation Manual, first issued 29th July 2005, as per Exhibit 1

Exhibit 1. GLC Transformation Timeline



Source: Joint Working Team analysis

Granted that there remain many risks in execution but it is worth highlighting especially in light of intermittent and in my view irrational market impatience for immediate performance and results, this question of the right investment horizon is a particularly important one.

To the second question, is it grilled? This is a good line to take as grilling, or to put in another way, accountability, is indeed healthy. My wife (yes, I still have a wife too!) tells me the best grills are done from all sides – from the top, from the bottom and from the sides. I will ignore that she may be angling for a new kitchen, and concentrate on the rather appropriate analogy here of lifting the performance of GLCs. Indeed, we are and continue to be grilled from all sides. From the top, from the Putrajaya Committee for GLC High Performance for all of us, from the GLICs – PNB, EPF, LTH, LTAT and Khazanah onto the respective GLCs, from those being led from the ranks and files of the staff of GLCs, and from the market, from shareholders, the media and the public at large. It is hot, and indeed, to grill and be grilled is indeed good, but I would caution that it is important that the grilling be done in a considered and orderly fashion, at the right temperature and the right time, otherwise we risk burning the dish before its time.

It is in this spirit of performance, accountability and transparency that GLCs have taken the lead, in announcing Headline KPIs. With the permission of Bursa and other authorities and subject to the considerable caveats as highlighted, this is unprecedented and voluntary and we hope that it will be appreciated as such. I must also state in the strongest terms that it should not be taken out of context nor for granted. Also of note is that the Headline KPIs is only a subset, albeit an important subset, of the full corporate scorecard. The full scorecard is usually a balanced scorecard that also looks at other important leading indicators, and it is important to appreciate this when reviewing Headline KPIs.

Exhibit 2. Headline KPIs Submitted to Bursa Malaysia on 22 March 2006 (Enclosed as Appendix I)

These Headline KPIs as approved by the Boards of the respective GLCs are intended to give an insight and alignment into the company's strategies and aspirations. Ideally, medium-term KPIs over a two to three year period would be preferred as this defines the medium-term strategy and gives a more measured, less short-termist approach. Some of the 15 GLCs have announced medium-term KPIs today. To the others, we would encourage that you do so once your respective Boards and Management are ready.

In addition to Headline KPIs, we would also strongly advocate clear statements on dividend policy as a means to ensure greater commitment to more efficient capital management.

To the third question is it fried, or as we say in Malaysia - *"goreng"*[3]. Elements of this I believe are partly there or to be more precise was there. This question is really about expectations, whether is it too high, too low or about right? While a little *"goreng"* may be healthy in bringing some animal spirits into an otherwise dull

[3] *Goreng* (Malay) literally means to fry. Colloquially it also means to exaggerate and hype, usually for some current or future gain.

market, the initial over-hype around GLCs is thankfully behind us, and expectations are now I believe generally realistic. There is a greater understanding that such large-scale organic transformations take time and not without many constraints.

We believe we have consistently tried to temper and moderate expectations as any study of our various communications over the last 22 months will testify. We also conducted considerable research culminating in the GLC Transformation Manual as to the experiences of major transformation programs and to customize these learnings into the Malaysian context, where among others we had strongly concluded that such major transformation programs are always long-term change programs that will require large doses of perseverance, time and political will. I do apologize if we had failed to stress this point enough, but I also call upon all market participants, in particular, brokers, analysts and the press - including weblogs – to play your part in building an efficient and exciting market.

While there have been many examples of fine analysis and informed journalism, I believe there is also considerable room for improvement. In this regard, your KPIs that I would be looking for will be good, solid analysis, considered opinions and responsible and sensitive reporting. I believe you will agree that in this new environment of openness as we collectively build and rebuild the institutions of nationhood, the press and indeed the analyst community has a very important task. This is a joint endeavor and our commitment, as illustrated by the issuance of these headline KPIs, would be to keep communication lines open so that we may together build an informed and robust investment community.

Hence, we can conclude this section by saying that the GLC Transformation dish is not fully baked; that is obvious, and more importantly, the key point is that neither is it intended to be as yet. Secondly, that it is indeed being "grilled" and we accept that grilling is good so long as it is done at the right temperature and the right time. And third, that unhealthy fried elements have thankfully generally been removed.

So what then remains? I would submit the right analogy is that **GLC Transformation is still <u>simmering</u>. At this stage, we expect lagging or coincident results to be mixed – some quick wins, some immediate losses often as a result of biting the bullet on legacy issues, but more importantly we believe the best way to analyze is to assess whether leading indicators are overall positive as a predictor of future performance. In our assessment, while there remains many challenges we believe at this stage the program is just about on schedule, although I will be the first to caution that there are several conditions around both internal GLIC and GLC practices (mostly around the Board and Management's ability to execute) as well as external factors (especially around macro-economic factors and the policy environment) that crucially needs to be in place for sustained performance to take place.**

<u>Performance To Date</u>

Targeting and measuring investment performance is always an interesting exercise. As any student of investment will know, knowing investment returns alone is not even half the equation while knowing returns at a given level of risk tolerance is also less than complete. The equation only begins to complete when we also discuss the investment horizon and how does one measure successful performance?

In this regard, stock market or total shareholder return performance even in the most efficient markets is but one indicator of performance. To the extent that the market reflects fundamentals it is the best barometer, regardless if the fundamentals consist of accounting profits (that are historical and tend to be lagging indicators), economic profit (a more satisfying cashflow based measure of value creation, albeit not as widely used and with some issues around cost of capital assumptions) or more importantly an assessment from the lagging and coincident indicators into the leading indicators of performance. On the correct investment horizon, we have tended to use 14th May 2004 – being the date when the YAB Prime Minister first launched the GLC Program – as the starting point to assess GLC performance especially in respect of stock market performance, being a forward pricing mechanism.

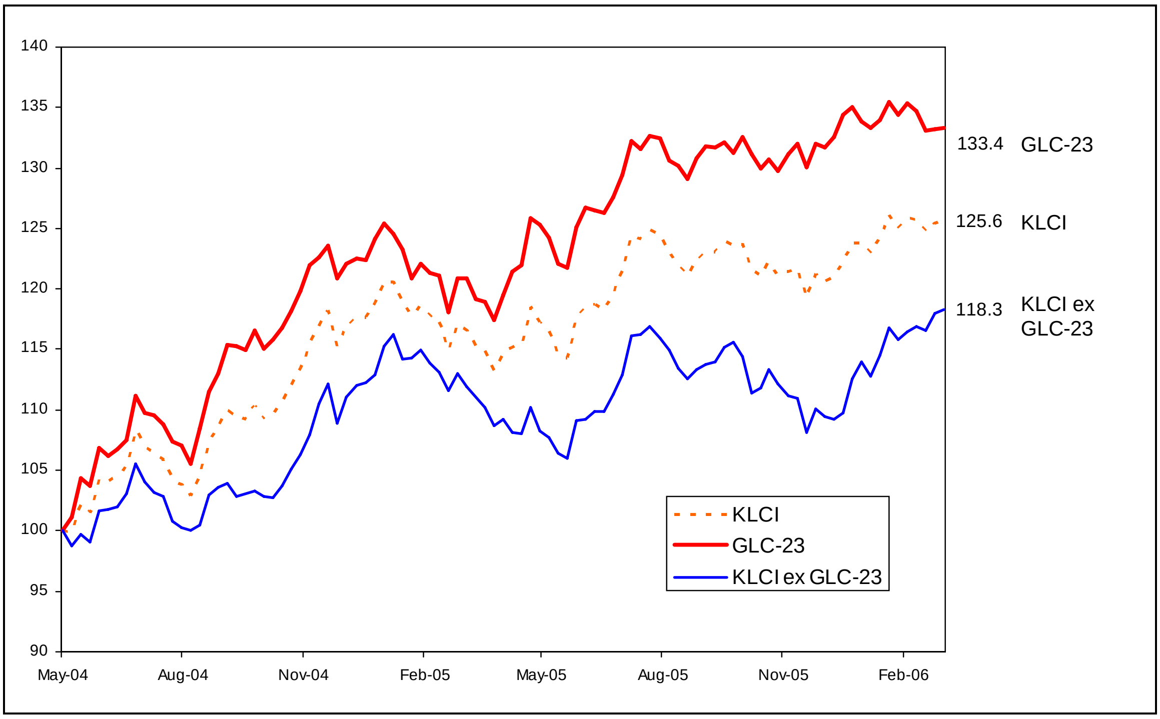
Hence, in looking at stock market performance as one indicator of performance it is noted that there are 23 GLCs among the 100 KLCI constituent stocks.

Exhibit 3. GLC Constituents of KLCI

Khazanah (10)	PNB (9)	Petronas (3)	LTAT (1)
Telekom	Maybank	MISC	Affin Holdings
Tenaga	Sime Darby	Petronas Gas	
Plus	Golden Hope	Pet Dagangan	
BCHB	I&P		
MAS	UMW Holdings		
Proton Holdings	Kump Guthrie		
MAHB	NCB Holdings		
Pos Malaysia	MIDF		
UDA Holdings	Chemical Co		
Time Eng			

Source: Bloomberg; Summary of Transformation Manual, March 2006

Exhibit 4. Comparison of Total Shareholder Return of GLC-23 vs. KLCI from 14 May 2004 to 17 March 2006

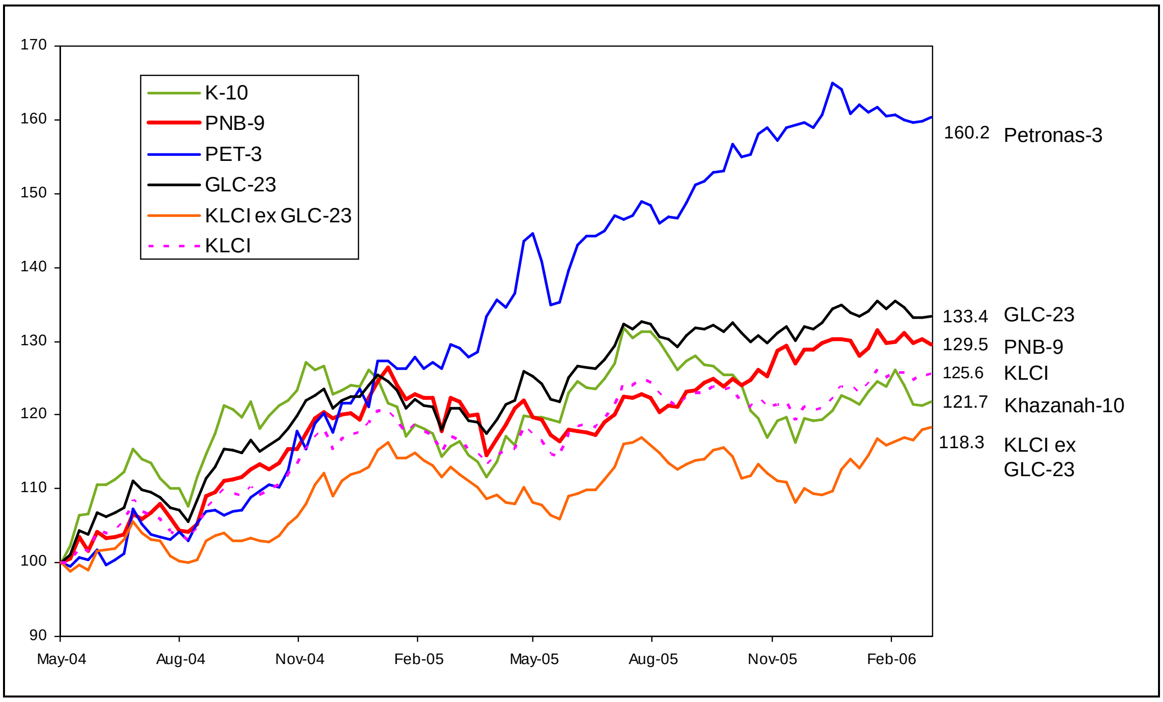


Source: Bloomberg; Khazanah analysis

Over the period from 14th May 2004 to 17th March 2006, in measuring total shareholder return (TSR) (i.e. capital appreciation plus dividends) we find that the **23 GLCs have actually outperformed the KLCI by 7.8% points, with a TSR of 33.4%** against the KLCI of 25.6%. Further, if one was to strip out the 23 GLCs from the KLCI, the KLCI's performance would have been even lower, with a TSR of only 18.3%[4]. This is interesting and runs counter to some of the analyst and press reporting we have seen lately. Why is this so? Some leads may come about when we see a decomposition of the performance.

[4] These numbers are market cap weighted

Exhibit 5. Decomposition of Total Shareholder Return of GLC-23



Source: Bloomberg; Khazanah analysis

Interestingly, when decomposed, we can see that the clear outperformer has been the Petronas-3, with a sterling TSR of 60.2%, with MISC as the star performer. The PNB-9, consisting mainly of steady stalwarts such as Maybank and Sime Darby and plantation companies buoyed by higher commodity prices have also performed commendably, with a total return of 29.5% and outperforming the KLCI by 3.9% points. It is indeed the Khazanah-10 that has thus far dragged overall performance somewhat, with a TSR of 21.7%, underperforming KLCI by 3.9% points, although, worth noting, still higher than KLCI ex GLCs.

While ostensibly this is less than good for us at Khazanah we need to delve deeper to understand. To begin with, Khazanah's companies have indeed been the companies in most urgent need for restructuring and 2005 is still a period of much restructuring and the attendant noise associated with cleaning up. Khazanah-10 as a group has also been the most volatile, with a calculated Beta of 1.15 over the period; and up until the last six months, the stocks had mostly outperformed the KLCI. It was from around the early fourth quarter of 2005 that many high-profile restructurings (MAS and Proton in particular) gathered steam with changes in management and losses arising from mostly legacy issues.

2005 is in our view the clean-up year, where we have bitten the bullet on many if not all items that needed to be provided (refer the large DeTeAsia provisions at TM, MV Agusta provisioning at Proton, construction losses in the Middle East at UEM, and accelerated provisioning at Bumi-Commerce). In our analysis, at practically every major Khazanah company apart from MAS had it not been for these provisions, the picture would have been significantly different and earnings, albeit un-cleansed earnings, would have increased. While some may have focused on such losses as negatives, we view such clean-up positively. Nonetheless, in spite of what we believe to be a clean slate now, it is valid that investors may still be unconvinced about the growth trajectory of Khazanah's GLCs especially in the light of many factors that are not totally in the control of Khazanah and its GLCs, especially as Khazanah's GLCs having been erstwhile public sector service providers are the most heavily regulated GLCs.

I also cannot stress enough the need to use the right investment horizons, as many times significantly different findings and very misleading conclusions are made when wrong horizons are used. As an example and not to be regressive, I need to highlight in particular an analyst report dated 10th March 2006[5] that was subsequently widely covered that concluded that massive value destruction had happened with Khazanah's portfolio being reduced by RM4.1 billion in market capitalization. The only problem is that the analysis rather arbitrarily looked at the period 1st January 2005 to 31st December 2005 when the correct horizon as any student of efficient markets would know ought to be from 14th May 2004 (when the market first learned of the GLC and Khazanah revamp program) to the current date. Interestingly, when restated from 14th May 2004 to 21st March 2006, the value destruction of RM4.1 billion magically changes to value creation of +RM10.1 billion, albeit still underperforming the KLCI.

[5] AmWatch – *Preview of Khazanah Nasional's report card*, 10th March 2006

Exhibit 6. Total Return and Relative Performances of Khazanah-Owned Companies under Different Time Horizons (Enclosed as Appendix II)

<u>Our assessment of performance to date and challenges at major Khazanah GLCs</u>

We have attached in your packs the scorecards of our assessment of performance to date and major challenges at 10 of the largest listed companies where we control directly. Among others, we have divided the company scorecards into sections on Headline KPIs, Achievements – both lagging and leading – and Challenges. This will give you a glimpse of the kind of issues we are focused on when monitoring and managing our investee companies.

Of note and sometimes forgotten is that while Khazanah is the controlling shareholder, our control is not absolute and is of course subject to good corporate governance in that we do not micro-manage the companies and that the respective Boards and Management of the GLCs are necessarily the front-line stewards and managers of the company respectively. In earlier communications, we have identified five major levers; that is determining the leadership bench, driving strategy, ensuring key systems and controls are in place, shaping industry structures and macro-managing and monitoring our investments. Without going into details, we can report that on all fronts over the last 22 months there has been a lot of activity, and I believe some degree of success.

Tenaga deserves a special mention in that efficiency gains of almost RM1 billion has been achieved to date while operating and technical KPIs have also shown significant improvement. While it is beyond us at Khazanah, as the investment rather than the policy arm of Government, we are hopeful that with these significant efficiency gains, we believe the Government is sympathetic to an appropriate and in our view much deserved tariff increase.

TM remains in a challenging competitive environment at home, managing fixed line decline while living through price wars in the mobile segment. Some of these trends are in many ways inevitable and strategically, TM with the active involvement of Khazanah, has been pro-active in building up a regional portfolio of assets often under intense international competition to replenish these structural declines. I believe we have achieved much in the last 22 months, with new assets and listings in Indonesia, Singapore, India and Sri Lanka while harvesting gains from South Africa. Today, we have a pristine collection of regional telco assets, no doubt endorsed by the recent roaming and co-branding tie-up with Vodafone for example. Nonetheless, Khazanah believes there remain many challenges around competition and regulations, the need for greater cost-side focus and the need for strong execution as we expand our wings abroad.

At Bumi-Commerce, we are confident that after the restructuring involving the integration of the commercial and investment banks, and the acquisition and consolidation of several key assets at home and abroad, we are now well positioned to be a national champion with a management team that has a proven track record at value creation.

Although collectively they constitute less than 6% of Khazanah's portfolio, the two most challenging, resource-consuming and high profile restructurings are as you can guess MAS and Proton. For MAS while the problems are deep, I am confident that under the new leadership, MAS has every chance of recovering into the black. Significant momentum in a very short space of time has been achieved with a well thought through Business Turnaround Plan, more than RM500 million in gains already secured and perhaps most impressively getting all nine unions signed-up and united in under four months. One major proviso though is that this is a very tough industry and we will need the continued forbearance from all concerned in allowing MAS the freedom to execute their turnaround plan. On the domestic business restructuring, while we support an industry structure that promotes the sustainability of two national champions, we only ask that MAS be given not a free lunch but a fair chance to serve as many routes as required where it is competitive and that seamless inter-connectivity be assured on the other routes lest MAS and the nation unduly suffer from the loss of choice and connectivity.

For Proton, the global auto industry remains a very tough marketplace and entering into a carefully chosen alliance platform is in our minds a necessary if not sufficient condition for survival. We believe in spite of VW’s withdrawal, there are several other equally if not potentially more attractive options. We should also state that we are more than satisfied that selling MV Agusta as Proton did was not only the right decision strategically, it was also the right decision financially as we believe the sale avoided otherwise greater financial losses. We are still studying the National Auto Policy that was released last night, and our initial findings are that the study is at least neutral from the standpoint of policy clarity, the promotion of two national cars and potentially greater access to the Industrial Adjustment Fund that is based on value add that we believe should at least stem the impact of reduced duties on imported cars.

Time does not permit, but we have also included our views on the other major companies under Khazanah – UEM World, Pos, Malaysia Airports, UDA Holdings and PLUS.

What to expect in the next year

While 2005, we believe is the clean-up year, especially for Khazanah’s GLCs, 2006 I believe will be the year of further structural changes, involving many leading work on capacity building including further strengthening of boards and management teams, key systems, honing strategies, driving home the various initiatives on revenue enhancement and cost cutting at various GLCs and so on.

For the GLC Transformation Program, 2006 has been defined as the year for gathering momentum and it will be a busy year where as promised we are on track to roll-out all ten initiatives as outlined in the GLC Transformation Manual.

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Exhibit 7. GLC Transformation Initiatives (2005/6)

No	Initiatives	Output	Expected	Launch
1	Enhance Board effectiveness	To enhance Board effectiveness through revamping Board practices and processes	Green Book	2nd Quarter '06
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 '06
3	Enhance GLIC M&M functions	To reinforce the ability of GLICs to monitor and manage subsidiary GLCs	Blueprint for GLCs	2nd Quarter '06
4	Improve regulatory environment	To enhance regulatory capabilities at GLCs and create a Regulatory Knowledge Network	Guidelines Regulatory Knowledge Network	2nd Quarter '06
5	Clarify social obligations	To understand and make transparent GLCs' social obligations and the implications of meeting them	Silver Book	3rd Quarter '06
6	Review and revamp procurement	To enhance the effectiveness and efficiency of the procurement processes in GLCs	Red Book	2nd Quarter '06
7	Optimise capital management practices	To establish guidelines for GLCs to optimise their capital structure	Purple Book	3rd Quarter '06
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 '06
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 '05 2nd Quarter '06 3rd Quarter '06
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 '06 4th Quarter '06

Updated as of 1 March '06

Source: Joint Working Team

In the next quarter in particular, two key initiatives to be launched are worth highlighting – the "Red Book" on Procurement and the "Green Book" on Enhancing Board Effectiveness. Both are potentially very significant value creation levers for GLCs.

2006 is also the year where we expect some coincident results to show further improvement, as encapsulated by the Headline KPIs. While some of these relatively early fruits may be modest, it is worth getting some perspective that in the overall plan, we reiterate that what we are trying to do is to create sustainable value and that tangible results need to be judged over the medium-term at the earliest.

In conclusion

In this address I have not covered Khazanah's other roles in venturing into new sectors and geographies, in restructuring some of our unlisted assets, in funding and liability management and in building capacity on various fronts. This will be the subject for another day, that is 1st June 2006 being the second anniversary of the new Khazanah, insyaAllah. Suffice to say at this point that we believe we have made steady progress.

This address sets out to answer the questions as to where we are on Executing GLC Transformation. Based on the foregoing, I submit that the course while tough and arduous is indeed a cause that is worthy. For my colleagues at Khazanah and at the various Boards, Management and Staff of GLICs and GLCs, I thank you all for the great effort and support to date and I look forward to moving forward together. We will endeavor to do everything in our powers, but significantly, as we strive for greater shareholder value, we will also need to work more closely with all stakeholders including all employees, suppliers, customers, market participants including analysts and the media, even competitors and in many cases especially the Government itself. We look forward to the next year where we hope to deepen the relationships with all the various stakeholders in order to build winning coalitions.

Overall, while the going is indeed tough, we believe we are generally on track, so long as expectations are realistic. I thank the organizers once again and hope you will invite me back for lunch next year as we certainly intend to ***Stay The Course***. Thank you.

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Appendix I – Headline KPIs Submitted to Bursa Malaysia on 22 March 2006

These headline KPIs are targets or aspirations set by the company as a transparent performance management practice. These headlines shall not be construed as either forecasts, projections or estimates of the company or representations of any future performance, occurrence or matter as the headlines are merely a set of targets/aspirations of future performance aligned to the company's strategy.

Khazanah's K-6 Companies

Company	Headline KPIs		
TENAGA NASIONAL BERHAD	• Return on Assets (FY06):	2.4%	(FY05: 2.2%)
	• Gearing (FY06):	63%	(FY05: 65%)
	• Unplanned Outage Rate (FY06):	5.0%	(FY05: 6.1%)
	• Reduction in Transmission and Distribution Losses (FY06):	9.5%	(FY05: 10.5%)
	• System Average Interruption Duration Index (FY06):	133 min	(FY05: 148)
TM	• Revenue (FY06):	RM17b	(FY05: RM13.9b)
	• EBITDA Margin (FY06):	45.9%	(FY05: 44.2%)
	• Return on Capital Employed (FY06):	10.6%	(FY05: 9.5%)
	• Return on Average Equity:		
	– BCHB (FY06)	13%	(FY05: 8.9%)
	– CIMB Group	FY06: 15%, FY07: 18%	
	• Total Shareholders Return (FY06):	Outperform KLCI TSR (FY05: 24% actual vs KLCI's 11.7%)	
PROTON	• Domestic Market Share:	FY06: 41.4%,	FY07: 45.8%
	• Contribution of Export Sales to Revenue:	FY06: 5.2%,	FY07: 8.6%
	• Revenue and Earnings:	FY07: 12.4% revenue growth FY06: 0.6%, FY07: 2.5% EBIT	
	• Customer Satisfaction Index:	FY06: 690 points, FY07: 720 points	
UEM WORLD	• Revenue Growth (FY06):	36%	(FY05: 14%)
	• Return on Equity (FY06):	12%	(FY05: -10%)
malaysia AIRLINES	• Net (loss)/income:	FY06: -RM620m (FY05: -RM1.27b), FY07: RM50m FY08: RM500m	
	• Cash surplus (FY06):	RM1.0b	
	• Profit for MAS Kargo (FY06):	RM107m (vs initial target of RM47m)	
	• On time performance:	80% for flight schedules	
	• Number of incidents:	Not more than 3 cases per month	

PNB's GLCs

Company	Headline KPIs	
Kumpulan Maybank	• Return on Equity (FY06):	18% (FY05:17.4%), FY07: 18%, FY08: 18%
	• Minimum Revenue Growth (FY06):	10% FY07: 10% FY08: 10%
Sime Darby	• Return on Average Shareholders Equity (FY06):	11.5% (FY05:9.8%), FY08: 15%
	• Net Profit (FY06):	RM1,006 m (FY05: RM801 m), FY08: RM1,400 m
Golden Hope	**FY2006-2010**	
	• Return on Equity:	Between 8% - 12%
	• Percentage of sales volume from high value-added, non-commodity oils and fats:	Increase from 30% to 50% by FY2010
	• Dividend	At least 50% of yearly net earnings
KUMPULAN GUTHRIE BERHAD	• Return on Equity (FY06):	8%, FY08: 12%
	• Target FFB Yield per Mature Hectare (FY06):	Malaysian Plantations: 20.1mt, Indonesian plantations: 17.5mt
	(FY08):	Malaysian Plantations: 22.0mt, Indonesian plantations: 20.3mt

LTAT GLCs

Company	Headline KPIs			
AFFINHOLDINGS	• After Tax Return on Equity (FY06):	8.9%	(FY05: 8.0%),	FY07: 9.8%
	• After Tax Return on Assets (FY06):	0.9%	(FY05: 0.7%),	FY07: 1.0%
	• Net NPL Ratio (FY06):	10.6%	(FY05: 14.2%),	FY07: 8.0%
	• Earnings Per Share (FY06):	25 sen	(FY05: 20 sen),	FY07: 28 sen
Boustead Holdings Berhad	• Return on Equity (FY06):	7.9%	(FY05: 10.8%),	FY07: 8.7%
	• Pre-Tax Return on Assets (FY06):	7.6%	(FY05: 8.3%),	FY07: 8.4%
	• Dividend Payout Ratio (FY06):	49.9%	(FY05: 35.6%),	FY07: 50.0%
	• Gross Dividend per Share (FY06):	16 sen	(FY05:16 sen),	FY07: 16 sen

EPF GLCs

Company	Headline KPIs		
MRCB	• Group Revenue Growth (FY06):	50%	(FY05: RM319.5 m)
	• New Property Development (FY06):	RM600 m	
	• New Order Book Growth (FY06): (Engineering, Infrastructure and Others)	RM1.0 b	
	• Group Profit Before Tax Growth (FY06):	At least 50% (FY05: RM26.8 m)	
MBSB	• Return on Equity (FY06):	9%	(FY05: 7% without tax adjustment)
	• Profit Before Tax Growth (FY06):	37%	(FY05: 12%)
	• Retail Loan Growth (FY06):	30%	(FY05: 45%)

LTH GLC

Bank Islam
Progresif, Profesional & Mesra

FY2005/2006

• Non-Performing Financing:	Below 25%
• Risk Weighted Capital Ratio:	12%

FY2006-2009

• Revenue Growth (year-on-year):	20%
• Cap on Expense Growth (year-on-year):	5%
• Return to Profitability by FY2007, ROE:	5%

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Appendix II – Total Return and Relative Performances of Khazanah-Owned Companies under Different Time Horizons

	Name of Company	Equity Interest (%)	Market Cap (RM m)	31-Dec-04 to 30-Dec-05			14-May-04 to 30-Dec-05			14-May-04 to 21-Mar-06		
				Absolute Return (%)	Relative to KLCI (%)	Total Return (%)	Absolute Return (%)	Relative to KLCI (%)	Total Return (%)	Absolute Return (%)	Relative to KLCI (%)	Total Return (%)
1	Pos Malaysia & Services Holdings	17.3	2,068.4	55.4	56.7	58.5	112.6	99.3	122.4	124.2	107.9	134.5
2	UDA Holdings	50.0	698.8	32.9	34.0	39.2	33.8	20.5	47.9	35.8	19.5	50.1
3	Bumiputra-Commerce Holdings	25.8	15,672.4	21.3	22.3	25.3	22.3	9.0	26.3	32.0	15.7	36.3
4	Malaysia Airports Holdings	72.7	2,123.0	19.9	20.9	22.2	34.0	20.7	38.4	38.9	22.6	43.4
5	Plus Expressways	66.6	15,300.0	9.3	10.2	12.0	38.5	25.1	46.2	21.7	5.4	28.5
6	Tenaga Nasional	37.4	32,009.1	(9.2)	(8.4)	(7.8)	12.5	(0.8)	16.0	19.3	3.0	23.0
7	Telekom Malaysia	40.2	32,384.7	(17.7)	(17.0)	(15.2)	6.7	(6.6)	13.3	3.4	(12.9)	9.7
8	TimedotCom	73.9	1,164.2	(25.2)	(24.6)	(25.2)	(37.4)	(50.7)	(37.4)	(30.9)	(47.2)	(16.3)
9	Proton Holdings	42.7	3,597.3	(27.2)	(26.6)	(25.3)	(22.0)	(35.4)	(18.8)	(29.8)	(46.0)	(26.9)
10	Malaysian Airline System	69.3	3,559.2	(35.7)	(35.2)	(35.2)	(39.3)	(52.6)	(38.5)	(38.5)	(54.7)	(37.6)
11	UEM World	58.2	478.9	(64.8)	(64.5)	(64.3)	(69.2)	(82.5)	(68.8)	(29.5)	(45.7)	(28.4)
	K-11 Portfolio			**(8.0)**	**(8.8)**		**9.5**	**(3.8)**		**10.4**	**(5.9)**	
12	Edaran Otomobil Nasional	6.2	747.0	(15.3)	(14.5)	11.7	4.6	(8.7)	42.2	5.3	(10.9)	43.1
13	Astro All Asia Networks	21.5	10,112.3	(2.8)	(2.0)	(2.1)	7.1	(6.2)	7.9	(2.4)	(18.7)	(1.8)
14	EON Capital	10.0	3,500.7	(12.9)	(12.2)	(11.4)	6.1	(7.2)	9.4	15.5	(0.7)	19.2
15	Pharmaniaga	72.6	530.5	(14.5)	(13.8)	(12.1)	(5.5)	(18.9)	(0.6)	(1.9)	(18.2)	3.2
16	Cement industries of Malaysia	54.0	183.4	(24.0)	(23.4)	(20.1)	(36.3)	(49.6)	(31.1)	33.3	17.1	44.1
17	D'nonce Technology	20.0	29.8	(30.5)	(29.9)	(30.5)	(46.8)	(60.1)	(46.8)	(27.4)	(43.7)	(27.4)
18	Opus International Group	62.4	99.8	(36.0)	(35.5)	(34.0)	(41.1)	(54.5)	(37.8)	(2.8)	(19.1)	2.8
19	Faber Group	37.9	89.0	(39.0)	(38.5)	(39.1)	8.5	(4.9)	8.5	42.4	26.1	42.4
20	Park May	24.9	15.0	(42.9)	(42.4)	(42.9)	(35.5)	(48.8)	(35.5)	(51.6)	(67.9)	(51.6)
21	DRB-Hicom	10.6	1,173.9	(45.7)	(45.2)	(44.6)	(32.8)	(46.1)	(30.7)	(18.1)	(34.3)	(15.5)
22	UEM Builders (fka Intria)	51.7	424.1	(58.5)	(58.1)	(57.5)	(61.1)	(74.4)	(60.2)	(26.1)	(42.4)	(22.8)
23	Time Engineering	45.0	212.4	(61.5)	(61.2)	(61.5)	(62.8)	(76.2)	(62.8)	(47.3)	(63.6)	(47.3)
24	Ho Hup Construction Company	17.2	40.8	(62.3)	(61.9)	(62.3)	(76.7)	(90.1)	(76.7)	(59.3)	(75.6)	(59.3)
	Total Portfolio			**(9.1)**	**(9.9)**		**7.1**	**(6.2)**		**8.3**	**(8.0)**	
	Market cap value creation (RM b)			(4.1)			8.4			10.1		
	KLCI performance (%)			(0.8)			13.3			16.3		

Source: AmWatch – *Preview of Khazanah Nasional's report card,* 10th March 2006; Bloomberg; Khazanah analysis

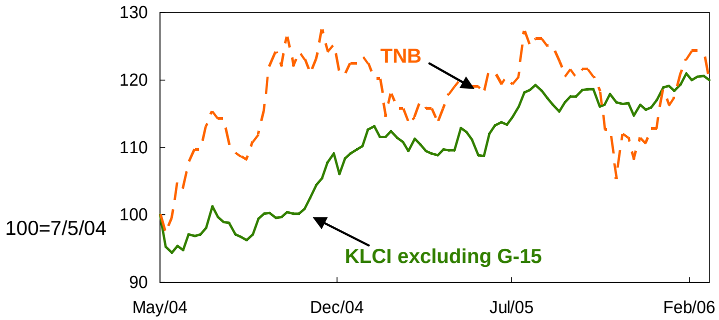
KHAZANAH NASIONAL

<u>**Appendix III – Khazanah's Companies' Scorecard**</u>

ACHIEVEMENTS AND CHALLENGES – TNB

TENAGA NASIONAL BERHAD

Performance



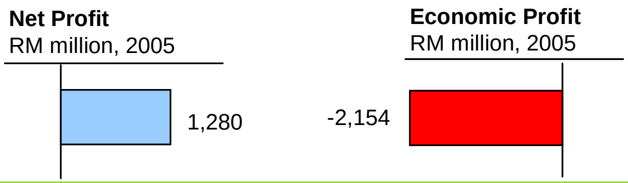
Historical Financial & Operational Highlights (RM million)

FY Aug 31	2003	2004	2005
Revenue	**16,458**	**17,712**	**18,977**
EBITDA	5,285	5,965	5,928
Pretax profit	1,649	1,483	1,819
Net Profit After MI	**1,062**	**814**	**1,280**
EPS (RM)	**0.34**	**0.26**	**0.40**
Shareholders Funds	13,965	14,798	16,086
Net Tangible Assets	12,917	14,485	15,794
Total Debt	26,404	30,262	27,009
Debt / Equity Ratio	**2.1**	**1.9**	**1.7**

Headline KPIs

- Return on Assets (FY06): 2.4% (FY05: 2.2%)
- Gearing (FY06): 63.0% (FY05: 65%)
- Unplanned Outage Rate (FY06) 5.0% (FY05: 6.1%)
- Reduction in Transmission Distribution Losses (FY06): 9.5% (FY05: 10.5%)
- System Average Interruption Duration Index (FY06): 133 min (FY05: 148 min)

Net Profit vs. Economic Profit (RM million)



Achievements

Lagging/Co-incident indicators

- Efficiency gains of RM962 million realised in FY05 from cost reduction, revenue enhancement and reduced losses
- Sustained improvement in EBITDA margins
- Steady reduction in gearing levels
- Improvements in operational KPIs, including availability as measured by SAIDI
- Identifying social cost of operating SEB, cost for which offset by diesel subsidy by government

Leading indicators

- Successful bid for new overseas venture – Shuaibah 3
- Strong support for tariff review in the market
- No new unplanned planting-up scheduled up to 2010
- On-going focus on cost reduction and revenue enhancement program with RM600 million savings target in FY06

Challenges

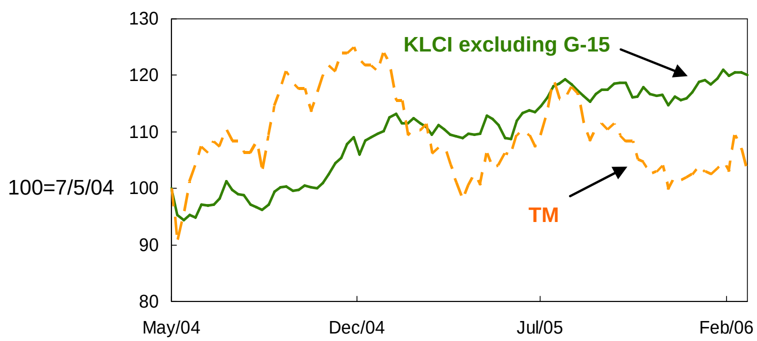
- Much needed tariff review deferred although greater understanding now for its need
- High energy prices
- Continued reliance on subsidised gas pricing
- Carrying inequitable burden to provide high reserve margins
- High-gearing levels unresolved
- Need for comprehensive electricity supply industry plan

Source: Literature search, Company data

Disclaimer: These headline KPIs are targets or aspirations set by the company as a transparent performance management practice. These headlines shall not be construed as either forecasts, projections or estimates of the company or representations of any future performance, occurrence or matter as the headlines are merely a set of targets/aspirations of future performance aligned to the company's strategy.

ACHIEVEMENTS AND CHALLENGES – TM

Performance



Historical Financial & Operational Highlights (RM million)

FY Dec 31	2003	2004	2005
Revenue	**11,796**	**13,251**	**13,942**
EBITDA	5,417	5,558	6,157
Pretax profit	1,811	3,173	1,578
Net Profit After MI	**1,390**	**2,614***	**875***
EPS (RM)	**0.43**	**0.78**	**0.26**
Shareholders Funds	16,782	19,453	19,384
Net Tangible Assets	31,968	33,603	34,213
Net Debt	8,099	1,833	5,129
Net Debt / Equity Ratio	**0.48**	**0.09**	**0.26**

* 2004 includes gains from Telekom South Africa, 2005 includes claims by DeTeAsia

Headline KPIs

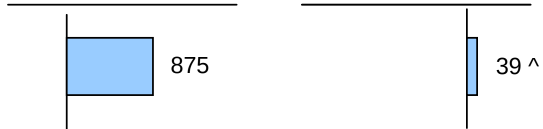
- Revenue (FY06): RM 17.0bn (FY05: RM 13.9bn)
- EBITDA Margin (FY06): 45.9% (FY05:44.2%)
- ROCE* (FY06): 10.6% (FY05: 9.5%)

*Return on Capital Employed = EBIT/Average Capital Employed

Net Profit vs. Economic Profit (RM million)

Net Profit
RM million, 2005

Economic Profit
RM million, 2005



^ Excludes RM879.5 million payment to DeTeAsia (inclusion of amount would result in EP of -RM594.7 million)

Achievements

Lagging/Co-incident indicators

- New senior management team installed
- VSS program - reduced workforce by 6% in 2005
- Granted fairer access pricing structure with outflow savings of RM130 million p.a.
- Earnings from regional expansion plan bearing fruit
- Harvesting gains from Telkom South Africa
- Successful listing of Dialog (Sri Lanka) and Excelcomindo (Indonesia)

Leading indicators

- Launched "Smart Orange" programme on Talent Development
- Roaming and co-branding partnership with Vodafone
- Well executed regional expansion strategy into Indonesia, Singapore and India
- Completed Board Effectiveness pilot

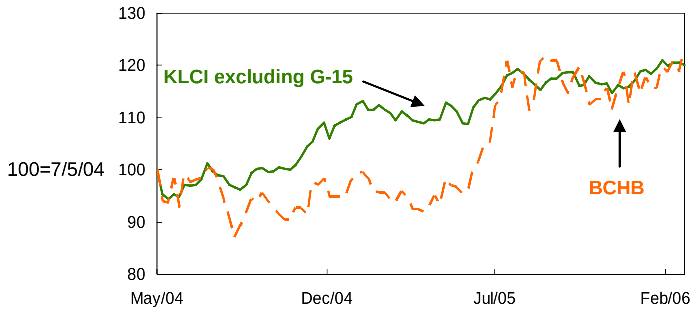
Challenges

- 4Q05 loss of RM701 million on settlement of RM880 million claims by DeTeAsia
- Intense competition in cellular segment typified by price wars
- Greater clarity on regulatory objectives
- Need for more focus on cost cutting

Source: Literature search, Company data

ACHIEVEMENTS AND CHALLENGES – BCHB

Performance



Historical Financial & Operational Highlights (RM million)

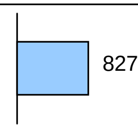
FY Dec 31	2002	2003	2004
Revenue	**2,824**	**3,578**	**4,177**
Profit Before Provision	1,556	1,872	2,224
Pretax profit	748	1,240	1,090
Net Profit After MI	**558**	**782**	**752**
EPS (RM)	**0.22**	**0.29**	**0.28**
Shareholders Funds	7,169	7,899	8,787
Net Tangible Assets	6,880	7,834	8,425
Net Debt	20,297	17,009	19,020
Debt / Equity Ratio	**2.83**	**2.15**	**2.16**

Headline KPIs

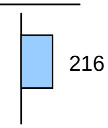
- Return on Average Equity (FY06): 13.0% (FY05: 8.9%)
- Total Shareholders Return (FY06): Outperform KLCI TSR in FY06 (FY05, 24.0% vs KLCI TSR of 11.7%)

Net Profit vs. Economic Profit (RM million)

Net Profit
RM million, 2005



Economic Profit
RM million, 2005



Achievements

Lagging/Co-incident indicators

- Major restructuring to integrate commercial and investment banking arms completed
- Successful regional expansion via acquisition of GK Goh
- Consolidated presence in Indonesia through increased stake in Bank Niaga
- Improved capital management structure with better capital allocation and tiering of capital structure

Leading indicators

- Acquisition of SBB pending finalisation
- Restructuring of insurance arm and commencement of Takaful business

Challenges

- Shortfall in FY05 target ROE of 12% with actual ROE of 8.9% due to provisioning, consolidation and merger costs
- On-going consolidation of banking sector will see intensifying competition

Source: Literature search, Company data

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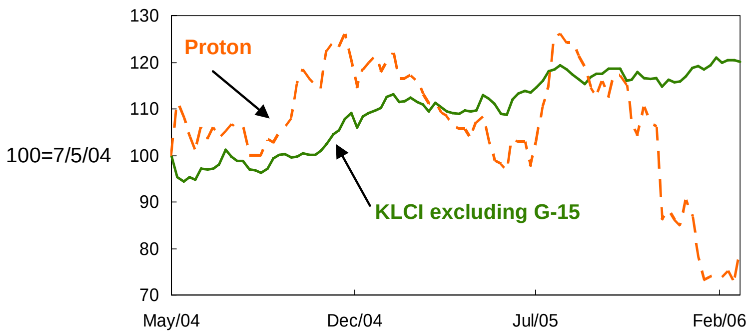
ACHIEVEMENTS AND CHALLENGES – PROTON

Performance



Historical Financial & Operational Highlights (RM million)

FY Mar 31	2003	2004	2005
Revenue	**9,268**	**6,470**	**8,497**
EBITDA	1,636	806	1,099
Pretax profit	1,360	592	780
Net Profit After MI	**1,108**	**510**	**810**
EPS (RM)	**2.02**	**0.93**	**1.47**
Shareholders Funds	5,194	5,603	5,831
Net Tangible Assets	5,137	5,538	5,833
Net Debt	(3,230)	(2,551)	(1,485)
Debt / Equity Ratio	**(0.62)**	**(0.46)**	**(0.25)**

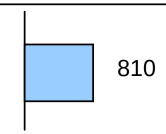
Headline KPIs

- Domestic Market Sales (FY07): 45.8% (FY06*: 41.4%)
- Export Sales (% Contribution to Revenue) (FY07): 8.6% (FY06*: 5.2%)
- Revenue growth (FY07): 12.4%
- EBIT (FY07): 2.5% (FY06*: 0.6%)
- Customer Satisfaction Index (FY07): 720 points (FY06*: 690 points)

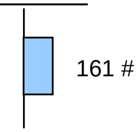
* Financial year end is 31 March, as such figures for FY06 are estimates

Net Profit vs. Economic Profit (RM million)

Net Profit
RM million, 2005



Economic Profit
RM million, 2005



Excludes impairment charge on goodwill of RM367.6 million arising from the acquisition of MV Augusta

Achievements

Lagging/Co-incident indicators

- New senior management team installed
- Return to profitability in 3Q05 after two successive quarters of losses
- Signing of MoU with Mitsubishi to explore possibility of collaboration, and other alliances being considered

Leading indicators

- Launch of 5 pronged plan to improve performance
- Positive outlook on the release of the National Auto Policy
- Completion of sale of MV Agusta

Challenges

- Need for a cohesive alliance strategy
- Product quality and competitiveness needs to be significantly improved

Source: Literature search, Company data

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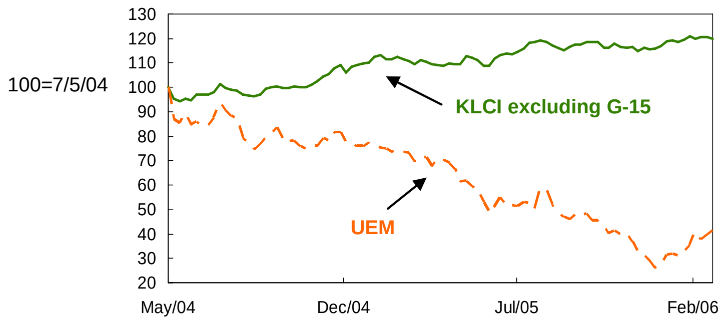
ACHIEVEMENTS AND CHALLENGES – UEM WORLD

UEM WORLD

Performance



Historical Financial & Operational Highlights (RM million)

FY Dec 31	2004 (audited)	2005 (unaudited)
Revenue	**2,863.0**	**3,257.3**
EBITDA	366.3	93.3
Pretax profit	160.4	(167.0)
Net Profit After MI	**63.5**	**(103.1)**
EPS (RM)	**0.046**	**(0.074)**
Shareholders Funds	1,121.2	990.7
Net Debt	3,327.0	3,573.7
Debt / Equity Ratio	**3.8**	**4.6**

Headline KPIs

- Revenue Growth (FY06): 36.0% (FY05: 14.0%)
- Return on Equity (FY06): 12.0% (FY05: -10.0%)

Net Profit vs. Economic Profit (RM million)

Achievements

Lagging/Co-incident indicators

- Revamp of senior management teams at group companies
- Order books of RM3 billion, mainly from domestic contracts

Leading indicators

- Consolidation of key strategic business units within group (e.g. increased stake in Pharmaniaga to 72%)
- Creation of an international business development unit to spearhead overseas ventures
- Pharmaniaga's investments in Indonesia and China
- Opus' acquisitions to expand presence in UK and Canada
- Increased leading activity in Nusajaya

Challenges

- International construction work
- Diverse business environment – need to refocus management and capital resources
- Conglomerate style structure requires combination of solid recurring income, growth opportunities and operational synergies

Source: Literature search, Company data

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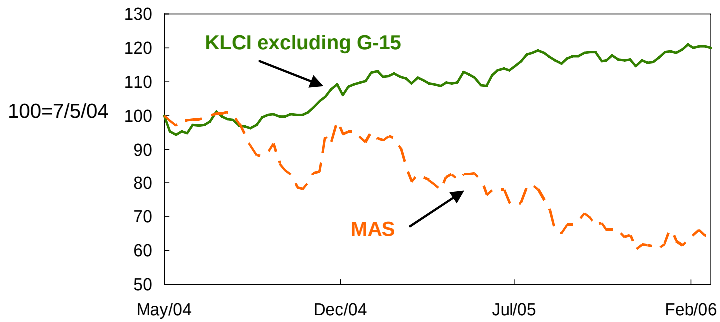
ACHIEVEMENTS AND CHALLENGES – MAS

Performance



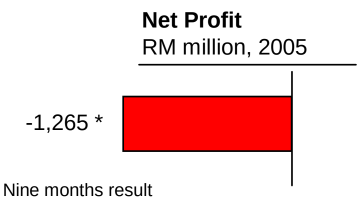
Historical Financial & Operational Highlights (RM million)

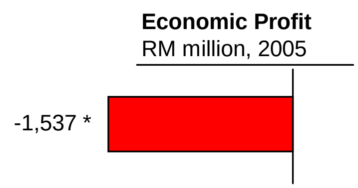
FY Mar 31	2003	2004	2005
Revenue	**8,675**	**8,588**	**10,951**
EBITDA	840	410	563
Pretax profit	334	345	364
Net Profit After MI	**337**	**461**	**326**
EPS (RM)	**0.387**	**0.368**	**0.260**
Shareholders Funds	2,563	3,024	3,319
Net Tangible Assets	2,563	3,024	3,319
Net Debt/(Cash)	(932)	(2,195)	(2,191)
Debt / Equity Ratio	**N/A**	**N/A**	**N/A**

Headline KPIs

- Net (loss)/income (FY06): -RM600m (FY05 –RM1.27bn) RM50m (FY07), RM500m (FY08)
- Cash surplus (FY06): RM1.0bn
- Profit for MAS Kargo (FY06): RM107m
- On Time performance: 80% for flight schedules in 2006
- Number of incidents: Not more than 3 cases per month

Net Profit vs. Economic Profit (RM million)





* Nine months result

Achievements

Lagging/Co-incident indicators

- New senior management team installed
- Quick wins plan implemented, more than RM500 million p.a. in value already gained
- Whistle blower policy implemented
- Employees backing for management to effect turnaround including accepting sizeable layoffs

Leading indicators

- Comprehensive Business Turnaround Plan unveiled
- Public support of turnaround plans by government
- Unprecedented conclusion of agreements with nine employee unions

Challenges

- Net loss of RM1.3 billion in FY05
- Intensifying competition
- High energy prices unlikely to improve soon
- RM4 billion financing requirement identified
- Managing the scaling down of domestic aviation sector
- Projected loss of RM600 million for FY06
- Cash-crunch anticipated in FY06 on do nothing scenario

Source: Literature search, Company data

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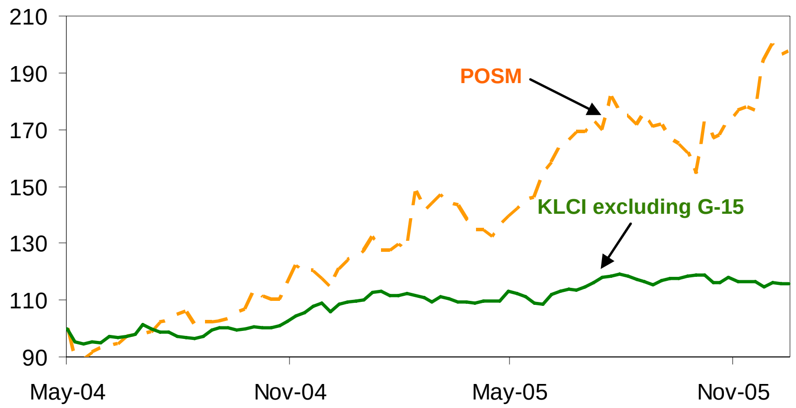
ACHIEVEMENTS AND CHALLENGES – POSM

Performance



Historical Financial & Operational Highlights (RMm)

FYE Dec 31	2003	2004	2005
Revenue	**648.0**	**694.3**	**787.0**
EBITDA	74.7	102.3	152.2
Profit before Tax	95.5	112.0	153.0
Net profit after MI	**67.3**	**76.1**	**145.4**
EPS (RM)	**0.17**	**0.18**	**0.28**
Shareholder Funds	1171	1333	n.a.
Net Tangible Assets	1657	1733	n.a.
Net Debt / (Cash)	(549.3)	(643.3)	n.a.
Debt / Equity Ratio	**7.1%**	**0.0%**	**0.0%**

Achievements

Lagging/Co-incident indicators

- Sustained improvement in EBITDA margins from 11.3% (FY03) to 19.3% (FY05)
- Net cash position of RM928.6 million
- VSS in 2005 reached target of 10%

Leading indicators

- Postal rate reclassification has resulted in a 17% increase in rates
- Increased investment in automation and ICT
- Substantial war chest to facilitate growth through acquisitions

Challenges

- Reduced market share due to competition from substitute services
- Low automation in mailing/courier processes
- Obsolete and un-integrated core ICT systems
- Inefficient capital structure – 59% cash/equity ratio

Source: Literature search, Company data

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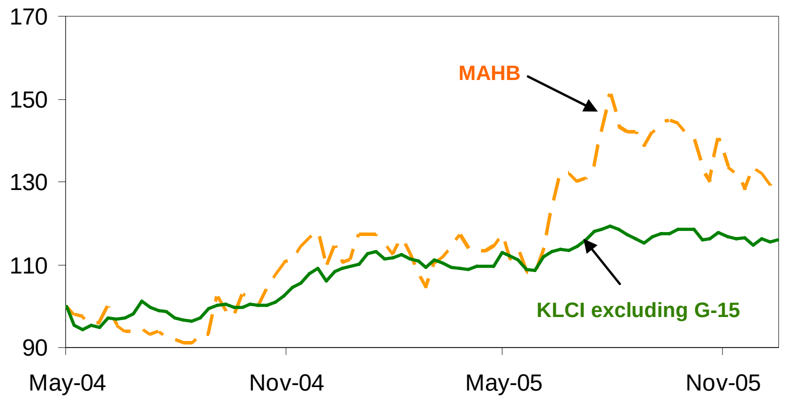
ACHIEVEMENTS AND CHALLENGES – MAHB

Performance



Historical Financial & Operational Highlights (RMm)

FYE Dec 31	2003	2004	2005
Revenue	**894**	**1,025**	**1,113**
EBITDA	146	204	268
Pretax profit	152	196	279
Net profit after MI	**85**	**125**	**182**
EPS (RM)	**0.077**	**0.114**	**0.166**
Shareholders Funds	2,388	2,498	2,656
Net Tangible Assets	3,555	4,079	4,040
Net Debt / (Cash)	(112)	(314)	(440)
Debt / Equity Ratio	**net cash**	**net cash**	**net cash**

Achievements

Lagging/Co-incident indicators

- Partnership with GMR in India for privatization of Hyderabad and Mumbai airports.

Leading indicators

- Expansion of retail floor space by another 30% at the end FY2005 will help boost non-commercial revenue this year.

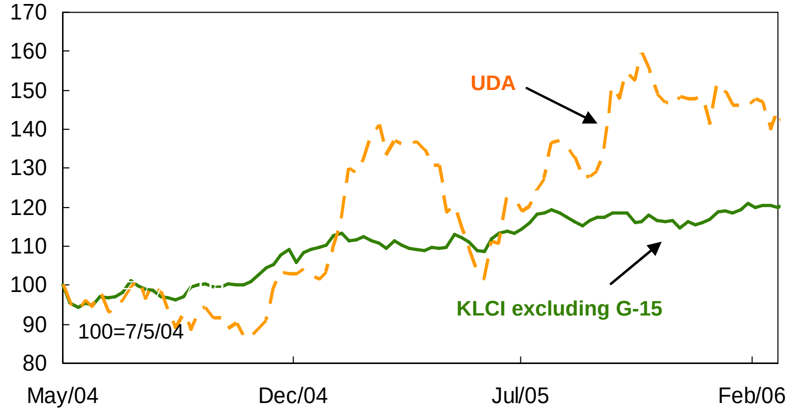
Challenges

- Restructuring scheme still not completed
- Higher operating costs due to start of LCC terminal operations
- GOM's request for MAHB to improve security at airports
- Still awaiting tariff increase

Source: Literature search, Company data

ACHIEVEMENTS AND CHALLENGES – UDA

Performance



Historical Financial & Operational Highlights (RMm)

FY Dec 31	2002	2003	2004
Revenue	488.8	412.1	538.2
EBITDA	69.6	17.8	67.8
Pretax profit	51.6	(9.20)	43.6
Net Profit After MI	32.6	(9.80)	19.8
EPS (RM)	0.09	(0.03)	0.06
Shareholders Funds	1,196.3	1,160.0	1,159.4
Net Tangible Assets	1,196.3	1,161.2	1,159.2
Net Debt	525.1	538.4	532.7
Debt / Equity Ratio	0.44	0.46	0.46

Achievements

Lagging/Co-incident indicators

- New senior management team installed
- Establishment of Product Development Committee
- Formation of QA & QC team to assist subsidiaries in implementing their projects
- Introduction of effective Standard Operating Procedures and Operating Guidelines.

Leading indicators

- Enhancement of internal business processes by continuing ISO certification

Challenges

- Balancing social obligation and shareholder value
- Repositioning UDA's products to compete with other leading property players
- High cost of replenishing land bank

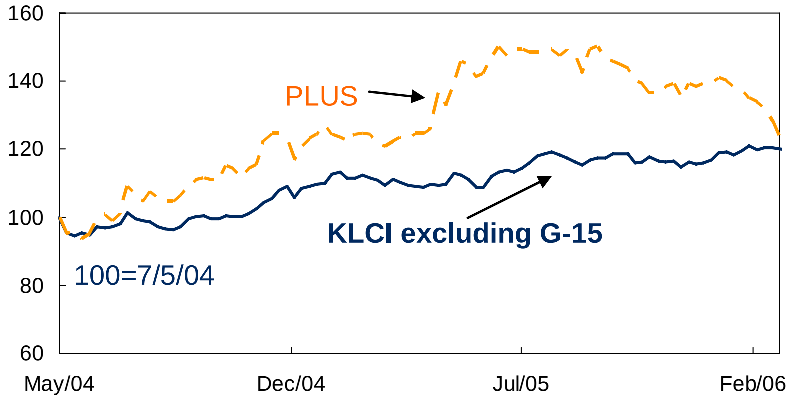
Source: Literature search, Company data

Disclaimer: These headline KPIs are targets or aspirations set by the company as a transparent performance management practice. These headlines shall not be construed as either forecasts, projections or estimates of the company or representations of any future performance, occurrence or matter as the headlines are merely a set of targets/aspirations of future performance aligned to the company's strategy.

KHAZANAH NASIONAL

ACHIEVEMENTS AND CHALLENGES – PLUS EXPRESSWAYS

Performance



Historical Financial & Operational Highlights (RMm)

FY Dec 31	2003	2004	2005
Revenue	1,580.87	1,650.12	1,671.32
EBITDA	1,263.97	1,326.35	1,617.61
Pretax profit	735.56	773.70	1,071.46
Net Profit After MI	732.06	768.49	1,063.75
Fully Diluted EPS (RM)	0.15	0.15	0.21
Shareholders Funds	3,079.21	3,497.69	4,161.44
Net Tangible Assets	3,008.89	3,427.37	4,091.12
Net Debt/(Cash)	5,935.20	5,702.52	4,433.22
Net Debt / Equity Ratio	1.93	1.63	1.07

Achievements

Lagging/Co-incident indicators

- Raised RM1.0billion in Islamic Securities in June 2005 to fund the construction of 3rd lanes widening and upgrades at the NSE.
- 4 new exchanges along the NSE in 2006 expected to boost revenue.

Leading indicators

- Actively looking at regional expansion.

Challenges

- Traffic volume y-o-y in 2005 dipped to 0.8% i.e. lowest in the past 5 years mainly due to the 3 times of increase in petrol prices.
- Traffic volume is likely to remain dampened by the recent petrol price increase of 30 sen per litre.

Source: Literature search, Company data

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