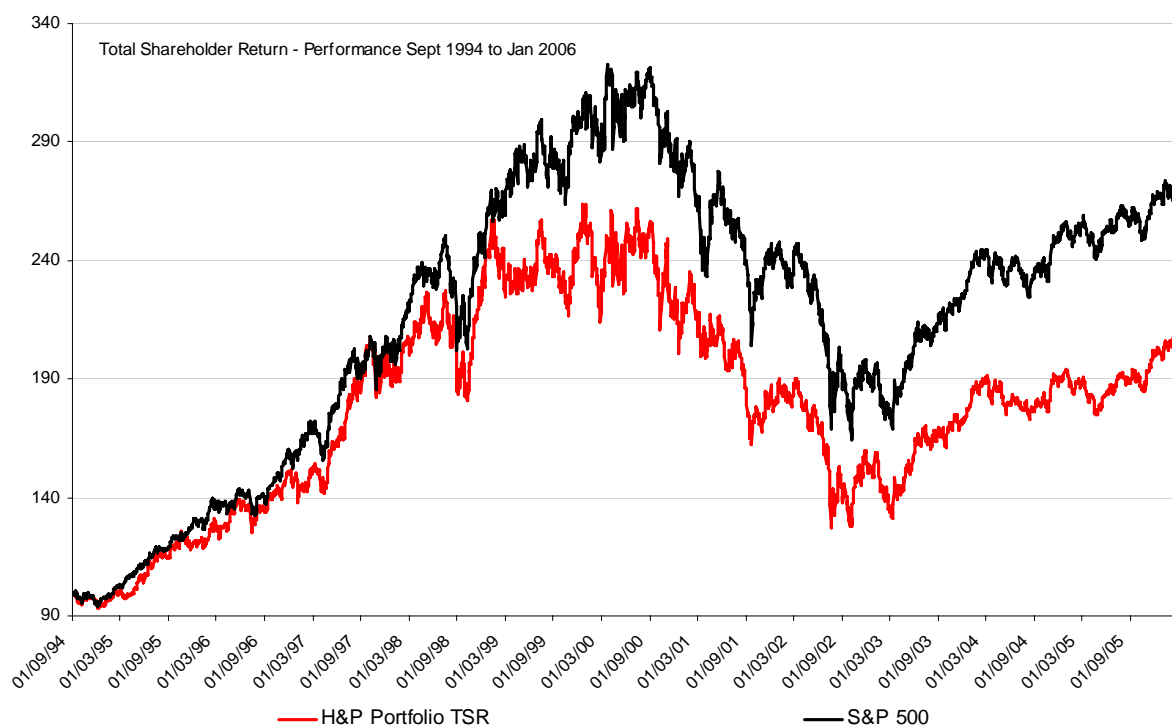


Competing for the Future

Relative performance of the Hamel & Prahalad Portfolio vs the S&P500 - Methodology

The below information is a summary of the methodology used to calculate the relative performance of the stocks mentioned in Gary Hamel & C.K. Prahalad's Book 'Competing for the Future' relative to the S&P 500 from 1994 onwards.

The methodology refers to John Kay's column published on 11 April 2006 in the Financial Times.



The 'Hamel & Prahalad Portfolio'

Gary Hamel & C.K. Prahalad's Book 'Competing for the Future' mentions twelve companies as particularly exemplary in terms of reinventing their industry and/or regenerating their strategy.

Those companies are:

Wal-Mart, Service Corp International, AT & T, Hewlett-Packard, JP Morgan & Co, Merck & Co Inc, Bell Atlantic, British Airways, ISS Group, Compaq, Bankers Trust, and CNN.

"[They] provide examples of newcomers who have changed industry rules, of incumbents who have successfully regenerated their core strategies to accommodate the relentless pace of change in their industries, and of incumbents who've managed to both regenerate their strategies and reinvent their industry.

Gaining an understanding of how to accomplish this last, most difficult task, is central to the mission of this book." (Hamel & Prahalad, 1994, p. 19ff)

Competing for the Future

Gary Hamel, C.K. Prahalad; Harvard Business School; Sept 1994

The H&P Portfolio used in this performance analysis only includes eleven of the twelve companies mentioned by Hamel & Prahalad. CNN is not included in the analysis.

CNN is part of Turner Broadcasting Systems, which was privately owned until its acquisition by Time Warner in October 1996. As other parts of Time Warner and later AOL Time Warner would largely overshadow the performance contribution of CNN in the H&P Portfolio, CNN was left out.

Total Shareholder Return Index

In order to compare the performance of the H&P Portfolio relative to the rest of the stock market a Total Shareholder Return (TSR) Index is calculated for each individual share. They were rebased at 01 Sept 1994 = 100 to coincide with the publication of the first edition of the Hamel & Prahalad book and an average TSR Index of all eleven stocks was generated. To ease comparison, the S&P500 Index was also rebased at 01 Sept 1994 = 100.

Total Shareholder Return was calculated with the below conventions. TSR shows a theoretical growth in value of a share holding over a specified period, assuming that dividends are re-invested to purchase additional units of the equity at the closing price applicable on the ex-dividend date.

$$TSR_t = TSR_{t-1} * P_t / P_{t-1}$$

except when t = ex-date of the dividend payment D_t then

P_t = price on ex-date

P_{t-1} = price on previous day

D_t = dividend payment associated with ex-date t

Gross dividends are used where available and the calculation ignores tax and re-investment charges. Adjusted closing prices are used throughout to determine price index and hence return index.

Specifics to the H&P Portfolio TSR Index

Some modifications had to be made due to the history of the eleven companies included in the H&P Portfolio. The table below shows the individual adjustments to the index.

ISS Inc	ISS Inc was part of the ISS Group, based in Denmark. ISS group disposed of ISS Inc for nominal \$1 to Aaxid Ltd. at the beginning of 1997 after a fraudulent accounting was discovered on the part of the management of US operations. As the index considers only the performance of the original US operations, as referred to by Hamel & Prahalad, the TSR index created for ISS falls to zero in Jan 1997. This could be regarded as the loss an investor would incur holding ISS Inc shares during this time.
JP Morgan & Co	Only included in the Index until 12/11/2001, when the merger with Chase Manhattan was finalised

Bell Atlantic	Bell Atlantic traded under its new name of Verizon Communications since the completion of the merger with GTE on 30 June 2000; historical Verizon share data refers to Bell Atlantic only
Compaq	Only included in the Index up to 01/05/2000, when Compaq was acquired by Hewlett Packard
Bankers Trust	Only included in the Index up to 01/01/1999, when Bankers Trust was acquired by Deutsche Bank

Data (daily prices on trading days and dividend payments) was sourced from Datastream and Bloomberg.

In order to simulate the H&P Portfolio like a real portfolio, stocks which terminated before 1 January 2006, were continued in the Average TSR Index by chain linking the last available TSR Index number to the S&P500.

Given the divestment of ISS Inc. for a nominal \$1 in Jan 1997, we did not continue the share price and index but rather assumed a 'loss' as it would have occurred to an actual shareholder.