AICPA

Report of the Public Company Task Force to the

Special Committee on Enhanced Business Reporting

June 2004

American Institute of Certified Public Accountants

Contents

Introduction

This report has been prepared by the Public Company Task Force, (the "Task Force") to the Special Committee on Enhanced Business Reporting, (the "SCEBR") of the AICPA. This document is the result of work conducted by the Task force between November 2003 and June 2004.

These sample reports are **not intended to be comprehensive**. Rather, certain components of the business reports have been highlighted and presented here where the materials offer significant extensions to current practice. It is the intention of the Task Force that the materials in these sample reports be considered as a collection of ideas for potential enhancements to existing business reports and to offer contrasts with current methods of reporting.

These sample business reports were created primarily as a vehicle for authoring of material. While the Task Force has sought to organize this information in a logical format that is easy to follow, the intention is that this material be presented in an electronic form via a web site and that the various components of this report be "tagged" using XBRL to facilitate customized reporting and analysis by users of this information.

The mission of the SCEBR is:

"To establish a consortium of investors, creditors, regulators and management and other key stakeholders to improve the quality and transparency of information used for decision making."

These sample enhanced business reports and the corresponding web presentations of this material have been prepared primarily to assist the SCEBR in communicating to interested parties, some Enhanced Business Reporting concepts, as well as to assist the Consortium on Enhanced Business Reporting (the "Consortium") in the planning and execution of their work.

The sample reports draw from a number of business reporting frameworks. This variety is intended to assist the Consortium in developing a comprehensive, proposed enhanced business reporting framework(s). The frameworks expressed in these sample reports are **not intended to represent a proposed structure for an enhanced business reporting framework,** although any one of these, or some combination, could fulfill such a role.

The Task Force recognizes that every company has a different perspective on the extent of competitive threats and litigation risk associated with the various components of enhanced transparency. The Task Force did not attempt to apply these considerations as a filter in coming up with the ideas presented here or in the accompanying sample enhanced business reports.

"In the late 19th century, long before securities laws came into effect, the New York Stock Exchange asked a group of executives to disclose sales. The reaction was that sales were proprietary."
Source: An interview of Baruch Lev (and Bob Herz and Jonathon Low) by Lou Thompson
Appearing in Investor Relations Quarterly, Volume 6, Number 1
Published by National Investor Relations Institute

Preparatory Notes

Scope and Objectives

The Public Company Task Force (the "Task Force") was established by the Special Committee of the American Institute of Certified Public Accountants in November 2003. The objective of the Task Force was to develop a set of sample business reports that articulate some of the potential approaches to enhanced business reporting. These sample reports are intended to prime the debate concerning enhancements to business reporting. The reports generated were designed to include a demonstration of:

- The potential scope of enhanced business reports; i.e., examples of subject matter that may be considered for inclusion in a report
- where applicable, a range of alternatives for reporting on a particular element; e.g., a high degree of specificity regarding the components of a strategy disclosure vs. an open framework with general guidelines
- Sample disclosures for a number of industries
- Performance measures
- The application of XBRL and other technologies for business reporting.
- The potential benefits for stakeholders
- Commercial opportunities responsive to stakeholders needs

For the purposes of creating these sample reports, we have sought to include disclosures that provide information about the underlying relationships between the variety of internal and external value drivers and the company's performance, sufficient to allow stakeholders to obtain a reliable understanding of past performance, current situation and a reasonable basis on which to predict future results.

Criteria

The task force recognized that the following criteria should be considered in determining the scope of business reports:

1. Improves the quality of decision making in capital markets.
2. Value added to users, preparers and the information supply chain, exceeds costs associated with preparation, disclosure and analysis
3. Comparable across time frames (can be consistently measured)
4. Does not significantly harm a company's competitive position
5. Should be within management's expertise to provide

The task force focused mainly on the first of these criteria above. A variety of thinking on the other criteria is illustrated throughout the sample enhanced business reports. In addition, the following criteria were considered to be desirable, and should be more fully explored:

- Applicable internationally
- Comparable across companies
- Suitable for timely measurement, reporting and analysis
- Can be measured with an acceptable degree of accuracy

Dimensions

Given the objective of the task force to prime debate concerning business reporting, these sample reports were prepared with the aim of demonstrating the variety of approaches that can be taken across the spectrum of content elements. Accordingly, variations in each of the following dimensions are either demonstrated or referenced in the sample reports:

1. The enhanced business reporting framework
2. Level of detail provided
3. Approaches to forward looking statements
4. Measurement uncertainty
5. Presentation format

Identity

These sample enhanced business reports are intended to represent hypothetical companies. Any similarities to actual companies or persons are coincidental and unintended.

Contributors

Appendix — Contributors lists those who contributed to the development of this report and the underlying sample enhanced business reports.

Executive Summary

The following key issues were identified in the course of the work of the Task Force. The potential solutions suggested here are reflected in the sample enhanced business reports prepared by the Task Force.

Identification of a Reporting Framework

Issues

Lack of a generally accepted framework makes access to information by users inefficient, comparability across companies, timeframes and countries difficult. It also results in information being produced that is irrelevant to many users.

Current reporting models do not explicitly provide information about the underlying relationships between the variety of internal and external value drivers and the company's performance, sufficient to allow stakeholders to obtain a reliable understanding of past performance, current situation and a reasonable basis on which to predict future results

Possible Solutions

Develop a generally accepted framework for enhanced business reporting.

Relevancy of Information

Issues

Preparers, analysts and other users of business information argue that much of the content of business reports is irrelevant. This represents a burden on both preparers and users of business information.

Possible Solutions

Move towards a "demand-pull" model that allows users of business information to identify and extract those elements that they consider most important. This model would provide ongoing feedback to preparers, regulators and others on how well reports are responding to user needs.

Leverage XBRL to help facilitate this process.

Long Term vs Short Term Performance

Issues

Management face trade-off decisions when allocating scarce resources between projects with short and long term paybacks. Increasingly, competitive advantage and future growth potential are defined by a company's command of intangible resources rather than tangible resources. Thus retention of key personnel, organizational design, innovation processes etc are taking on more significance[1]. However, intangibles are hard to value and evidence shows that the market consistently undervalues companies' investments in intangibles. Accordingly, management have an incentive to invest for shorter term performance at the expense of future growth.[2]

e.g. Various studies show that investment in Research and Development is barely keeping pace with inflation while the number of new patents being filed is on the decline.

Possible Solutions

Consider monitoring and reporting indicators of growth potential.

Present a group of performance metrics that reflect progress toward the collection of strategic goals rather than just focusing on one. These metrics are ideally a subset of those used by management for internal monitoring and comprise a combination of lagging and leading indicators following recognized standard industry practice where applicable.

See discussion below regarding disclosure of observed relationships between value drivers and progress towards business goals.

Tracking Capital Project Performance

Issues

Current business reporting models do not provide for reporting of returns on capital investments. This provides an opportunity for those seeking to manage current earnings by classifying current period expenses as capital investments. This reduces the value of reported current period performance. Even where no misclassification of expenses occurs, the lack of reporting of returns on long term investments makes it difficult for readers of reports to obtain a complete picture of the profitability of the business and the effectiveness of management's investment strategies

Possible Solutions

Make specific provisions in future reporting models to report returns on capital investments to allow users to consider both current and long term investment returns when analyzing total profitability.

Forward-Looking Information

Issues

Forward looking information is typically limited in business reports today, providing little guidance to analysts and others interested in forecasting future performance. Management are discouraged from increasing disclosure of their expectations regarding future performance due to concerns regarding potential litigation risk should their expectations not be met.

Possible Solutions

Greater transparency of the key drivers of value for the business and the relationship that management have observed to exist between these drivers and progress towards business goals would provide users of business reports with a sound basis on which to construct models for predicting future performance. A disclosure of these observed relationships would be further enhanced by management adding any commentary regarding observations of changes that have been observed to be taking place between these value drivers and business goals.

Where management believes that these relationships between value drivers and performance are likely to change in future periods due to either trends that have surfaced in the current period, or known events, we have demonstrated the principle of management providing additional information regarding the anticipated direction of change in the underlying relationships.

Since such a discussion would not be projecting future performance, it would not increase management's exposure to litigation risk, but leave intermediaries and other users of business reports to form their own, informed expectations based on this information.

Earnings Projections and Earnings Management

Issues

The focus on projected earnings leads the market to over-react when projections of the one measure are not met and, in-turn, leads management to over-emphasize the need to make their projected earnings number. Recent studies have shown that a significant proportion of S&P 500 companies make projected earnings within 1¢ – an indication of earnings management.

Possible Solutions

In addition to the points above, provide greater disclosure of the inherent uncertainty in projecting performance on any metric. Consider disclosing a range of estimates in place of a single number (as some companies already do), or provide information to allow readers to construct these ranges (standard deviation and population size data).

Assumptions of Inherent Accuracy in Reported Figures

Issues

With few exceptions reported, quantitative information is subject to measurement and/or estimation error. Reporting a single value implies a degree of precision that is typically lacking and sets expectations by users of business reports that are not sustainable. While these measurement and estimation errors should play a lesser role when viewing long term trends, they have the potential to play a significant role in the short term.

Possible Solutions

Report historic numbers as a range rather than a point estimate

Issues

Management and auditors have a responsibility to ensure that reported financial information is not "materially" misstated. However, this concept is subjective and poorly understood by the majority of readers of business reports. At the margin, these reporting errors will lead some managers and investors to make sub-optimal decisions.

Possible Solutions

Disclose sufficient information for users of reports to be able to substitute management's estimates underlying quantitative data with their own and to see the impact on business performance and position.

Defining the Boundaries of the Organization

Issues

Much work has been done to define the boundaries of an organization for financial reporting purposes. This is not true for non-financial metrics, making comparison between reported non-financial measures difficult. For example, when disclosing number of personnel – does this include part-time, casual labor, personnel from equity investments, personnel from alliance partners, spouses? When disclosing investments in patents and copyrights and corresponding returns, do these include investments made by joint ventures in which the business does not own a controlling interest?

Possible Solutions

Ultimately develop industry specific standards for non-financial measurement.

In the interim, disclose the basis used for calculation in sufficient detail to allow users to recompute on alternative basis

Assurance

Issues	Facilitating the extraction of information elements by users to be delivered in formats defined by those users leaves existing audit reports unhelpful since today's audit reports assume readers are viewing the financial statements taken as a whole rather than extracts from the financial statements.
	Furthermore, if business reporting is to increase in frequency, the current approach of providing assurance on a complete set of financial statements is likely to become an obstacle.
Possible Solutions	Develop concepts of data level integrity, and several levels of assurance, standards for process interruption and meta-control and assurance attributes together with corresponding auditing standards.
	Conceptualize methodologies of continuous, process-by-process assurance.

[1] Baruch Lev — Sharpening the Intangibles Edge — September 2003 and the PRISM Report 2003.

[2] Recent studies by AssetEconomics have shown that approximately two thirds of the market value of the Russell 3,000 is attributable to expectations of future growth. However, research by Baruch Lev has shown the level of investment in R&D in the United States to be at the same level in 2000 as it was in 1960.

The Sample Reports

The Task Force has compiled two “Sample Enhanced Business Reports” (Lintun Solutions, Inc. and KNZ AG) through which it has articulated the potential solutions summarized above and a variety of other related ideas. Two additional presentations have been prepared that include sample disclosures and information access ideas for two other companies "Galileo" and "eXchange". These two sample enhanced business reports and the two presentations together with their key themes are as follows:

Key Themes	Lintun	KNZ AG	Galileo	eXchange
Disclosing key value drivers and their role in driving performance	√	√		√
Utilizing web delivery of information to enhance accessibility through:				
a) Providing access to detailed information by allowing readers to “click through” from summary level information components.	√	√	√	
b) Providing multiple ways for readers to navigate to detailed information to facilitate delivery of only relevant details dependant upon the context of the reader’s inquiry.	√	√	√	
Facilitating easier analysis of results through the utilization of generally accepted taxonomies and electronic tagging (XBRL).	√	√	√	
Disclose the role of intangible value drivers in delivering current and future performance.	√	√	√	√
Disclosing measurement uncertainties inherent in reported quantitative information	√			
Adopting an external reporting approach based upon management’s internal reporting.	√	√		
Disclosing a balance of performance metrics to capture both current period performance as well as future growth potential.	√	√		√
Allowing users to access company relevant information from third party sources including peer group information.	√	√		
Enabling readers to select which group entities to include or exclude from consolidated results.			√	
Disclose level and source of assurance for financial and non-financial information.		√	√	

While Lintun, KNZ and eXchange present ideas that are potential enhancements to existing reporting, the "Galileo" sample report presents ideas that are further departures from current practice.

Further Work

The Task Force recommends the follow topics be subject to further study and consideration:

1. **Off Balance Sheet transactions and relationships** — Potential claims on the cash flows of a business arising from relationships with third parties, but which do not appear as liabilities on the balance sheet. Further thought needs to be given as to how best to clearly communicate such exposures. In particular, where these potential claims are triggered by certain variables meeting or exceeding certain predefined values, consider ways of highlighting these "trigger points" together with the impact on cash flows that result.

2. **Input from attorneys and Regulators** Is needed on at least two points:
   i. **Disincentives to disclose** — In the United States, at least, the security laws present a disincentive for preparers to include anything that goes beyond the minimum requirements. For example: Including forward looking statements in a press release rather than in a 10-k filing allows the preparer to avoid the potentially greater penalties associated with misleading statements appearing in public filings. (Despite the safe harbor provisions contained in the securities law relating to such disclosures.)

   ii. **Summary information** — Presentation of summary information presents a potential legal problem. Since a summary, by definition, requires that the preparer omit certain information, there is a risk that the reader, who relies on the summary without reading the detail, may be harmed. The solution would seem to be to ensure that the most important information be included in the summary. For example, when purchasing a car, prospective buyers are presented with summary level information of the car's features, and when reading the instruction manual, certain safety warnings are highlighted. However, the prospective purchaser is not presented with a comprehensive report containing all information about every component of the vehicle and nor would most buyers find such information relevant or useful.

3. **Plain English** — This objective is one that requires more careful thought. Some guidance would be useful on how a preparer might assess the extent to which they have complied with this objective. There is a natural tendency for preparers to slip into technical jargon and complex terminology, particularly at the more detailed levels of discussion. One solution might be to determine whether a "man in the street," or to quote an English legal term, "a man on the Clapham omnibus," would be able to properly understand what has been written. Where there is no avoiding the use of complex terms or jargon, an interpretation should be made available.

4. In**formation integrity attributes** — Consider including integrity attributes of business information to help internal and external users. These attributes could include an indication as to which control processes the information has been subject to in order to help the user determine the level of reliability of the information.

5. **Ensuring quality analysis of results** — Regulators are increasingly adding specificity to their requirements for management to analyze and discuss the business results for the period and its economic condition. However, there continue to be many companies who provide little insight in their analysis. One way to encourage improvements in this area is to develop and promote a set of generally accepted guidelines and corresponding taxonomy. This would ensure that the readers are provided with a sufficient degree of specificity. The capital markets (and potentially regulators) will appropriately reward and penalize accordingly.

6. **Utilization of Technology in Reporting** — The paper medium substantially limits the detail, timeliness and richness of information disclosure. Research is needed on provisioning information close to real time (continuous reporting), providing highly dis-aggregated data, providing real-time assurance, and providing web access using rich database access delivery methodologies.

Appendix – Contributors

Members of the Public Company Task Force

Paul Herring (Grant Thornton – Chair)

Joel Burzin (Grant Thornton – Retired)

Robert Eccles (Advisory Capital)

Mike Krzus (Grant Thornton)

Robert J. Laux (Microsoft Corporation)

Steven Lilien (Baruch College)

Sandeep Patel (Standard & Poors)

Amy Pawlicki (American Institute of Certified Public Accountants)

Miklos Vasarhelyi (Rutgers University)

The Task Force is most grateful to the following for their contributions to the preparation of this report. Any remaining errors and omissions are the responsibility of the Task Force. The views represented in this report may not, in all instances, reflect the views of these individuals or the organizations which they represent:

Observers

Michael Alles (Rutgers University)

Stephen Bryan (Wake Forest University)

Tim Coville (Rutgers University)

Lynne Farber (Baruch College)

Rani Hoitash (Suffolk University)

Pat McConnell (Bear Stearns and CFA Institute)

Tom O'Rourke (St Charles Consulting Group)

David Smith (Smithink)

Jennifer Sullivan (Financial Accounting Standards Board)

Alison Thomas (PriceWaterhouseCoopers)

Other Contributors

John Ballow (Accenture)

Satyen S. Bhatt (Wake Forest University)

Michael Bray (KPMG)

Roland Burgman (AssetEconomics)

Jane Calvert-Lee (Confederation of British Industry)

Lucy Crofts (PriceWaterhouseCoopers)

Guillaume Danis (Metapraxis)

Robert K. Elliott (KPMG – Retired)

Paul Gladen (Independent)

Susan Hinds (Toyota)

Charlie Hoffman (UBmatrix)

Louis Iacovelli (TIBCO)

Greg Jonas (Moody's)

Pam Kalafut (Predictiv)

David Larcker (The Wharton School - University of Pennsylvania)

Gina Lee (American Institute of Certified Public Accountants)

Baruch Lev (Stern School of Business at NYU)

Jon Low (Predictiv)

Jon Lukomnik (International Corporate Governance Network)

Josef MacDonald (International Accounting Standards Board)

Eric Miller (EM3 Design)

Scott Mitchell (OCEG)

Diane Mueller (BlastRadius)

Jeff Naumann (American Institute of Certified Public Accountants)

Mark O'Sullivan (PriceWaterhouseCoopers)

Amy Ripepi (Financial Reporting Advisors)

Bill Swirsky (Canadian Institute of Chartered Accountants)

Aditya Tole (Baruch College)

Kimberly Vonder Fecht (Rutgers University)

Hugh Wallis (Hyperion)

Peter Wallison (American Enterprise Institute)

Mike Willis (PriceWaterhouseCoopers)

Yue Zhang (Rutgers)

Lintun

Forward Looking Statements - In this report we make forward looking statements about the company's financial condition, results of operations, plans, objectives, future performance and business. The words estimate, expect, intend, plan, project, target, can, could, may, should, will, would or similar expressions are part of forward looking statements. These statements involve risks and uncertainties. Future results may differ from those included in our forward looking statements.

Contents

Definition of Terms

The following terms used in this report are intended to have the following meanings:

Strategy	A process of profitably matching internal resources with constantly changing external demands.
Outcomes	Results of implementation of strategy.
Value Drivers/Enablers	Attributes, factors, competencies or resources that promote effective execution of strategies.
Objectives/Goals	Desired outcomes.
Key Performance Indicators	Metrics that track outcomes of financial and non-financial variables that may either lead or lag overall corporate performance. These metrics taken together provide a view of the effectiveness of execution of the company's strategy.
Economic Profit	Operating Profit less Taxes less Cost of Capital.

Strategy definition provided by Jim Schrager, Clinical Professor of Entrepreneurship and Strategic Management – University of Chicago

About Lintun

Business at a Glance

Mission and Strategy

Lintun's mission is to be a premier provider of products and services required for customers worldwide to build their information-technology and Internet infrastructures by delivering the best possible customer experience by directly selling standards-based computing products and services.

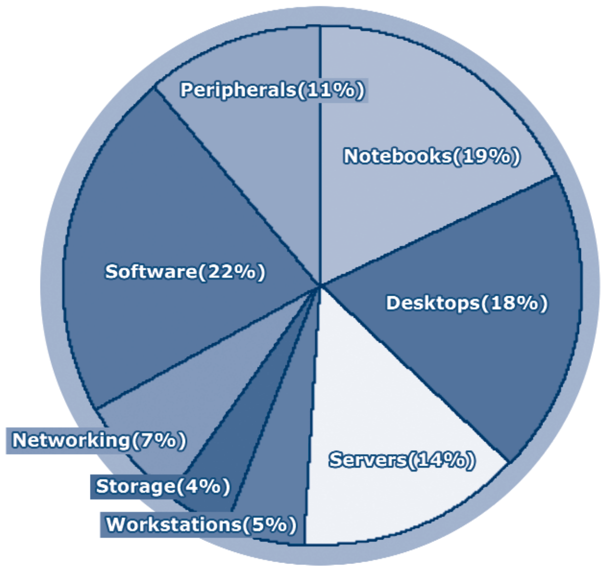
Lintun is enhancing and broadening the fundamental competitive advantages of the direct customer model by applying the efficiencies of the Internet to its entire business. The company is also working to become a worldwide leader in networking for the Internet.

Lintun is pursuing a strategy of continuous improvements in efficiency balanced with aggressive growth. The improvements in efficiency are focused on delivering superior responsiveness to customer demands at a lower cost than the competition. Aggressive growth is achieved through a program of strategic acquisitions combined with leveraging the company's lower cost base to drive organic growth via price competition. Both efficiency and growth strategies are reinforced by the Company's strategy of attracting, developing and retaining the best people.

Products and Services

Lintun competes in a wide range of products and services as follows:

Desktops -	18%
Notebooks -	19%
Servers -	14%
Workstations	5%
Storage	4%
Networking	7%
Software	22%
Peripherals	11%



(percentages based on 2005 revenues).

Further discussion of Lintun's market share and competition in each of these markets can be found in the Market Overview section of this report.

Performance

As can be seen from the following table, the company fell just short of its goal for Economic Profit for 2005 but met its goals for Revenue, Long Term EPS Growth and Personnel Retention. Although Economic Profit and Net Income are healthy, they lag behind the rest of the Computer Industry sector because of our strategy of investment in top people and strategic acquisitions to ensure future growth rates well in excess of the sector. The company is not currently paying dividends due to the need for ongoing investment for future growth.

Business Group	Markets Served	Key Metrics	2005 Performance	2005 Goals	2006 Outlook[3]
Networking & Computers	North America, Europe, Russia, Japan	Revenue	$26.9 - $27.2bn	$27.0 - $27.5bn	9 –15% growth
		Economic Profit	$2.99 - $3.02bn	$2.96 - $3.38bn	20 – 85% growth
		Long Term EPS Growth[1]	8%	7%	9 – 10%
		Personnel Retention[2]	90%	95%	95%
Software & Peripherals	United States, Europe, Japan	Not developed for this sample report			
Services	United States, Europe				

Comments

Some have suggested that second derivatives are better indicators of performance than actual values or first derivatives as shown here. ***See Elliott – The Third Wave Breaks on the Shores of Accountancy – 1992.***

Long Term Growth in EPS is intended to reflect long term growth potential of the business. Some have argued that this measure is not well correlated with future growth expectations implied in Market Value. Alternative measures include long term growth in free cash flows or a measurement of future growth expectations inherent in Market Value directly, adjusted for changes in the market as a whole, and/or the peer group. For further discussion of the use of this "Future Value" metric see the sample report "eXchange".

[1]Calculated as an average growth in earnings per share for the preceding five year period. For example, the projection for 2006 is calculated by averaging the annual growth in earnings per share (undiluted) for 2001 – 2005.
[2]Retention of personnel excluding involuntary separations (see definition in performance section).
[3]See "Forward Looking Information" for further discussion of the outlook for 2006.

Governance

Comments

The following organizations and related web sites offer guidance on Corporate Governance "best practices":

The OECD has issued an update to its ***CG principles*** *for public comment (Jan 2004) in anticipation of ratification in May 2004.*

www.GCGF.org*. This is the specialized secretariat that coordinates corporate governance activities for the OECD, World Bank and IFC. Includes training materials and other documentation.*

www.calpers-governance.org*. This is the governance site for CalPERS. It has an extensive list of documents, including their domestic and international principles, and a document on barriers to good corporate governance. See especially* ***http://www.calpers-governance.org/principles/international/global/page08.asp#disclosure***

www.gmiratings.com. *Extensive bibliography pages.*

In addition to the disclosures made here, it would be useful to provide a list of the specific anti-takeover devices in place. (see www.sharkrepellent.net). It would also be useful to highlight whether the company has a target ownership plan and retention period for holding stock obtained by exercising stock options. Disclosure could also be made of institutional ownership, ownership by activist investors, etc.

The following is a summary of Lintun's main governance policies:

A majority of our Board members are independent. "Independent" is defined by the listing rules of the New York Stock exchange. In summary, these directors are not employed by the Company, are not officers of the Company, have not been employed by the Company for the three years ending December 31, 2005, and do not have close relatives employed by the Company.

All members of our key Board committees—the Audit Committee, the Compensation and the Nomination Committee—are independent.

The independent members of our Board meet at least twice each year without the presence of management.

The following policies are designed to ensure that the interests of the board members are well aligned with the interests of the Company:

1. Ownership of a significant number of shares is a pre-requisite for appointment to the board of directors. The nominating committee uses its discretion in determining what constitutes "significant" on a case by case basis.
2. No fees are paid to non-executive directors. Their entire compensation is in terms of dividends and appreciation of the market value of the stock and options that they hold in the Company.
3. The Company does not carry any Directors and Officers liability insurance for non-executive board members. As a result of this policy, board members have more at stake than most shareholders.

We have a clear code of business conduct and corporate governance that is monitored by our ethics office and is annually affirmed by our employees.

The charters of our Board committees clearly establish their respective roles and responsibilities. Click here to see these charters.

We have an ethics office with a hotline available to all employees, and our Audit Committee has procedures in place for the anonymous submission of employee complaints on accounting, internal controls, or auditing matters.

We have adopted a code of ethics that applies to our principal executive officer and all members of our finance department, including the principal financial officer and principal accounting officer. Click here to review the Code.

Our internal audit control function maintains critical oversight over the key areas of our business and financial processes and controls, and reports directly to our Audit Committee.

Verily Verify LLP, our independent auditor, reports directly to the Audit Committee of the Board of Directors. Verily Verify LLP's accompanying report is based on its examination conducted in accordance with auditing standards generally accepted in the United States, including a review of our internal control structure for purposes of designing their audit procedures.

In addition, our independent auditor has reported on our assertions as to the effectiveness of our internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act of 2002.

The Board of Directors

The Board of Directors, together with their committee associations and tenure, are as follows:

Executive Directors

Name	Executive Position	Board Tenure[1]
Lady Pamela Huskisson	Chief Executive Officer[2]	Since Apr. 17, 2003
Andrew Franks	Chief Operating Officer	Aug. 1, 2005 – Dec. 31, 2007

Non-Executive Directors

Name	Position	Board Tenure[1]
John Devlin	Chairman	Jan. 1, 2004 – Dec. 31, 2007
Bruce Watcham	Audit Committee	Aug. 1, 2005 – Dec. 31, 2007
Andrew Howard	Compensation Committee	Jul. 1, 2005 – Dec. 31, 2007
Julio Gonzalez	Nomination Committee	Jan. 1, 2005 – Dec. 31, 2007

[1]The Company's bylaws restrict the tenure of all non-executive directors to a term not exceeding five years.
[2]The Company's bylaws prohibit the Chief Executive Officer from also serving as Chairman of the Board of Directors.

2005 Remuneration

The following table summarizes compensation awarded to the executive directors:

	Salary $000s)		Bonus		Total		Stock Awards 2005		Stock Awards 2006		Option Awards	
	2004	2005	2004	2005	2004	2005	Actual Value ($000s)		Expected Value ($000s)		Actual Value ($000s	
Lady Huskisson	985	1,105	550	750	1,535	1,855	225,000	315	300,000	540	450,000	6,071
Andrew Franks	650	720	350	400	1,000	1,120	125,000	175	95,000	171	180,000	2,428

Notes

Annual bonus, stock and option awards are determined based upon performance. If individual performance goals have been met in the year, one-third of the corresponding award is made the following April. (The year in which the performance is first measured is referred to as the “base year”.) **Payment of the remaining two-thirds is spread over the subsequent five years and is contingent upon goals being met in each of these years.** As a result of this policy, in any given year, an executive director may receive bonus payments arising from up to five different base years. Individual performance goals are linked to execution of the company’s **strategic priorities** and are determined and reviewed annually by the compensation committee.

The Work of the Board in Governance

The board’s governance policies regulate its relationship with shareholders, the conduct of board affairs and the board’s relationship with the group chief executive. The policies recognize the board’s separate and unique role as the link in the chain of authority between the shareholders and the group chief executive.

The dual role played by the group chief executive and executive directors as both members of the board and leaders of the executive management is also recognized and addressed. The policies require a majority of the board to be composed of independent non-executive directors and delegate all aspects of the relationship between the board and the group chief executive to the non-executive directors.

To discharge its governance function in the most effective manner, the board has laid down rules for its own activities in a board process policy that covers the conduct of members at meetings; the cycle of board activities and the setting of agendas; the provision of information to the board; board officers and their roles; board committees – their tasks and composition; qualifications for board membership and the process of the nomination committee; the assessment of board performance; the remuneration of non-executive directors; the process for directors to obtain independent advice; and the appointment and role of the company secretary. The responsibility for implementation of this policy, which includes training of directors, is placed on the chairman.

At its heart, the board process policy recognizes that the board’s capacity, as a group, is limited. The board therefore reserves to itself the making of broad policy decisions, delegating more detailed considerations involved in meeting its stated requirements either to board committees and officers (in the case of its own processes) or to the group chief executive (in the case of the management of the company’s business activity). The board’s role is to set general policy and to monitor its implementation by the group chief executive. To this end, the board executive linkage policy sets out how the board delegates authority to the group chief executive and the extent of that authority. In its goals policy, the board states the long-term outcome it expects the group chief executive to deliver. The restrictions on the manner in which the group chief executive may achieve the required results are set out in the executive limitations policy, which addresses ethics, health, safety, the environment, financial distress, internal control, risk preferences, treatment of employees and political considerations. (See also the discussion of Corporate Values, Ethics and Compliance.)

The group chief executive explains how he intends to deliver the required outcome in annual and medium-term plans, which also respond to the group's comprehensive assessment of risks. Progress towards the expected outcome forms the basis of a report to the board that covers actual results and a forecast of results for the current year. This report is reviewed at each board meeting. The board-executive linkage policy also sets out how the group chief executive's performance will be monitored and recognizes that, in the multitude of changing circumstances, judgment is always involved. The group chief executive is obliged through dialogue and systematic review to discuss with the board all material matters currently or prospectively affecting the company and its performance and all strategic projects or developments. This key dialogue specifically includes any materially under-performing business activities and actions that breach the executive limitations policy. It also includes social, environmental and ethical considerations. The systems set out in the board-executive linkage policy are designed to manage, rather than to eliminate, the risk of failure to achieve the board goals policy or observe the executive limitations policy. They provide reasonable, not absolute, assurance against material misstatement or loss.

Social Responsibility

Comments

Groups such as the Global Reporting Initiative and the International Chamber of Commerce and others have frameworks for Corporate Social Responsibility. The key elements of these reports could be linked or tagged to correspond with relevant strategic priorities and performance discussions. This approach would allow users to view this information in an integrated way regardless of presentation format in prepared reports.

Lintun has just completed it's tenth annual Corporate Social Responsibility report which can be downloaded here.

Key areas addressed in this year's report include the following:

- Responsible Marketing, Content and Use
- Health Concerns regarding Wireless Networks
- Reuse and recycling of Lintun products
- Environmental impacts of our operations
- Lintun products and services with social value
- Supply chain policies and performance relating to employment conditions in our factories and those of our vendors.

Market Overview

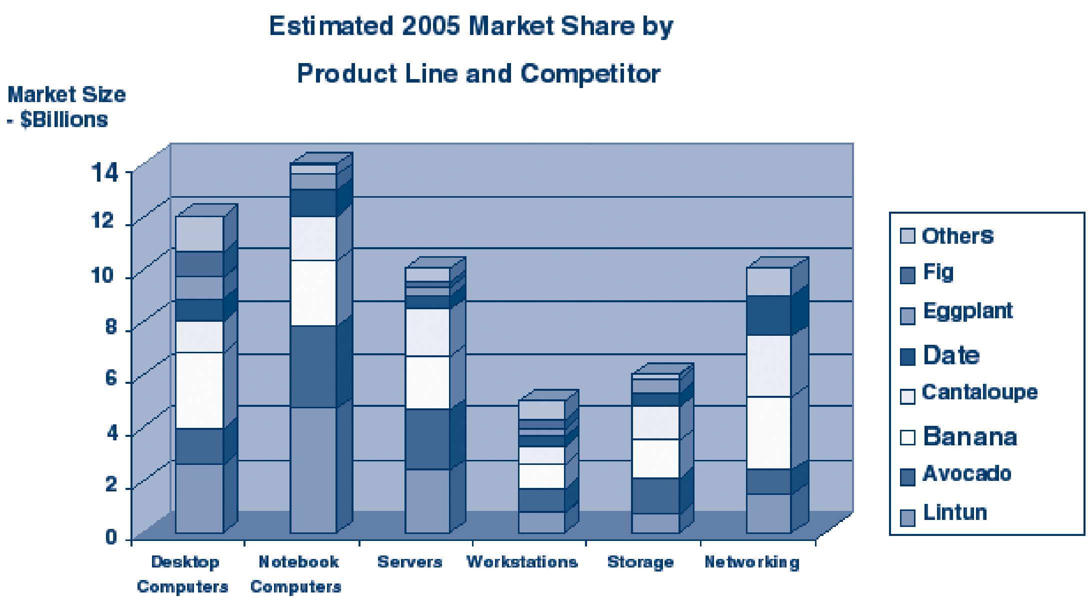
Competition

The markets for Networking and Computers are changing rapidly, driven by converging technologies, a migration to networking solutions and the increasing dominance of direct sales channels over traditional retail.

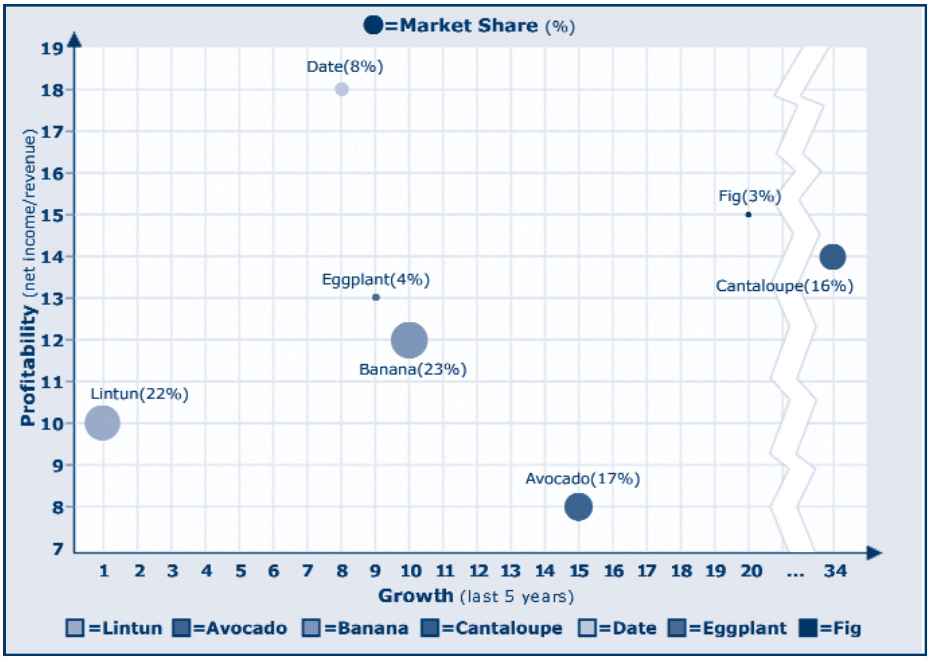
These factors represent both Opportunities and Risks. Lintun is subject to the intense competition and pricing pressures of the technology industry, as well as continued weak technology spending brought about by a soft global economic environment; but we are able to succeed in this environment through competitive advantage in a number of areas further described in the Strategy section of this report.

We compete with numerous vendors in each product category. The number of competitors may increase, and the composition of competitors may change as we increase our activity in our advanced technology markets. Our main competitors, and an estimate of their market share (as published by RMS Analysts, Inc.), are as follows:

	Desktop Computers	Notebook Computers	Servers	Workstations	Storage	Networking
Lintun	22%	34%	24%	16%	12%	15%
Avocado	11%	22%	23%	18%	22%	9%
Banana	24%	18%	20%	19%	25%	28%
Cantaloupe	10%	12%	18%	12%	21%	23%
Date	7%	7%	5%	8%	9%	15%
Eggplant	7%	4%	3%	7%	8%	0%
Fig	8%	0%	2%	6%	0%	0%
Others	11%	3%	5%	14%	3%	10%
Total	100%	100%	100%	100%	100%	100%
Estimated market size ($billions - 2005)	22	15	16	8	10	12
Estimated size - 2010	44	30	32	16	20	24


Estimated 2005 Market Share by
Product Line and Competitor
Market Size
- $Billions
14
12
10
8
6
4
2
0
Desktop Computers
Notebook Computers
Servers
Workstations
Storage
Networking
Others
Fig
Eggplant
Date
Cantaloupe
Banana
Avocado
Lintun

Profitability of each of these companies and their annualized growth in revenue for the past five years are presented below:



	Profitability (net income/ revenue)	Date of last report	Annualized revenue growth (last 5 years)	Notes
Lintun	10%	1/20/06	1%	
Avocado	8%	3/1/05	15%	
Banana	12%	1/18/06	10%	
Cantaloupe	14%	8/9/05	34%	Acquisition 2003
Date	18%	2/5/06	8%	
Eggplant	13%	1/27/06	9%	
Fig	15%	3/3/05	20%	

Regulatory Environment

Lintun's business is subject to regulation by various national and state governmental agencies. Such regulation includes the radio frequency emission regulatory activities of the U.S. FCC, the anti-trust regulatory activities of the FTC and Dept. of Justice, the consumer protection laws of the European Union and U.S. FTC, the import/export regulatory activities of the U.S. Dept of Commerce, the product safety regulatory activities of the U.S. Consumer Products Safety Commission, and environmental regulation by a variety of regulatory authorities in each of the countries in which Lintun conducts business.

Macro-Economic

Lintun's performance is impacted by a number of macro-economic variables, including the following:

- Currency exchange rate fluctuations
- Interest rate fluctuations
- Geopolitical risk
- General economic and business conditions and outlook
- Pricing pressures

See the Sensitivity Analysis section for further discussion of the impact of these variables on the Company.

In addition to the above, the Company is influenced by the promulgation of standards for both software and hardware components of computers and peripherals. Lintun is positioned to be able to take advantage of further developments in these standards and of their further acceptance by more and more countries. This is because of Lintun's approach of delaying assembly of final products pending receipt of orders from customers. This delay in assembly is only possible with the close cooperation of our vendors and relies largely upon the industry complying with generally accepted standards for interoperability of individual components.

Strategy

Overview

Lintun's Network and Computer Division is positioning to be the fastest growing player in the computer manufacturing sector. This is being done by investing in high quality people, supply chain processes, product innovation and strategic acquisitions. As a result of this strategy and the corresponding investments, the company is experiencing returns that are currently below average for the industry. Returns are not expected to exceed industry averages until 2008.

Investments to drive improved efficiency are focused on delivering superior responsiveness to customer demands at a lower cost than the competition. Aggressive growth will be achieved through a program of strategic acquisitions combined with leveraging the company's lower cost base to drive organic growth via price competition. Both efficiency and growth strategies are reinforced by attracting, developing and retaining the top quality people.

A summary of the division's strategic priorities and their corresponding value drivers and operational goals follows:

Strategic Priorities		Operational Goals	Value Drivers
Superior Responsiveness to Customer Demands at Low Cost	Supply Chain Innovation Cycle Time	Increased Inventory Turn	Use of EIS or Tagging
		Reduced Business Improvement Ideas	Process
	Direct Customer Channel	Increased Revenue per Customer	CRM Implementation
		Improved Customer Retention	Timely Delivery
Capital Investments	Strategic Acquisitions	Return on Investments in Acquisitions Exceeds Hurdle Rates	Acquisition and Integration Process Expertise
	Product Innovation	Increased Share of Revenue from New Products	New Product Research and Development
Attract, Develop and Retain the Best People		Improved Offer Acceptance Rate and Retention	Competitive Pay and Benefits
		Improved Performance of Personnel and Retention	Training and Employee Development Programs
Risk Management		Reduced Frequency of 'Significant' Risk Management Exceptions	Definition and Communication of Control Processes and Corresponding Responsibilities

See below for a description of each Strategic Priority.

See the Performance section of this report for an analysis of current period performance.

Superior Responsiveness to Customer Demands at Lower Cost

This strategy has two components – the provision and maintenance of a direct delivery channel to customers, and continuous improvements to the supply chain.

Direct Customer Channel

Lintun's direct-to-customer business model eliminates the costs associated with maintaining a dealer network. This direct customer channel also provides the company with precise order information that can be quickly communicated to vendors. This results in highly predictable inventory requirements that, in turn, allow the company to operate at significantly lower inventory levels than its competitors. The combination of these two dynamics results in a cost advantage for the company that enables it to compete as the lowest cost provider in the industry.

Supply Chain Innovation

The company believes this competitive advantage in efficiency is sustainable for at least ten years because of the unique process competency that has been developed and which is necessary in order to successfully execute a direct customer channel business model. Lintun has taken 20 years developing, refining and continuously enhancing this competency.

Growing Market Share

Organic Growth

The Company expects to be able to continue its growth in market share enjoyed in the past few years as competitors continue to struggle to match Lintun on pricing and quality, and as increases in vendor costs have a disproportionate impact on other companies carrying higher inventory levels and subject to higher uncertainty in their business cycles. Acquisition of new domestic customers is achieved at a lower cost than either a horizontal or a geographic expansion but offers more limited longer term potential. Accordingly, the company continues to invest in both strategies for acquiring more domestic customers (primarily through leveraging the cost and quality advantages referenced above), as well as in development of new products and services that are complimentary to the existing portfolio.

Strategic Acquisitions

Capital Investments

Management is continuously searching for appropriate acquisition and alliance candidates that would allow for an accelerated expansion into either complimentary products/services or geographic markets. The initial investment in developing alliances is typically recovered within 12 months. Recovery of investments in new acquisitions ranges from three to four years. An example is the acquisition of FISH Chips, PLC in 1999 that provided Lintun with strong entrance into the internet router market. The original investment in this acquisition of $350 million was recovered by 2003. The Internet router business segment that now represents this business generated a contribution of $75 million to group profits in 2005.

New Product Innovation

During 2005 the company launched a New Product Innovation program to further strengthen future growth prospects and to secure growth in market share. Investments are being made in personnel and equipment to support research into new computer designs and development to bring the best of these designs to market. New products are designed to operate within existing industry standards. The company aims to take new product ideas to market within three years of identification.

Attract, Develop and Retain the Best People

The Company is focused on maintaining a competitive edge through continuous supply chain process innovation and maintaining high quality standards as further discussed elsewhere in this report. This strategy requires the sharpest minds for effectively execution and an ongoing program of personnel development. Accordingly, Lintun places a high priority on attracting, developing and retaining the best people and is proud of its track record in this area.

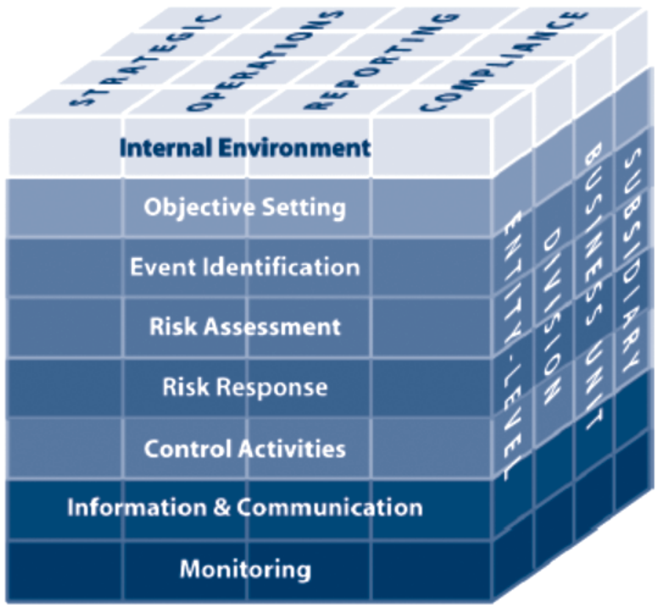
Overpayment — It is possible that the company may overpay for personnel, resulting in sub-optimal business performance. This risk is increased by the fact that measurement of performance of personnel is difficult and therefore measuring a return on this investment is also difficult. Management consider the significance of this risk to be moderate and the likelihood of such an event occurring to be moderate given the number of new personnel hired each year and the annual adjustments to compensation. The Company address this risk by engaging a number of independent Human Resource consulting firms to conduct an annual review of the Company's compensation structure compared to our competitors in all the key markets in which we operate. This information is a primary consideration when setting and adjusting compensation levels for new personnel and during each annual adjustment.

Risks and Risk Management

Lintun has adopted COSO's Enterprise Risk Management framework. Enterprise Risk Management is defined by that organization as follows:

"Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

The components of this model may be summarized by the following graphic:



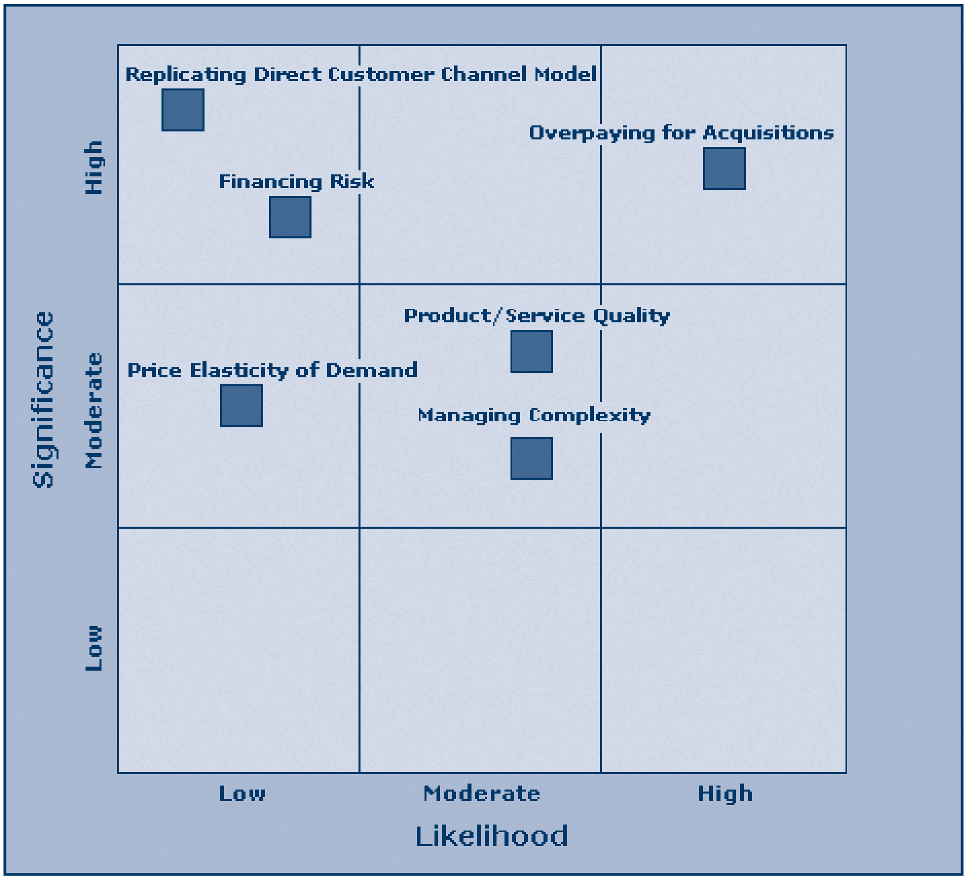
It is suggested that enhanced business reports provide for a view into the business through a risk management lens such as that provided by the COSO risk management framework. For illustrative purposes, this sample enhanced business report contains only some of these elements.

Comments

The draft COSO framework presented here is one of a number of possible generally accepted frameworks for risk management that could be adopted as a component of Enhanced Business Reporting. An interface along these lines provides the user with the ability to navigate through a risk management "view" of the information contained in the Business Report – both at the individual initiative level as well as the organization and business unit level. This material is only partially populated for the purposes of this sample report.

Identified specific risks and mitigating controls.

The following specific risks associated with the division's strategic priorities have been identified by management:



Reduced product/ service quality

A low cost strategy carries inherent risks of quality issues as pricing pressures are conveyed to all areas of production and product/service delivery. Lintun takes a proactive approach to managing this risk by making customer satisfaction and quality management a priority. Quality and Customer Satisfaction management processes are integrated into the core of the division's business activities and management compensation is partly dependent on their ability to continuously meet aggressive leading and lagging performance indicators associated with both these areas.

Replicating the direct customer channel model

Competitors may erode the division's competitive advantage in efficiency by replicating the direct customer channel model. The successful replication of this model would have a significant impact on the division's business. However, management considers this risk to be very low due to:

1. The division's strict protection of internally developed process competency referenced above, and

2. The continuous improvement in this competitive edge as represented by the cycle time (from receipt of customer order to delivery), unit production and delivery cost.

3. The failure of a number of competitors to replicate the direct customer channel model that have been widely reported and analyzed in the business press in recent years.

Price elasticity of demand

Competing as the low cost provider yields higher returns in markets that have a relatively higher elasticity of demand for the products/services. i.e. An incremental decrease in price results in an increase in revenue that is larger than would be experienced in other markets. This elasticity of demand varies by market segment and accordingly the success of this strategy is likely to vary. Management considers the potential impact of this risk to be moderate because of the diversity of markets in which the division operates. The likelihood of elasticity of demand declining to the point where the low cost strategy is not appropriate is considered remote because management retain expert economists to evaluate this metric for all new markets prior to any decision to enter the market. Those potential markets that display elasticities lower than a pre-defined value are highlighted as greater risk for special management consideration prior to entry and are usually rejected unless there are other factors that outweigh this consideration.

Overpaying for acquisitions

It is a well known fact that the majority of business acquisitions fail to deliver the returns that were projected at the time of the transaction. This is due to a variety of reasons. Recent studies have identified the following as the primary culprits:

- The price negotiation departs from the values suggested by the valuation models and becomes an "ego trip" for the CEO.
- The valuation model underestimates the time and investment required to achieve the synergies identified
- Those responsible for integration are not included in the due diligence phase of the transaction.

The division addresses these risks by requiring finance committee approval of all acquisitions. This committee is required to ensure that all deals comply with company policy. This policy prohibits paying in excess of values suggested by models developed by the due diligence team. In addition, the due diligence team is required to include at least one member who has experience in a senior management position executing the integration of businesses of a similar nature to the acquisition target. Where there are no internal candidates with these credentials, integration consultants are included in the due diligence team. These consultants are typically retained in advance of all acquisitions in order to plan and then lead the integration activities on a contingent fee basis.

Ability of management to manage increased complexities

Expansion into new lines of business and geographies increases business complexities exponentially. This risk is considered to have a moderate significance and likelihood. Management addresses this risk by carefully evaluating the strength and cultural compatibility of management in target companies. Lintun retains the incumbent management following most acquisitions and relies on their existing knowledge and processes for ongoing oversight. In addition, the division has established a rhythm of monthly, quarterly and annual meetings that all business unit heads are required to attend. These meetings are chaired by the division president and review the status of all priority initiatives. Quarterly and Annual meetings also include a strategic planning component.

In addition the following pervasive risk was considered to be significant.

Financing Risk

Management periodically review the ability of the business to continue to have access to financing should the division ever lose access to the public debt and equity markets. (For example, if the division were spun off as a separate, unlisted company, or if Lintun as a whole were to de-list or go private). The impact of a loss of access to the public financing markets would be significant because the business would have to replace this financing with more expensive bank and working capital financing sources.

Management consider the likelihood of exiting the public capital markets to be remote. Nevertheless, they continue to pursue a policy of ensuring that the business retain sufficiently strong ratings with banks that they would be able to secure sufficient private sources of financing in the event that public funds were no longer available.

The following section discusses a number of other pervasive risks that face the business. Management consider the significance of these to be less than those discussed above.

Pervasive Risks

In addition to the specific risks discussed relating to each business strategy, there are a number of pervasive risks that affect Lintun's business and the results of its operations. These risks include the following:

Macroeconomic:

- Currency exchange rate fluctuations
- Interest rate fluctuations
- Geopolitical risks including armed hostilities, terrorism or public health issues
- General economic and business conditions and outlook
- Pricing pressures

Operating:

- Sourcing Risk, including component availability and cost
- Ability to effectively manage periodic product transitions
- Product/Service failure (direct channel presents heightened exposure of brand to product/service failures)
- Market acceptance of new products

Financing:

- Ability to secure and retain both debt and equity financing
- Changes in the market value of investments

Product/Service Line Expansion

Opportunities

Both PCs and enterprise hardware still represent significant growth opportunities for Lintun, especially overseas. Global growth in communications technology also reflects a significant growth opportunity. Lintun is well-positioned to benefit from growth in core technologies and advanced technologies through all of our key markets. See the "Projections" section for management's perception of the prospects for future growth.

Geographic Expansion

International growth potential represents a significant opportunity for Lintun, which holds only 10% of total market share outside of the United States. As of the end of fiscal year 2003, Lintun held 18% of total global market share, a gain of nearly 3% over the prior year, the strongest year-on-year gain in Lintun's history.

Value Drivers

Use of Electronic Information Systems and/or Tagging

Comments

The Task Force considered presenting a separate section in this sample enhanced business report for "Resources" that would discuss both Tangible and Intangible resource key to delivering on the strategic priorities of the business. Instead discussion of these resources is embedded within the discussion of Value Drivers. Nevertheless, it would appear to be useful to separately 'tag' resources in order for users to be able to create their own views of the resources available to the business.

There are a number of possible ideas for organizing frameworks for cataloging resources. These include those presented in the Prism Report referenced in the Bibliography, a framework developed by AssetEconomics and the ValueReporting framework developed by PriceWaterhouseCoopers.

The following Value Drivers are key to the effective execution of the company's strategies:

As more vendors migrate to a standard information management system that complies with Lintun's protocols, the more effective Lintun will be in managing and compressing the business cycle. A standard information exchange protocol allows customer order information to be immediately converted into requisitions for components from vendors and for adjustments to the scheduling of personnel.

This value driver is monitored using the percentage of vendors who have adopted Lintun's information protocols. The effectiveness of this value driver is monitored by tracking increases in inventory turn and reductions in business cycle time (defined as the number of days elapsing from receipt of a customer order to delivery of the product or service as calculated on a three month rolling average).

Process Improvement Ideas

Comments

These value drivers are representative only. In practice there may well be more value drivers identified for a given strategy than the few represented here. In addition, this analysis would also be presented for each business segment.

Lintun has a core competency of ongoing innovation in compressing the supply chain. This translates into cost benefits allowing the company to offer the lowest prices in the market. All employees are encouraged to submit ideas for improvements to this process. A working group reviews these ideas each week and allocates resources to further develop the most promising submissions. Those submitting ideas that are adopted receive a share of the corresponding increase in productivity.

Customer Relationship Management Process Implementation

This value driver is monitored using the number of ideas for process improvement submitted each week. The effectiveness of this value driver is monitored by tracking increases in inventory turn and reductions in business cycle time (defined as the number of days elapsing from receipt of a customer order to delivery of the product or service as calculated on a three month rolling average).

Lintun has developed a total customer relationship management process. The objective of this process is to exceed customers' expectations. The Company has established a roll-out program that is systematically training customer service personnel throughout the organization on this methodology and in the effective use of related software.

This value driver is monitored using the percentage of locations that have completed the implementation of the customer relationship management process. The effectiveness of this value driver is monitored by tracking revenues per customer and customer retention rates (percentage of customers in a given period who were also customers in the preceding period).

Timely Delivery

Timeliness of delivery has been identified through various studies, to be a key determinant in customer retention. Accordingly, the Company has established a technique that allows for a highly accurate estimate of delivery time when a customer places an order based on a combination of factors, including inventory levels throughout the supply chain and expected capacity information provided by the Company's distributors. A small "cushion" is added to this estimate in arriving at the date and time that are communicated to the customer together with order confirmation. Any significant deviations that are subsequently anticipated in the delivery date and time are communicated to the customer via their preferred communication medium (phone or e-mail). In addition, customers are able to track the current status of their order through an eight step process in advance of delivery.

This value driver is monitored using the average number of days delay between anticipated and actual delivery time. The effectiveness of this value driver is monitored by tracking revenues per customer and customer retention rates (percentage of customers in a given period who were also customers in the preceding period).

Acquisition and Integration Process Expertise

Comments

Top Value Drivers for High Tech from studies by PricewaterhouseCoopers:

1. Strategic Direction
2. Cash Flow
3. Market Growth
4. Gross Margins
5. Quality/Experience of Management Team
6. Market Size
7. Competitive Landscape
8. Earnings
9. Speed to Market (first to market)
10. Market Share.

When new acquisition candidates are identified, the division assembles a due diligence team comprising representatives from both the division and Lintun corporate with experience in Mergers and Acquisitions. These due diligence teams are sometimes supplemented with outside experts from accounting, legal and investment banking firms. Representatives from the Networking and Computer Division always include the head of the group most likely to absorb the new acquisition, in the event that the deal goes through. This approach ensures that those who will be responsible for future performance have some input to the evaluation and valuation of the prospect.

Lintun corporate have developed an integration methodology that covers the period from due diligence through 100 days following the deal being consummated. All members of the Networking and Computer Division's due diligence and acquisition team have completed training on this methodology.

This value driver is monitored using the number of division personnel who have completed the Lintun acquisition and integration training and who have obtained practical experience in acquisition and integration projects. In order to be counted within this statistic, personnel need to have participated in this training within the last three years AND have participated in at least two acquisition/integration projects. Project experience gained with other employers is accepted for this consideration.

Competitive Pay and Benefits

Lintun is committed to attracting and retaining the best people. Accordingly, the Company intentionally pays significantly above the market rate and provides a series of insurance, pension and other benefits that are superior to most competitors.

This value driver is monitored using the percentage that average total compensation and benefit costs per employee exceed the industry average. The effectiveness of this value driver is monitored by tracking Offer Acceptance Rates, Personnel Performance and Retention Rates.

Training and Employee Development Programs

The Networking and Computer Division participates in Lintun's corporate training program that provides a comprehensive curriculum for personnel from most functions and at all levels of expertise. Each employee is teamed with a mentor to ensure that they receive guidance on career and personal development. In addition, each employee is required to participate in the division's 360 feedback process so that input is provided from subordinates, superiors and peers in helping each individual plan their future training and development activities and goals.

This value driver is monitored using dollars spent on training and development per employee.

The effectiveness of this value driver is monitored by tracking offer acceptance rates, the average number of post graduate years of education per employee, retention rates and personnel performance statistics.

Definition and Communication of Control Processes and Corresponding Responsibilities

The Network and Computer Division have established a hierarchy of process level, group and business unit controls to mitigate both pervasive and specific risks. See the COSO enterprise risk management framework for definitions and further description of this approach to risk management.

Each process owner, group head and business unit president is have specific responsibilities defined for identification, reporting and controlling risks. These responsibilities are communicated annually in addition to periodic updates for changes in procedures and responsibilities.

The effectiveness of these risk management procedures are reviewed annually by the risk management committee and recommendations for improvements made to the audit committee and chief risk officer of Lintun.

This value driver is monitored using the percentage of identified process owners, group heads and business unit presidents who have received notification of their responsibilities and who are delivering periodic risk management reports in accordance with established policy.

The effectiveness of this value driver is monitored using the number of risk exceptions generated each year.

Performance

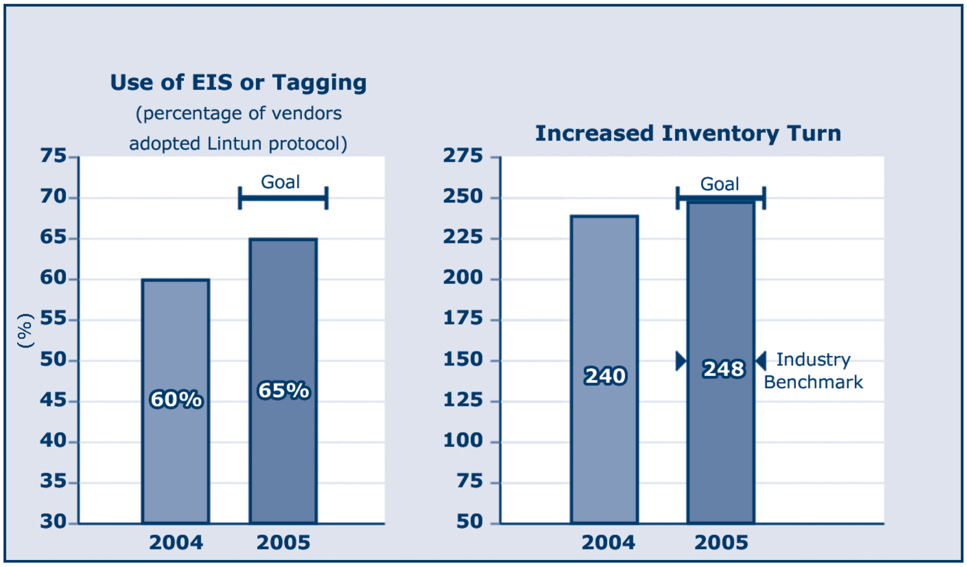
Summary

The Networking and Computers Division fell just short of its goal for Economic Profit for 2005 but met its goals for both Long Term EPS Growth and Personnel Retention. Although Economic Profit and Net Income are healthy, they lag behind the goals and the rest of the Computer Industry sector because of our strategy of investment in top people and strategic acquisitions to ensure future growth rates well in excess of the sector.

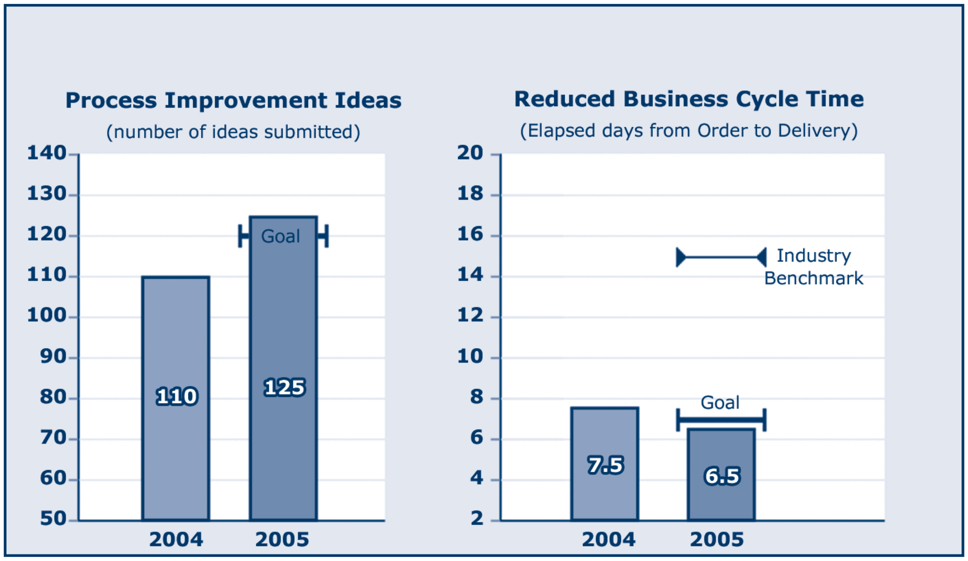
Key Metrics	2005 Performance	Goals	2006 Outlook[3]
Revenue	$27.1bn	$26.5bn	9 – 15% growth
Economic Profit	$3.0bn	$3.2	20 – 85% growth
Long Term EPS Growth[1]	8%	7%	9 – 10%
Personnel Retention[2]	90%	95%	95%

Supply Chain Innovation

The following goals and performance relate to the value drivers and their corresponding outcomes associated with this strategy:



[1]Calculated as an average growth in earnings per share for the preceding five year period. For example, the projection for 2006 is calculated by averaging the annual growth in earnings per share (undiluted) for 2001 – 2005.
[2]Retention of personnel excluding involuntary separations (see definition in performance section).
[3]See "Forward Looking Information" for further discussion of the outlook for 2006.



Value Drivers

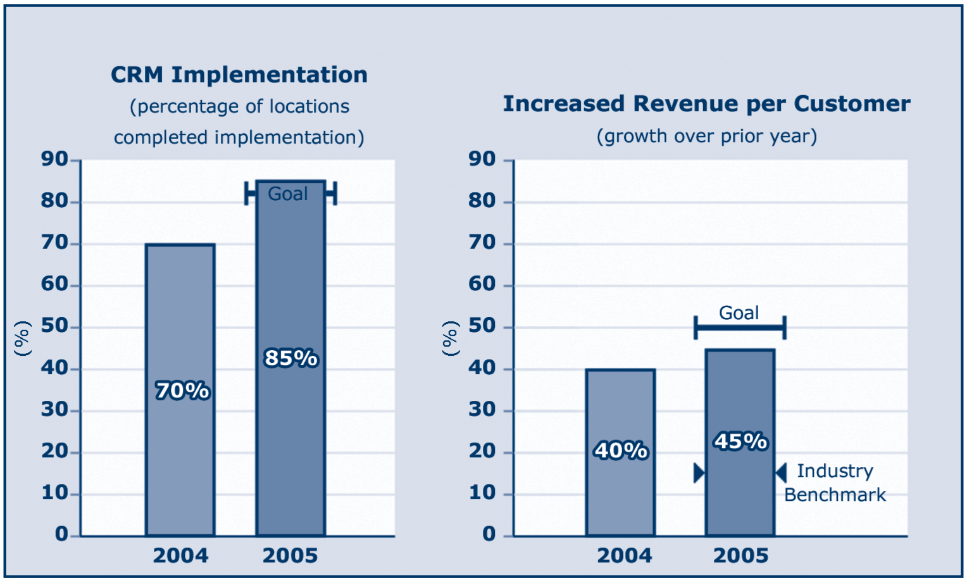
	2005 Goal	2005 Actual	2004 Actual
Use of EIS or tagging (percentage of vendors adopted Lintun protocol)	70%	65%	60%
Process Improvement Ideas (number of ideas submitted)	120	125	110

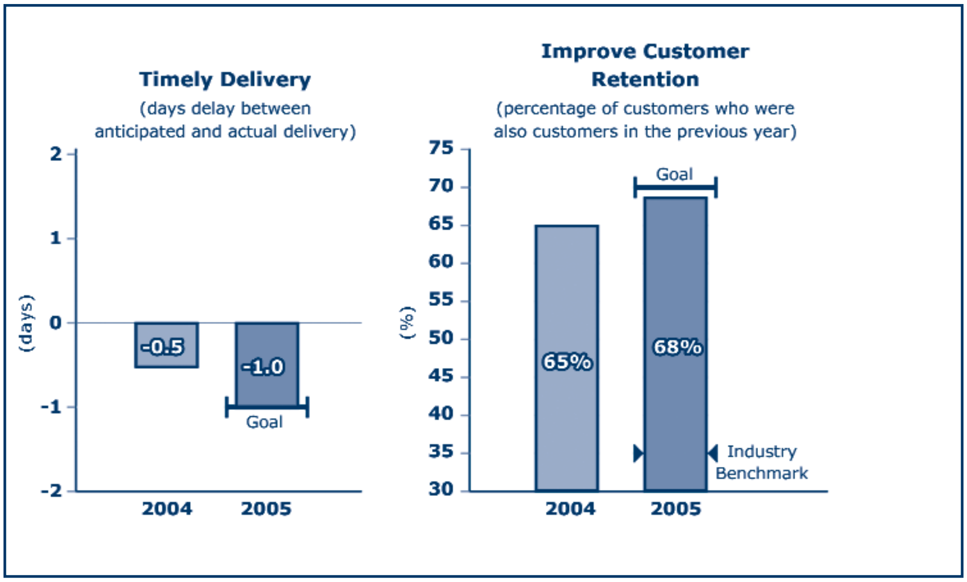
Outcomes

	2005 Goal	2005 Actual	2004 Actual	Industry Benchmark
Increased Inventory Turn	250	248	240	150
Reduced Business Cycle Time (Elapsed days from Order to Delivery)	7	6.5	7.5	15

Direct Customer Channel

The following goals and performance relate to the value drivers and their corresponding outcomes associated with this strategy:





Value Drivers

	2005 Goal	2005 Actual	2004 Actual
CRM Implementation (percentage of locations completed implementation	82%	85%	70%
Timely Delivery (days delay between anticipated and actual delivery)	-1	-1	-0.5

Outcomes

	2005 Goal	2005 Actual	2004 Actual	Industry Benchmark
Increased Revenue per Customer (growth over prior year)	50%	45%	40%	15%
Improved Customer Retention (percentage of customers who were also customers in the previous year)	70%	68%	65%	35%

Management's Discussion and Analysis

Comments

The top value drivers derived from Predictiv's 2003 study of the durable manufacturing sector in the U.S. were (in order of importance):

1. Innovation
2. Human Capital
3. Management
4. Alliances
5. Quality
6. Environment
7. Brand
8. Technology
9. Customer

Comments

Lintun is following the approach suggested by Ittner and Larcker for the selection and validation of their value drivers. This approach includes:

1.Linkage between performance metrics and strategy. Select metrics on the basis of causal models (or "value driver maps")

2. Validatation of these linkages

3. Setting the right performance targets

4. Measuring correctly – ensure statistical validity and reliability. – i.e. the metrics captures what it is supposed to capture and measurement techniques introduce acceptable levels of measurement error.

5. Continuous improvement – quarterly update to causal models.

A. Observed Relationship Between Improved Customer Retention and Economic Profit

We have been closely monitoring customer retention for the past ten years as we continue to strive for improved performance in this area. Although correlation between customer variations in Economic Profit is not proof of causality, we have found that 25%% of the variations in Economic Profit for quarterly results over the past 10 years can be explained by corresponding variations in customer retention (i.e., we have found a correlation coefficient of 0.5 exists between these two measures when values are examined for quarterly results for the past 10 years). We have also found that customer retention is an even stronger
predictor of Economic Profit if we assume a time lag of one quarter between a change in customer retention and a corresponding change in Economic Profit.

We have noticed a weakening in this relationship in recent quarters. (The same analysis performed last year resulted in a correlation coefficient of 0.55.) Accordingly, we anticipate that there may be a further weakening in future periods as other variables take on more significance in determining Economic Profit.

B. Observed relationship between value drivers and customer retention

Given the importance of customer retention in improving Economic Profit, we have conducted a number of internal studies to examine the potential drivers of customer retention. The results of this study (which a working group reviews for validity every six months) show that the following variables are the primary drivers of customer retention. The values associated with each driver represent the percentage of variations in customer retention that they can explain:

CRM implementation (23%)

Timely deliveries (21%)

Order accuracy (18%)

Price competitiveness (18%)

Our model further suggests that these drivers lead customer retention performance by one, three, two and three quarters respectively.

C. Analysis of current period performance

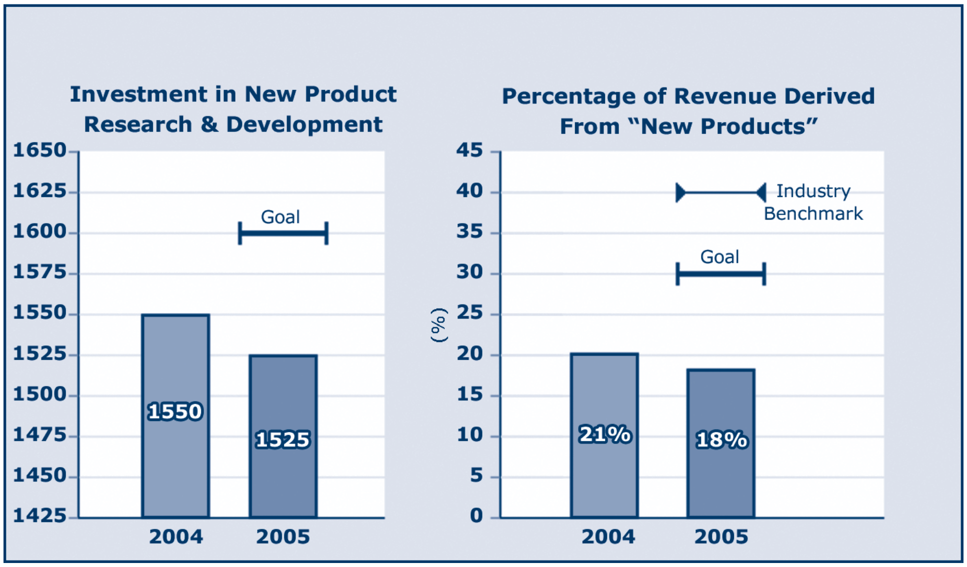
This was the second year of implementation of our Customer Relationship Management program. Our customer service personnel were able to operate more effectively given their greater experience of working with these new operating procedures and supporting software tools. Increased customer retention and revenue per customer reflect a broader trend of increases in customer satisfaction and lower rates of return.

We continued to beat our estimated delivery dates by an average of one day. Our surveys of current and past customers and our ongoing review of relationships between value drivers and customer retention confirm that delivering our products and services on or before our estimated delivery dates is a key driver of customer retention and satisfaction. This survey data also suggest that there is causality in these relationships, not just correlation. Our continuous improvements to our supply chain management processes should allow us to maintain this performance.

Customer loyalty is our best measure of success in building long-term relationships — If Lintun does an effective job of building trust among customers, we will be rewarded with loyal customers and repeat business. While over 60% of Lintun's customers have continued to buy our products after their first purchase, we intend to increase this number to 75% through the enhanced efforts to improve customer service and relationships described above.

Product Innovation

The following goals and performance relate to the value drivers and their corresponding outcomes associated with this strategy:



Value Drivers

	2005 Goal	2005 Actual	2004 Actual
Investment in new product research and development	1,600	1,525	1,550

Outcomes

	2005 Goal	2005 Actual	2004 Actual	Industry Benchmark
Percentage of revenue derived from "New Products"	30%	18%	21%	40%

Management's Discussion and Analysis

A. Observed relationship between Revenue from New Products and Long Term Growth Rates

Although correlation between New Product Revenues and Long Term Growth in EPS is not proof of causality, we have found that 36% of the variations in Long Term EPS Growth for quarterly results over the last ten years can be explained by corresponding variations in New Product Revenues. (i.e. we have found a correlation coefficient of 0.6 exists between these two measures when values are examined for quarterly results for the past 10 years. (click here for further parameters of this statistical analysis). We have also found that New Product Revenues is an even stronger predictor of Long Term EPS Growth if we assume a time lag of three quarters between a change in New Product Revenues and a corresponding change in Long Term EPS Growth.

We have noticed a strengthening in this relationship in recent quarters. (The same analysis performed last year resulted in correlation of 0.4).

B. Observed relationship between value drivers and percentage of revenue derived from New Products.

Given the importance of New Product Revenues in determining long term growth rates, we have we have conducted a number of internal studies to examine the potential drivers of New Product Revenues. The results of this study, (which a working group reviews for validity every six months), show that the following variables are the primary drivers of New Product Revenues. The values associated with each driver represent the percentage of variations in revenue from new products that they can explain:

Investments in New Product Research and Development (16%)

Number of Patent filings (15%)

Number of dedicated Research and Development Personnel (13%)

Our model further suggests that these drivers lead New Product Revenues by ten, eight, and ten quarters respectively.

C. Analysis of current period performance.

Lintun has a history of product innovation since its inception. However, in 2005 we launched a new program to highlight our focus on this area as a key driver of future growth. During the year 125 new product proposals were generated, and 32 ideas were approved for further development. The average life of products brought to market in the past 10 years that originated from this innovation process is five years. The average revenue generated over the life of one of these products is $24.8 million.

$19.2bn ($17bn) of the current year's revenues and $7.3bn ($6.5bn), of this year's cost of sales were attributable to products that were originally developed through this innovation process. (Remaining revenues arise from externally acquired products, extensions to existing products and services.)

$230 million of contingent liabilities for product warranty claims discussed in note ( ) to the financial statements are attributable to products originally developed through this process.

Comments

This table has not been created but has been referenced here for illustrative purposes.

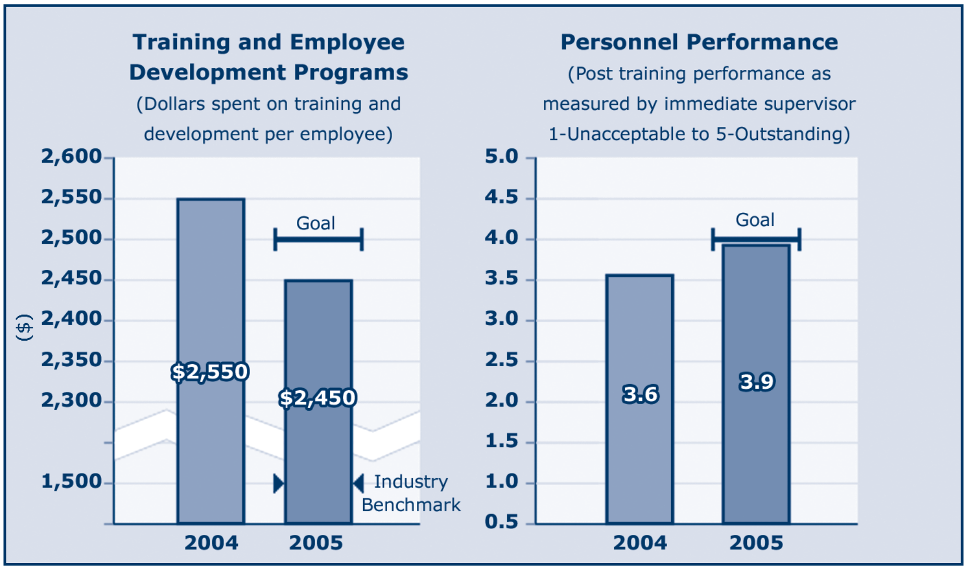
The generation of the 125 product proposals referenced above utilized:

- 470 product ideas submitted by 620 people (350 employees and 120 clients),
- 130 external studies
- $23 million in terms of personnel, patent and copyright fees, legal fees and other resources

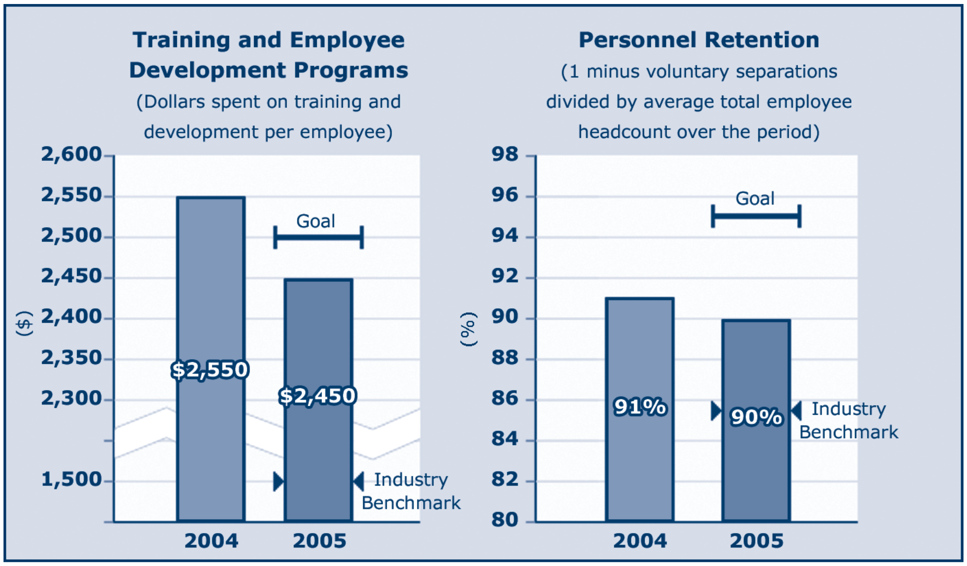
The time required for development of new products through this process varies with the nature of the product, personnel involved and the point in the business cycle at which certain key product development stages are reached. The following table summarizes the estimated times for each stage of the process based on a sample of 50 products brought to market over the past three years. These estimates will accurately predict actual process times in 95% of cases.

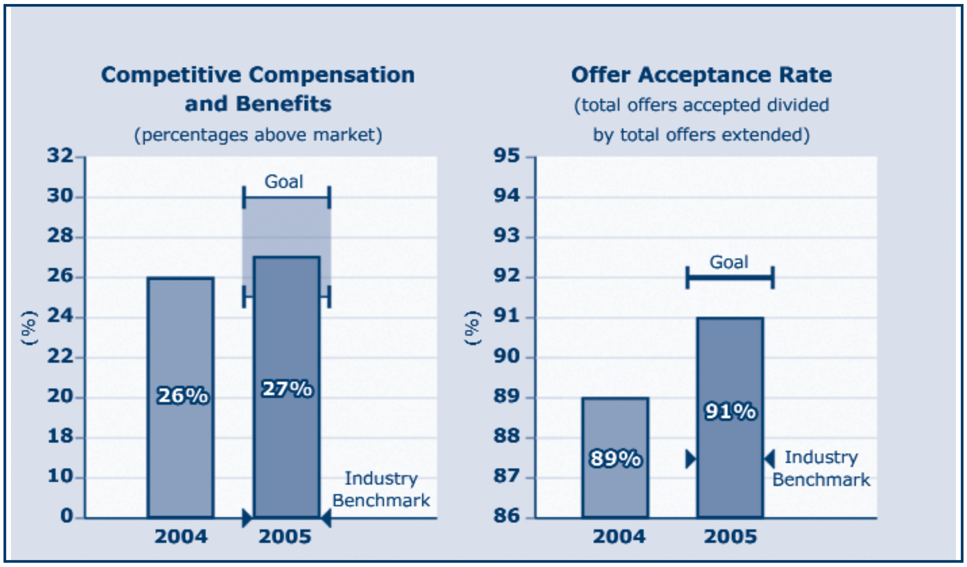
Attract, Develop and Retain the Best People

The following goals and performance relate to the value drivers and their corresponding



outcomes associated with this strategy:





Value Drivers

	2005 Goal	2005 Actual	2004 Actual	Industry Benchmark
Competitive Compensation and Benefits (percentages above market)	25 - 30	27%	26%	0%
Training and Employee Development Programs (Dollars spent on training and development per employee)	$2,500	$2,450	$2,550	$1,500

Outcomes

	2005 Goal	2005 Actual	2004 Actual	Industry Benchmark
Offer Acceptance Rate (Total offers accepted divided by total offers extended)	92%	91%	89%	87.4%
Retention (1 Minus voluntary separations divided by average total employee headcount over the period	95%	90%	91%	85.6%
Personnel Performance (Post taining performance as measured by immediate supervisor) 1 - unacceptable to 5 - Outstanding	4	3.9	3.6	N/A

Industry benchmark data is obtained from The Saratoga Institute™.

Total expenditures on training and development were $123 million and $120 million in 2005 and 2004 respectively.

Sensitivity Analysis

The division's performance is impacted by a variety of internal and external factors as discussed elsewhere in this report. The following is an estimation of the impact that marginal changes in these factors would have on performance, other things being held constant. Management have selected those factors they consider to have the greatest impact on the performance of the division for inclusion in this analysis.

Macro-Economic Factors

The following table provides an indication of the estimated impact that fluctuations in some of these variables would have had on the company's performance in 2005 (amounts shown are increases/ (decreases) in $ millions):

		Estimated Impact					
		Revenue		Net Operating Cash Flow		Economic Value Added	
	Unit Change	From	To	From	To	From	To
Currency							
Euro	0.56 to 0.51	72	108	8	20	4	10
Pound Sterling	£0.67 to £0.61	24	36	3	7	2	5
Interest Rates	Increase of 1%	-5	-2	-3	-1	-1	0
GDP Growth	Increase of 1%	10	15	3	4	1	2
Sales Price	Reduction of 1%	13	18	-3	2	-1	0

Notes:

1. The currency impact is estimated to be primarily the effect of translating results of operations in Europe and Britain into U.S. dollars based upon reported results from these regions for 2005. Approximately 85% and 80% of the division's Dollar/Euro and Dollar/Pound exchange rate exposure was hedged with forward currency contracts as of December 31st, 2005 at an average cost of 1.5% of the contract amount.
2. Increases in interest rates have a negative impact as the business is a net borrower of funds, however this impact is relatively modest since the majority of borrowings is with fixed rate instruments.
3. The impact of a change in GDP has been estimated by examining the historic relationship between GDP in the United States and Europe and business performance in those regions over the past 10 years. The relationship shown in this table assumes a six month delay between changes in GDP and corresponding changes in business performance.
4. Sales price impacts have been estimated based upon information obtained from customers reactions to changes in product and services made in the course of the year. The 1% reduction in prices referenced here is assumed to apply to all products and services. The corresponding increase in revenues reflects the relative inelastic demand for the company's products and services.
5. Management makes no representations regarding the accuracy of these estimated

impacts or whether such relationships may continue in the future.

6. While the preceding sensitivity analysis has assumed that macro economic variables can change while others are held constant, in practice this is not the case. There is generally accepted to be a relationship between changes in exchange rates, interest rates and GDP growth.

Management Estimates

Estimates are inherent to performance measurement, both in terms of financial and non-financial measures. The following are those areas where estimates by management have the greatest potential impact on reported performance:

Revenue and Receivables

Revenue and Receivables are primarily impacted by estimates of provisions for doubtful receivables and for returns as follows.

	Percentage applied to period end balances in determining provisions		Industry Benchmark	Impact of a 1% increase in provisions on 2005 performance		
	Average for 2003-2005	2005		Revenue	Provisions (Balance Sheet Accounts)	Economic Value Added
Doubtful Receivables	4%	3%	3.5%	$(20m)	$20m	$7m
Returns	3.5%	2.5%	5%	$(14m)	$14m	$4m

Stock Options

The stock-based compensation expense is partly determined by estimates made of expected volatility in the stock price during the period the options are held and estimates of how long the options will be held prior to exercise. Management used an estimated stock volatility of 33% for 2005 and an expected life of 4 years. The table below shows how the total stock-based compensation expense for 2005 would have differed for a combination of different assumptions of stock volatility and life of the options using the Black-Scholes valuation model. Amounts shown are $ millions.

Comments

Alternatives to the Black-Scholes valuation method include the lattice approaches including binomial methods.

Expected Stock Volatility

Expected Life (yrs)	20%	25%	30%	35%	40%	45%	50%	55%	60%
2.0	138	168	197	227	256	285	313	341	369
2.5	155	187	220	252	284	315	346	376	406
3.0	170	205	239	274	308	341	374	407	439
3.5	183	220	257	293	329	365	399	433	466
4.0	195	234	273	311	349	385	421	457	491
4.5	206	247	287	327	366	404	441	477	512
5.0	217	259	301	342	382	421	459	496	532
5.5	227	270	313	355	396	436	475	512	549
6.0	236	280	324	367	409	450	489	527	564
6.5	244	290	334	378	421	462	502	541	577
7.0	252	298	344	388	432	474	514	553	589

The following comparative information regarding volatility in stock price and average option life for a number of other companies operating in our industry is provided here for reference:

	Stock Volatility (Jan. 1 2000 – Dec. 31. 2005)	Average Life of Options (period from grant to exercise date in years)
Avocado	35%	5.3
Banana	40%	6.2
Cantaloupe	29%	4.5

Source: SEC 10K filings and Compustat.

Projections

Growth rates for 2006 – 8 are expected[1] within the following ranges:

	Actual	Projections			
	2005	2005[2]	2006	2007	2008
Revenue	7.5 – 8.5%[3]	8 – 10%	9 – 15%	15 – 20%	15 – 20%
Economic Profit	15 - 16%	14 – 30%	20 – 85%	20 – 85%	20 – 85%
Operating Cash Flows	(16%)	5 – 8%	7 – 10%	8 – 15%	8 – 15%
Long Term EPS Growth[4]	7.5 – 8.5%	6.5 – 7.5%	9.0 – 10%	10 – 12.5%	12 – 15%
Personnel Retention[5]	90%	90 – 96%	90 – 96%	90 – 96%	90 – 96%

Comments

*See SEC Interpretative Release 33-6835 on MD&A, **Interpretative Release 33-8350 on MD&A; SEC Staff Review of 2003 Fortune 500 Forms 10-K**. Note especially, "As the Commission has stated, "[i]t is the responsibility of management to identify and address those key variables and other qualitative and quantitative factors which are peculiar to and necessary for an understanding and evaluation of the individual company." Also, the rules establishing a safe harbor for disclosure of "forward-looking statements" define such statements to include statements of "future economic performance contained in" MD&A. These safe harbors apply to required statements concerning the future effect of known trends, demands, commitments, events or uncertainties, as well as to optional forward-looking statements (Rule 175(c) under the Securities Act of 1933 ("Securities Act"), 17 CFR 230.175(c), and Rule 3b-6(c) under the Exchange Act. 17 CFR 240.3b-6)*

Notes

1. A statistical analysis of the key variables driving growth rates for the metrics referenced here suggests that the actual growth rates for the periods stated have a 90% probability of lying within the ranges stated.
2. As projected in the 2004 business report.
3. Revenue growth for 2005 is an estimate because the actual Revenue is impacted a number of estimates including provision for doubtful receivables and provision for returns, the outcome of which is not fully known at the time of preparing this report. Some of these estimates are not fully resolved for 2004 and accordingly there is some uncertainty associated with the 2004 revenue figure. The range of growth rates reflected here for 2005 was calculated by comparing these two ranges of estimates of results for 2005 and 2004 at the 90% confidence level (see Income Statements).
4. Calculated as an average growth in earnings per share for the preceding five year period. For example, the projection for 2006 is based upon an average of historic growth in earnings per share for 2001 – 2005 together with the projected growth in earnings per share for 2006.
5. Retention of personnel excluding involuntary separations. (See definition in performance section.)

The range in estimated growth reflects uncertainty over a variety of external and internal factors that impact performance. These factors include the macro-economic variables, regulatory, competitive and key value drivers discussed elsewhere in this report.

The range of estimated growth rates for Economic Profit is greater than that for Revenue because of the larger number of variable impacting Economic Profit, including capital employed, interest rates and other costs.

These growth rates apply to core activities and not to unusual or non-recurring items. There were no such items anticipated for 2006 at the time this report was prepared.

Financial Information

Income Statements

> *Comments*
>
> *This Financial Information is intended to be representative extracts of a full set of financial statements that would be included in an Enhanced Business Report.*

(In millions, except earnings per share)

Year Ended December 31	2005		2004		2003	
	Estimated Mean	σ(n-1)	Estimated Mean	σ(n-1)	Estimated Mean	σ(n-1)
Revenue	$27,141	$102	$25,042	$94	$27,091	$102
Operating expenses:						
Cost of revenue	17,350	230	16,008	212	17,003	225
Research and development	1,795	46	1,656	42	2,202	56
Sales and marketing	3,583	54	3,524	53	4,245	63
General and administrative	550	20	691	26	624	23
Total operating expenses	23,278	217	21,879	201	24,074	217
Operating income	3,863	216	3,163	200	3,017	216
Investment income	157	-	145	-	157	-
Income before income taxes	4,020	216	3,308	200	3,174	216
Provision for income taxes	1,170	65	1,080	60	1,168	65
Net income	2,850	203	2,228	188	2,006	203
Basic earnings per share	$0.59	$0.04	$0.45	$0.04	$0.41	$0.04
Diluted earnings per share	$0.58	$0.04	$0.44	$0.04	$0.40	$0.04
Weighted average shares outstanding:						
Basic	4,854		4,952		4,889	
Diluted	4,934		5,087		4,971	

The sample standard deviations associated with each income statement caption are based upon samples taken in the estimation of items included in these captions. Standard deviations of subtotals are calculated taking into account covariances between the income statement captions included in the subtotals. A 95% confidence interval may be computed for any caption by multiplying the standard deviation by 1.96 and adding or subtracting this figure from the value shown for the caption. Thus the samples taken suggest that there is a 95% probability that the actual revenue for 2005 lies between $27,141 million +/- (1.96 x $102 million). That is between $26,941 million and $27,341 million.

BALANCE SHEETS

(In millions)		
December 31	**2005**	**2004**
Assets		
Current assets:		
Cash and equivalents	$ 4,079	$ 6,562
Short-term investments	2,483	1,723
Accounts receivable, net	3,203	2,921
Inventories	590	579
Deferred income taxes	368	396
Other	1,062	1,089
Total current assets	11,785	13,270
Property and equipment, net	2,317	2,464
Equity and other investments	8,717	6,587
Goodwill	2,022	1,782
Intangible assets, net	278	399
Other long-term assets	1,785	1,778
Total assets	**$26,904**	**$26,280**
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 1,394	$ 874
Accrued compensation	735	683
Income taxes	799	718
Short-term unearned revenue	1,517	1,572
Other	2,700	2,631
Total current liabilities	**7,145**	**6,478**
Long-term unearned revenue	387	375
Long-term debt	253	260
Other long-term liabilities	584	408
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid-in capital – shares authorized 13,500; Shares issued and outstanding 4,789 and 4,953	11,297	12,153
Retained earnings	7,107	6,633
Accumulated other comprehensive income (loss)	131	(27)
Total stockholders' equity	**18,535**	**18,759**
Total liabilities and stockholders' equity	**$26,904**	**$26,280**

See accompanying notes.

CASH FLOWS STATEMENTS

(In millions)

Year Ended December 31	2005	2004	2003
Operations			
Net income	$ 2,850	$ 2,228	$ 2,006
Depreciation and amortization	901	1,098	1,238
Net recognized (gains)/losses on investments	227	52	(846)
Stock option income tax benefits	196	274	1,163
Changes in:			
Operating working capital	314	1,197	154
Non-current assets and liabilities	(99)	343	1,578
Net cash from operations	**4,389**	**5,192**	**5,293**
Investing			
Additions to property and equipment	(511)	(1,472)	(1,376)
Purchases of investments	(18,239)	(13,540)	(13,987)
Sales and maturities of investments	15,238	13,041	11,681
Other	103	438	(198)
Net cash used for investing	**(3,409)**	**(1,533)**	**(3,880)**
Financing			
Common stock issued	422	477	829
Common stock repurchased	(4,137)	(2,427)	(1,350)
Other	21	15	(6)
Net cash used for financing	**(3,694)**	**(1,935)**	**(527)**
Net change in cash and equivalents	(2,714)	1,724	886
Effect of exchange rates on cash and equivalents	231	(53)	(16)
Cash and equivalents, beginning of year	6,562	4,891	4,022
Cash and equivalents, end of year	**$ 4,079**	**$ 6,562**	**$ 4,892**

See accompanying notes.

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Appendix II – Performance Indicators

"Every quality manifests itself in a certain quantity, and without quantity there can be no quality." Chairman Mao Tse-Tung

Kaufman (1997), offers the following insights concerning the selection of effective indicators:

1. Differentiation among means and ends – indicators focused on "ends" are recommended over those focused on "means". Indicators focused on means provide incentives and information concerning processes, resources or methodology. Indicators focused on ends provide incentives and information regarding performance. Indicators focused on ends are considered preferable since "ends" are the ultimate measure of whether any process, resource or methodology is "worthy".

2. The rigor of measurability of the results – There are four scales of measurement (Stevens S.S. 1951 – Handbook of Experimental Psychology):

   - Nominal (Naming)
   - Ordinal (Rank ordering)
   - Interval (Equal scale distances with arbitrary zero point)
   - Ratio (Equal scale distances with known zero point)

Objectives are measured on an interval or ratio scale, while goals, aims and purposes use nominal and ordinal scales. Performance indicators and their associated objectives should be measurable on an interval or ratio scale...

3. The array and range of organizational elements covered – indicators should be linked with the other organizational elements to ensure that there is a "results chain, which links internal, organizational results, with external, outside-the-organization, consequences." The organizational elements are inputs, processes, micro/products, macro/outputs and mega/outcomes. Kaufman discusses indicators for each of these elements (inputs and process indicators are those associated with "means", while the others are associated with "ends"). Further reference is made to Drucker (Management Tasks, responsibilities, practices – 1973), who challenges management to question whether a task is worth doing at all. Adding this consideration to the preceding discussion suggests expanding the set of indicators covering the organizational elements to identify both current and desired values of each indicator.

Examples of objectives and performance indicators associated with each of the three "results" components of the organizational elements above are also provided by Kaufman:

Mega/Outcome Linked – All the sold and delivered automobiles turned out by the plant after June 4 will be safe and effective as indicated by no court ordered changes, mandated modifications, or returns; no complaints under the "Lemon Law"; no upheld successful lawsuits attributed to manufacturing defects or air pollution. There will be no loss of life attributed to defective design, development or fabrication.

Macro/Outputs Related – At least 99% of all parts manufactured by the Santo Placebo Plant after next month will meet all quality acceptance standards without remanufacturing and will be shipped to distribution points and/or to customers on or before the times contracted, as indicated by no client complaints about timeliness or quality, or returns for defects or dissatisfaction.

Micro/Products Related – At least 99.8% of all computer monitors delivered after January 1 will meet all quality acceptance standards, as indicated by sign-off by the quality inspector on each shift and by no rejects from the quality assurance test laboratory.

Appendix III – Risk Taxonomy

The following is a comprehensive model for classification of business risk that was developed by Arthur Andersen and which was published in “Enterprise-wide Risk Management: Strategies for Linking Risk and Opportunity” by the *Financial Times*, 2000. This model could form part of an overall taxonomy for Enhanced Business Reporting.

Competitor Customer Wants Technological Innovation Sensitivity Shareholder Relations Capital Availability
Sovereign/Political Legal Regulatory Industry Financial Markets Catastrophic Loss

OPERATIONS
Customer Satisfaction
Human Resources
Knowledge Capital
Product Development
Efficiency
Capacity
Performance Gap
Cycle Time
Sourcing
Channel Effectiveness
Partnering
Compliance
Business Interruption
Product/Service Failure
Environmental
Health and Safety
Trademark/Brand Erosion

EMPOWERMENT
Leadership
Authority/Limit
Outsourcing
Performance Incentives
Change Readiness
Communications

INFORMATION PROCESSING/ TECHNOLOGY
Relevance
Integrity
Access
Availability
Infrastructure

INTEGRITY
Management Fraud
Employee/Third Party Fraud
Illegal Acts
Unauthorized Use
Reputation

FINANCIAL

Price: Interest Rate, Currency, Equity, Commodity, Financial Instrument

Liquidity: Cash Flow, Opportunity Cost, Concentration

Credit: Default, Concentration, Settlement, Collateral

PROCESS/OPERATIONAL
Product/Service Pricing
Contract Commitment
Measurement (Operations)
Alignment

BUSINESS REPORTING
Budget and Planning
Accounting Information
Financial Reporting Evaluation
Taxation
Pension Fund
Investment Evaluation
Regulatory Reporting

ENVIRONMENT/STRATEGIC
Environmental Scan
Business Model
Business Portfolio
Valuation
Organization Structure
Measurement (Strategy)
Resource Allocation
Planning
Life Cycle

Appendix IV – Corporate Values, Ethics and Compliance

Lintun Solutions is committed to translating its principles of effective governance, high integrity and compliance into the operations of our business. To this end, we developed and maintain a robust compliance and ethics program to:

- Identify, evolve, and renew commitment to our values
- Identify and evolve our strategic, operational, and compliance objectives
- Identify those events that may put our values and objectives at risk
- Proactively respond to risks

Values

Lintun Solutions is committed to the values articulated in our Statement of Corporate Values. The Statement is developed and revised via a series of roundtable discussions that include all stakeholders, including employees and other corporate agents at all levels, suppliers, and customers. Lintun Solutions' values are:[1]

- A fierce commitment to integrity
- Leadership in the industry and the community
- Mutual respect amongst our personnel and for company policies

These values transcend individuals within the organization and provide a guidepost for all employees at all levels[2]. Commitment to these values begins with top management, including the Chief Executive Officer and the Board of Directors. Each year, the Board, along with the CEO, signs off on the renewed Statement of Corporate Values.

Objectives

The objectives of our compliance and ethics program are aligned with the overall strategic, operation, and compliance objectives of the enterprise. Each year, we are committed to supporting objectives concerned with promoting and maintaining integrity and compliance. This past year, the compliance and ethics program also helped to support the following objectives:

Corporate Objective	Compliance and Ethics Program Objective
Reduce operating costs 25%	• Reduce training delivery costs while maintaining quality
	• Reduce issue processing costs while maintaining quality
	• Reduce document retention rosts while maintaining quality
Comply with SOX	• Update Issue Management System
	• Update Document Retention/Management System

[1]OCEG requirement to list values.

[2]OCEG requirement that corporate values are primary and are not confused with the individual values of senior management.

Structure

Lintun Solutions employs a Chief Compliance Officer (CCO) who is directly responsible for all compliance and ethics management processes. This includes:

- Identifying key events and compliance/ethics risks in our business model
- Maintaining proactive responses to these risks
- Code of Conduct
- Policies and procedures
- Training
- Communications
- Reporting
- Human resource responses (hiring and performance evaluation criteria, etc.)
- Data/record management policies
- Maintaining a “hotline” for reporting and resolving issues
- Ongoing monitoring of the compliance and ethics management processes
- Periodic evaluation of the compliance and ethics management program

The CCO is responsible for all day-to-day compliance and ethics processes including business conduct, employment, environmental and information privacy. The Chief Financial Officer and Chief Audit Executive are jointly responsible for those processes associated with financial compliance.

The CCO reports to the CEO for day-to-day operations, and periodically to the Audit Committee to report on key issues that arise in the course of business.[3] Performance is evaluated by the Audit Committee.[4] Compensation is determined by the Audit Committee each year.[5] The CCO maintains dedicated staff in the Business Conduct Office (BCO) located at our headquarters. In addition, the CCO is responsible for at least one virtual staff person in each of our operating facilities who serves as a compliance and ethics liaison.

Key Responses

While all of our responses to compliance and ethics risks are important, Lintun Solutions relies on several key tools to manage the compliance and ethics program. These tools include the Code of Conduct, the Annual Survey, Issue Management, and Program Evaluation.

Code of Conduct

The Lintun Code of Business Conduct articulates our governance, compliance, and ethical obligations and expectations of our business practices. It is updated annually via a series of “roundtables” that include all of our stakeholders. The Code is available in every one of our offices and online at www.Lintun.com/codeOfConduct.[6] It is localized to ensure that not only the words, but also the spirit of the Code is clear and appropriately communicated for each of the 25 countries in which we operate. It addresses the following areas:

- Lintun values, goals, and philosophy

[3] OCEG requirement to disclose the Chief Compliance Officer responsibility and reporting structure
[4] OCEG requirement to disclose who evaluates performance of CCO
[5] OCEG requirement to disclose compensation structure of CCO
[6] OCEG requirement to disclose where the Code is located

- Importance of the Code
- Consequences for breaking the Code
- Process for reporting issues
- Conflicts of interest
- Gifts and gratuities
- Transparency
- Corporate opportunities and assets
- Social responsibility

The Code is applicable to all employees at all levels[7] and is distributed each year via e-mail[8]. Each employee is required to confirm receipt by visiting a web site and digitally "signing" a statement of confirmation. For those locations where web access is limited, a paper-based confirmation is required[9]. Further, we recently implemented an online assessment of understanding regarding the Code. By 2006, all employees will be required to confirm understanding of the Code by taking this online test[10].

Annual Survey

Each year, we conduct the Lintun Business Conduct Questionnaire (EBCQ) which surveys stakeholders regarding perceptions about the compliance and ethics program – as well as actual behavior observed by stakeholders. This survey helps us keep informed about:

- Employee perceptions about the compliance and ethics program
- Other stakeholder perceptions about the compliance and ethics program
- Actual/potential "hotspots" in our business where we should focus efforts

More than 10,000 employees and managers are required to complete the EBCQ on a regular basis. Results and subsequent investigations are reported to the Audit Committed by the CCO.

Issue Management

Lintun Solutions maintains an issue management "hotline" that allows all stakeholders (employees, corporate agents, suppliers, customers, and other partners) to anonymously ask questions or report potential issues[11]. This hotline is available 24 hours each day via a publicly available web site and toll-free phone number[12]. Issues are handled according to a structured process to ensure consistency and quality.

Program Certification and Evaluation

Lintun Solutions conducts ongoing and period evaluation of the compliance and ethics program. Senior level managers in all business units are required to complete ongoing Compliance and Ethics Certification (CEC) for all compliance and ethics activities in their areas of responsibility. These certifications are developed and processed by the CCO and staff. Results of the CEC are reported to the Audit Committee. In addition, the Internal Audit Department conducts periodic Regulatory Compliance Reviews (RCR) to

[7]OCEG requirement to disclose to whom the Code is applicable
[8]OCEG requirement to disclose how the Code is distributed
[9]OCEG requirement to disclose how receipt of the Code is confirmed
[10]OCEG requirement to disclose how understanding of the Code is confirmed
[11]OCEG requirement to disclose the scope and anonymity of the issue management mechanism
[12]OCEG requirement to disclose the time-based availability of the issue management mechanism

monitor the effectiveness of our regulatory programs to determine if we are operating in a manner consistent with our policies, procedures and legal requirements. The results of RCR activities are reported to the CCO and jointly to the Audit Committee by the CCO and Chief Audit Executive (CAE).

Lintun uses several frameworks to provide an objective basis against which we judge our program including the Open Compliance and Ethics Group (OCEG) and Federal Sentencing Guidelines (FSG).

Key Areas[13]

Lintun Solutions has conducted an enterprise-wide analysis of our business processes and events that introduce compliance and ethics related risks. In the past year we have focused our efforts on the following key areas:

Area	Potential Risks	Proactive Response
International Sales	Due to increased focus on international sales, it is critical that all of our salespeople understand fair dealings in obtaining and managing international business.	We have put in place additional policies, communications and training for all employees with international sales responsibilities so that they understand relevant laws and internal policies regarding: • Foreign Corrupt Practices • Antitrust issues • Money laundering • USA PATRIOT issues
Privacy	Lintun operates in several industries including financial services and healthcare which require special attention to the privacy of certain client data.	We have put in place additional policies, communications and training for all employees so that they understand relevant laws and internal policies regarding: • Information Privacy (including HIPPA and BL)
Hiring	Lintun has enjoyed massive growth over the past five years – and this has entailed rapid hiring of employees in all locations. It is critical that all employees who hire or interview understand expectations regarding equality, diversity, and non-discriminatory hiring.	We have put in place additional policies, communications and training for all employees who hire and interview so that they understand relevant laws and internal policies regarding: • Anti-discrimination • Appropriate interviewing

[13]OCEG requirement to disclose key areas that were addressed in the past year.

Key Metrics[14]

Lintun Solutions manages the compliance and ethics processes using several key metrics:

Issue Processing

Metric	Results	Goal	Notes
Number of issues reported/ number of employees	2002: n/a 2003: 1.4% 2004: 2.5% 2005: 12.5%	25% Internal Basis	We are pleased to see increased usage of the hotline.
Number of issues that result in "incidents'/ total number of issues	2002: n/a 2003: n/a	10% OCEG/ERC standards standards	With increased usage of the hotline, we find that a majority of issues result in questions regarding future behavior rather than actual incidents. We are encouraged by this trend and hope that we continue to find that employees are knowledgeable about the hotline and use it to voice concerns and ask questions before actions are taken.
Cycle time to resolve an incident	2002: n/a 2003: n/a 2004: 2005:	4 days Internal Basis 10 days 5 days	The rapid increase in processing efficiency is primarily attributed to the increase in issue management staff in mid-2003. This improvement of cycle time helps us to understand and handle those issues that rise to the level of incident more quickly.

[14]OCEG requirement to disclose key metrics

Employee Satisfaction

Metric	Results	Goal	Notes
% employees who are at least "satisfied" with their job and work environment	2002: 76% 2003: 71% 2004: 85% 2005: 80%	90% Internal Basis	2003 represents a 5% decrease in job satisfaction. This decrease is primarily a result of our acquisition of XXX CORP. We found a relevant deviation from the norm in departments that were affected by this acquisition. To deal with this issue, we have developed and are executing a communications program that we believe will alleviate job satisfaction concern.

Employee Commitment and Beliefs

Metric	Results	Goal	Notes
% employees who are at least "committed" to Lintun values	2002: n/a 2003: 65% 2004: 70% 2005: 87%	100% Internal Basis	In the past, the primary reason employees were not committed to Lintun values was that they were not aware of what the values were. We have made great strides in this regard and continue to work toward activities that build awareness and commitment to our values.
% employees who believe Lintun strives to "do the right thing"	2002: n/a 2003: n/a 2004: 70% 2005: 83%	> OCEG/ERC annual survey OCEG/ERC standards	We are pleased that in 2003 we exceeded the US national average of 82%[15]. That said, we strive to consistently exceed the national average.

[15]OCEG/ERC takes an annual survey in the United States of 2,500 employees regarding ethics and compliance perceptions.