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TEMASEK REVIEW 2008

**Transcript of Questions and Answers from the Media Conference
26 August, 2008, Singapore**

Temasek Holdings spokespeople present:

- **Michael Dee**, Senior Managing Director, International
- **Manish Kejriwal**, Senior Managing Director, Investment, International & India
- **Lao Tzu Ming**, Managing Director, Risk Management
- **Nagi Hamiyeh**, Managing Director, Investment

Group Profit

Q (Bloomberg): What are your actual profit numbers, stripping out the divestments? Are you looking at a better year for core operations or have you been affected by the market, as you talked about the 7% returns?

Michael Dee: We do not specifically break the \$18 billion down but we can say fairly clearly is that the operating performance of the portfolio companies has generally been very strong by looking at the underlying entities.

Wealth Added

Q (Newsweek): Please explain the negative wealth added figure of -\$6 billion. Could you explain what it means and how important this figure is?

Michael Dee: It is meant to say what is the return on your capital, above a hurdle rate. The TSR is a measure of returns, which is not measured against a benchmark rate of return. TSR is an absolute number – 7%. Wealth added is what is our return relative to the cost of capital. If we exceed that cost of capital in our returns, then we have a positive wealth added such as we have had in the last four years.

If we don't make that hurdle rate of return, then it would be a negative number. Keep in mind that as you show positive wealth added over time, the bar goes up each time and makes it more difficult to get over that hurdle. So, that's why you will see over time, periods of positive wealth added and negative wealth added. And what we focus on is the cumulative, which as I mentioned, is positive.

TEMASEK HOLDINGS

Q (Newsweek): And what is the reason for the negative wealth added figure?

Michael Dee: It is not hitting the cost of capital target.

Capital Injection by Shareholder

Q (Financial Times): Getting back to that capital injection question again, was that the single largest capital injection that had been made by the Finance Ministry since 1974, and when was it made?

Michael Dee: It was made in April of 07, I don't know if that was the largest or not. It's decided by our shareholder, not by Temasek board. When we raise capital, from whatever source it comes from, it's not geared to any particular investment. It simply goes into the investment pool, so, whether we go out and borrow money from the capital markets through a divestiture, receive the dividend from one of our portfolio companies, or receive an injection from our shareholder, it's not for any particular investment. It simply has become part of the aggregate investment pool.

Investments in China

Q (Economic Daily of China): My question concerns risk management. When you make your investments in China, what are the main factors considered by your company?

Lao Tzu Ming: Basically, we start off by looking at the economic fundamentals, and then we employ a multi-disciplinary team to look at the financial, commercial, regulatory, legal, tax, etc. – all the key components to assist us in making the decision. And when we are satisfied that the criteria match, we'll then make the investment. We'll also decide on the deal structure, and also the manner in which we invest.

During the holding period, we look at whether circumstances have changed, whether the assumptions we used before we made the investment are still holding true. So, we regularly review our investments, and sometimes we increase our investments, sometimes we stay put, other times we may divest or partially divest, but it is over a long period of time.

Investments Outside of Asia

Q (Frankfurt Allgemeine Zeitung): One of your companies, NOL, is bidding for Hapag-Lloyd in Germany. How important is Europe for you on your

TEMASEK

HOLDINGS

investment agenda, as a region? And are you aware of the risk that you are not welcomed as an investor in some of these countries?

Nagi Hamiyeh: NOL has a Board and they do what they see fit with respect to their strategy. We have not interfered in their decision process.

Michael Dee: As with all large investors, we believe the free flow of capital around the world is good for everybody – good for investors and good for investees. We work hard at our strategic relations and our engagements to ensure that Temasek is a welcomed investor and that people understand how we invest and the governance model that we use, which we believe is a good one to have.

Q (Newsweek): This year, for the first time, you have more investments outside Asia than in. Do you see that as a trend continuing for the next couple of years?

Michael Dee: If you look back historically – two years ago, we actually had a net divestment outside of Asia. Last year our ratio of investments in Asia to investments outside of Asia was approximately 2½ to 1. I expect this statistic to be volatile over time, as we do not target that number from a management perspective. We want to be available and capable of executing high quality investments that we believe to have excellent value, no matter where they are in the world. If they happen to be outside of Asia one year, so be it. If not, we will invest where we see the best value. And that is part of our international strategy – that we are prepared to take advantage of these opportunities, wherever they are in the world.

Q (Newsweek): Do you see more opportunities in the next couple of years in Europe, or in Asia?

Michael Dee: It's hard to predict, and we want to be prepared so that if we do see the opportunity, we can act on it. That's the fundamental concept. Again, we don't want to try and say that in two years' time, we think X. For example, in opening our offices in Latin America and Mexico, we would like to have people on the ground because that could potentially give us some interesting opportunities to look at.

Financial Services Sector

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Q (Reuters): You've said the credit crisis is not over and the epicentre of the credit crisis is the financial sector. So don't you think you are exposed to a very volatile sector that could potentially hurt your earnings?

Manish Kejriwal: In the investment world, every move we make has its own set of risks. Before we make any investment, we look at the economic risks, legal risks, strategic risks, commercial risks, and the country risk. It's a comprehensive look.

What we did at Merrill, for example, was when we invested in December; we had this mitigation instrument which was the reset clause which we reactivated, which allowed us to get average net cost down substantially.

If I elevate this more broadly to the financial sector, which was the broader part of your question, the financial services industry is one we believe in because in emerging markets like Asia, we see its growth as a proxy of economic growth, especially in China, India and Indonesia.

More recently, we've concentrated a little more in the US and UK, primarily because we see value. Unlike many others, Temasek is a long term investor, and while we cannot time these things perfectly, we can take long term perspectives, and be a long term stable shareholder in those organisations that we believe have a strong franchise, strong fundamental value and a strong leadership team.

Q (Reuters): Do you have a cap, either a short-term or medium-term cap on the proportion of investments in financials?

Manish Kejriwal: No, we don't have a cap is the answer. Having said that, we are very happy with where we are right now. If you look at the financial sector, as a proxy of growth or that of opportunity, but also if you look at those other indices around the world, a 30%, 40%, 45% concentration is relatively normal, if you look at the financial services as a sector within the total market cap of any index.

Resources Sector

Q (Australian Financial Review): There's been a lot of Chinese government money flowing into the Australian resources sector. I'm just wondering if you have any interest in that area, given your returns there, whether you feel muscled out by the activity we're seeing from the Chinese?

TEMASEK HOLDINGS

Nagi Hamiyeh: The first part of the question, if we are interested in the resource space – absolutely. The resource space generally has gone through an unprecedented growth, especially on the demand side, across all the commodities. However, we're very cognizant of the fact that valuations went up quite a bit.

The Chinese are very interested in the Australian landscape because they're ultimately one of the biggest off-takers there. I wouldn't put us in the same category as the Chinese, we are first and foremost a financial investor, and we do not have any other objectives besides maximizing returns. So we look at any investment in any sector opportunistically, and if it makes sense we pursue, and otherwise we won't pursue.

Portfolio Rebalancing

Q (Straits Times): Your portfolio by sector – are you satisfied with that proportion and is the proportion likely to change?

Michael Dee: Is the proportion likely to change? I am sure it is. It will change over time as we see opportunities. Right now, we are satisfied with where we are now but you can expect that the portfolio will change over time as we see different opportunities and position ourselves for that.

Keep in mind that with a portfolio of the size that we have, of S\$185 billion, it's a bit of a battleship that is difficult to turn very quickly. We have a very long-term view and we make sure that the situations, the sectors and the geographies that we go into are ones that we are comfortable with.

Q (Straits Times): You have also mentioned that, as a broad overview, (the portfolio) will be one-third in Singapore, one-third in OECD countries and one-third in Asia ex-Japan. Are you on track with that, are you satisfied with the allocation now or is that something you'd want to change in terms of portfolio allocation?

Manish Kejriwal: Every investment you look at is on its own merit, and the portfolio might change over time. We are not too predictive about where that might go to. As an example, it's broadly about 30:40:30. We thought it would be a third, a third, a third.

Over time, as new opportunities come up in different parts of the globe, that might change. As of right now, we are quite satisfied with where that stands.

TEMASEK HOLDINGS

Nagi Hamiyeh: Bear in mind that this is merely a guideline rather than cast in stone. So, it's just an indication of where we see ourselves heading.

Outlook

Q (Associated Press): In your press release, the Chairman is quoted as saying: "We are concerned with the emerging risks of stagflation. Opportunities may be limited in such a scenario". I was wondering, in which countries or regions do you see the highest risk of stagflation over the next year?

Manish Kejriwal: If you look at our overall mandate, we invest all over the globe. If you look at the last few years, we've always had a rebalancing approach, of different concentrations, both by sector and by geography. Over the years, we have built quite a diversified portfolio.

Looking forward, we remain prepared and aware of the risks that remain across the globe. And we literally look at it bottom-up, on an investment by investment perspective to see what we can do to maximise our return based on the risk associated with that return, to have a balanced portfolio to maximise return for our shareholder.

Lao Tzu Ming: I would like to comment on the cyclical basis. What we have seen in the past 12 months is a very severe dislocation in some global markets. And if you look at any trend, in the long term, the equity market goes up rather than comes down.

The difference between a short-term trader and a long-term investor like us is that we are not highly geared and as a result, we can ride through the storms. From that point of view; we are not distracted by some short-term dislocation as long as we know that the underlying fundamentals of our investments are sound.

If we are of the view that an investment should be divested, then we would rather divest it. From that point of view, we are actually making very definitive decisions on whether to hold or divest.

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