

Contribution of Financial Reporting to Financial Stability and Transparency



Internet Communication of Non-Financial Information

A practical approach

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Brussels, 7 December 2006



INSTITUTIONAL SHAREHOLDER SERVICES

Enabling the Business of Corporate Governance

Agenda

- Introducing ISS
- Disclosure of Non-Financial Information: Investor Expectations and Company Practice
- Electronic Communication and General Meetings
- Questions & Answers

ISS is the world's leading provider of corporate governance research, proxy voting services and analytical database solutions

ISS Overview

- Recognized industry leader with 21 years of corporate governance experience
- Industry's only global end-to-end solutions provider, offering research, recommendations, proxy voting, vote disclosure, voting analytics, proxy distribution, corporate governance ratings and securities class action services
- Coverage of more than 35,000 companies across 115 markets
- Clients: Over 1700 institutions worldwide
- People: 585 employees
- Offices: Headquartered in Rockville, Maryland with offices in Amsterdam, Brussels, Chicago, London, Manila, Melbourne, New York, Paris and Tokyo.
- Focused on providing corporate governance solutions that enhance the interaction between shareholders and companies, designed to help shareholders manage risk and drive value

ISS Global Operations

ISS-Americas

ISS is headquartered in Rockville, Maryland with offices in New York, Chicago and Toronto.

US and international research and voting is performed by our staff in Rockville.

Canadian company research is performed by our Toronto office.



United Kingdom

Our London office is home to RREV, a joint venture between ISS and NAPF, dedicated to research, recommendations and voting for UK company AGMs and EGMs.

ISS also maintains a staff in London to service its custodian bank proxy distribution business.

ISS Europe

Headquartered in Brussels with offices in Paris and Amsterdam, ISS Europe serves as the hub for research, voting and other corporate governance services specific to European markets.

ISS-Asia

ISS' Tokyo office produces research and issues vote recommendations for Asian company AGMs and EGMs. The Tokyo staff manages proxy voting for ISS clients in the region. Our Manila office serves as our global data procurement hub. ISS Proxy Australia joins as of June 2005

The acquisition of Deminor Rating in May 2005 forms the foundation of ISS Europe

ISS Europe

- Deminor Rating fully incorporated into Institutional Shareholder Services
- Headquartered in Brussels, with offices in Paris and Amsterdam
- European research coverage:
 - 3680 companies
 - 17 countries including Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden, Switzerland
- Staff Size: Approximately 35
- Languages spoken: 15 including Dutch, French, German, Greek, Swedish, Norwegian, Danish, Finnish, Russian, Polish, Czech, Spanish, Portuguese, English, Italian

ISS continues to stay ahead of market needs and client requirements

ISS has been and continues to be the industry leader for 20 years.

- Demonstrated ability to keep institutional clients ahead of regulatory curve and custodial clients market first to meet their clients' needs by being first to market with
 - Outsourced vote agent service (1992)
 - First web-based proxy distribution platform (2001)
 - STP with CREST and SWIFT as Proxy Service Provider Members (2002)
 - Corporate governance ratings (2002)
 - Securities class action monitoring (2002)
 - Vote disclosure service (2003)
 - Fully-integrated end-to-end proxy voting solution (2005)
 - Meeting attendance (1997)
- Acute awareness of institutional and bank needs and organisational depth to provide customised solutions.

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Investor Expectations: E-Communication should at least apply to the following items

General Publications

- Annual Report
- Articles of Association
- Intra-year financial reports (during last 12 months)
- Corporate Governance Rules and Principles for the company
- Social, Ethical, Environmental Report or Fact

Board Related

- Full CV & resume of board members
- Organisational Rules & Code of Conduct for the board
- Organisational Rules & Code of Conduct for board committees
- Remuneration policy of the board(s)

AGM or EGM Related

- Agenda of general meetings (last 3 years)
 - Counterproposals
 - Responses of the company (if applicable)
- Minutes of general meetings (last 3 years)
 - Attendance
 - Voting results

... and any other relevant information made available to shareholders

Information to be found on Corporate Website - Analyst's check list

Information ISS looks for on Corporate Websites

Topics	Questions for Analysts
Use of Internet	<ul style="list-style-type: none">▪ Does the Company run a Corporate website?▪ Is it available in English?• Are press releases or reviews posted on the website?
Investor Relations	<ul style="list-style-type: none">▪ Is there a section (or a website) dedicated to shareholders/investors?▪ Is there an English dedicated section to shareholders/investors?▪ Are coordinates of Investors' relation available on the net?
Real-Time info	<ul style="list-style-type: none">▪ Is there instant information (not just in annual report) on stock price evolution?▪ Is there instant information (not just in annual report) on the shareholding structure?▪ Is there instant information (not just in annual report) on the composition of the Board(s)?

Disclosure of Non-Financial Information: Company Practice in Europe

Information flows have greatly improved

- **Improved access**

- Relevant information increasingly available on company's website or official websites (cnmv.es, amf-france.org, bafin.de, etc.)
- Availability of information in a timely manner

- **Language**

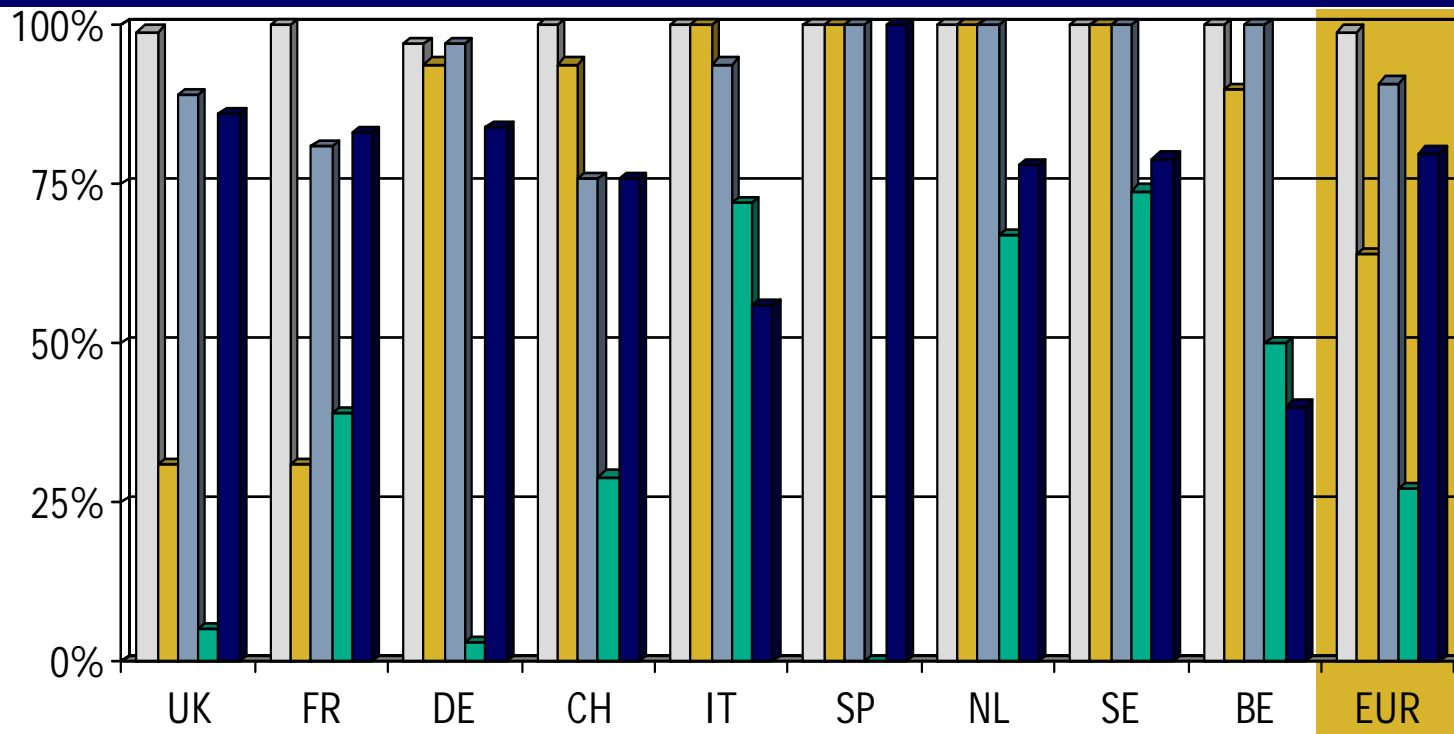
- Relevant information increasingly available in English

- **Public and private sector initiatives enhance information**

- EC, OECD and ICGN Principles form a "best practice" context for many voters
- National legal initiatives: e.g. ES: Ley de Transparencia, DE: TransPuG
- Local corporate governance code
- Voters better educated by local organizations and service providers

Disclosure of non-financial information: Company Practice in Europe

Information available on companies' websites, 2005
% of FTSE 300



Disclosure on Governance is used for Corporate Governance Ratings

Disclosure on Governance:

Analyses the transparency of a company as measured by the quantity and quality of non-financial information on its governance structure, such as the diversity and independence of board members, board committees, director remuneration, auditors fees and rotation, accounting standards, information on major shareholders of the company, environmental information, etc.

The research and ratings are based on the latest publicly available information. This includes annual reports and accounts, articles of association, agendas, resolutions and minutes of ordinary and extraordinary general meetings, investor's handbooks and newsletters, internet-sites and all other public information available from the company or other public sources. ISS Corporate Services does not audit or verify the truth or accuracy of such information. However, whenever deemed necessary, we have contacted companies directly and asked for additional public information in order to complete the research.

-- ISS Corporate Governance Ratings, Policy

Non-Financial Information used in Corporate Ratings

Example of a European Company

Corporate Governance Ratings – General Disclosure

3. Disclosure on Corporate Governance

3.1 General information

3.1.1 Availability and language of documents

Documents available	for analysis	in English	on website
Annual report & accounts	yes	yes	yes
Articles of association	yes	yes	yes
Agenda of the last AGM	yes	yes	yes
Minutes of the last AGM	no	no	no
Board code of conduct	yes	yes	yes
Environmental report	yes	yes	yes
Half-year report	yes	yes	yes
Quarterly report	yes	yes	yes

Corporate Governance Awareness	Existence
Corporate governance statement ¹	yes
Complies with a code of best practice or explains deviations	yes

Investors look for financial and non-financial information available in English and on Corporate Websites

Non-financial information used in Corporate Ratings

Example of a European Company

Corporate Governance Ratings – Cont’d

Information on auditors

Group auditors	Disclosed
Name of the auditors	yes
Name of the audit company	yes
Initial appointment date	no
Amount of fees from audit services	yes
Amount of fees for non-audit services	yes

Information available on:	Disclosed
Existence of IR website	yes
Contact details of IR	yes
Political donations	no
Charitable donations	yes
Environmental policy	yes

3.2. Information on capital and shareholder structure

Information available on:	Disclosed
Stake held by employees	no
Nationality of free-float	yes
Existence of shareholder agreements	no

Non-financial information used in Corporate Ratings

Example of a European Company

Corporate Governance Ratings – Boards

	Board of directors ¹	Executive directors ²
Information on members ³		
Age of members	100%	100%
Company classification of members	100%	100%
First appointment year of members	100%	100%
Number of shares held by members	0%	0%
External supervisory functions of members	100%	100%
External executive functions of members	100%	100%
Information on diversity		
Nationality of members	no	no
Academic background of members	no	yes
Number of women / Men on the board	yes	yes
Information on functioning		
Actual number of meetings	yes	
Average attendance rate of members	no	
Content of internal rules of conduct	yes	

Non-financial information used in Corporate Ratings

Example of a European Company

Corporate Governance Ratings – Directors’ Fixed Remuneration

Information on remuneration

Information on Total Remuneration

Aggregate	yes	yes
Chairman	yes	yes
Individual information	yes	yes

Information on Fixed Remuneration

Aggregate	yes	yes
Chairman	yes	yes
Ordinary member	yes	yes

Information on Variable Remuneration

Aggregate	yes	yes
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Information on the Policy on Variable remuneration

Disclosure of policy	n/a	yes
Disclosure of theoretical maximum bonus for executives	n/a	no
Disclosure of theoretical maximum bonus for CEO	n/a	no

Non-financial information used in Corporate Ratings

Example of a European Company

Corporate Governance Ratings – Directors’ Variable Remuneration

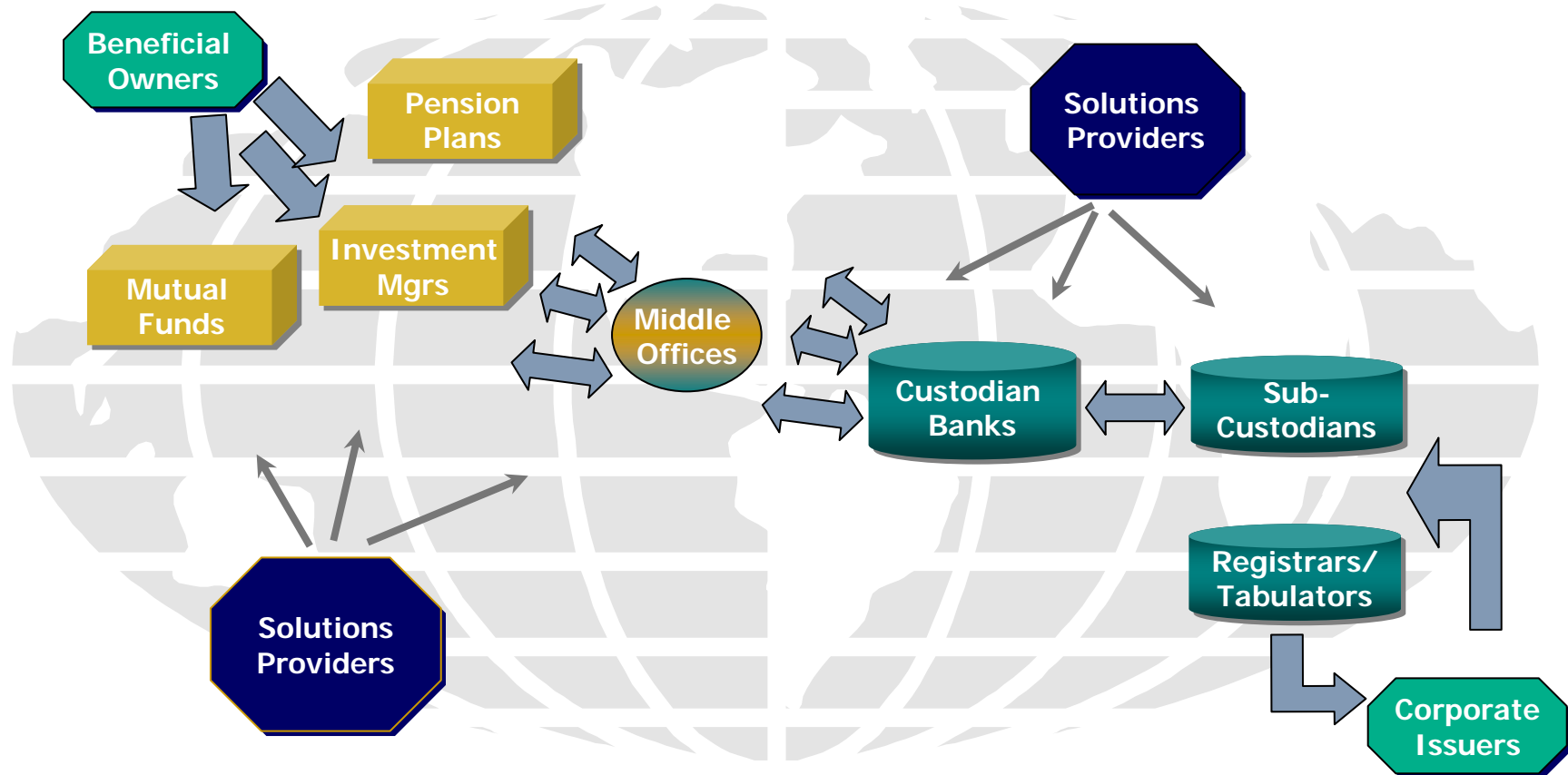
	Stock Option Plans	Share Incentive Schemes	Deferred Share Plans
Existence	yes	yes	no
Volume			
Outstanding rights in the Company	yes	yes	n/a
Number of beneficiaries	no	no	n/a
Outstanding rights for Executives	yes	yes	n/a
Number of beneficiaries	yes	yes	n/a
Outstanding rights for CEO	yes	yes	n/a
Individual information	yes	yes	n/a
Timing			
Vesting period	yes	yes	n/a
Holding period	yes	yes	n/a
Maturity	yes	n/a	n/a
Objectives			
Disclosure of objectives	yes	yes	n/a
Pricing			
Disclosure of pricing conditions	yes	n/a	n/a

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Current Situation - Information flows for cross-border voting

The governance landscape



Historical barriers to cross-border voting

Systemic

- **Communications**

- Sub-custodians and custodians communicated solely by fax or telex

- **Poor translations or partial information**

- Sub-custodians/custodians provided very limited information in unfriendly format
 - Translation not always from company available or reliable

- **Manual processes**

- Information and instructions were handled manually by voters, custodians and sub-custodians

Historical barriers to cross-border voting

IT Information barriers

- **Language**

- Meeting notices and materials only available in local language
- Articles of Association, Ethical Codes, Board Guidelines, CG guidelines, etc.

- **Limited access**

- Meeting notices printed in local newspapers with only limited distribution

- **Lack of local knowledge**

- CG Analysts + international investors lacked an understanding of local “best practice” or underlying issues and access to local forms of communication like daily press, official journals (Moniteur Belge, Bundesanzeiger, Boletín Oficial del Estado, etc;

Historical barriers to cross-border voting

GM Announcement and Publication of Agenda

Diverging European Practice

- AUSTRIA: three weeks in advance
- SWITZERLAND: twenty days
- GERMANY: thirty days
- ITALY: 15 days, companies rarely go beyond that
- DENMARK – Annual Report + full disclosure of agenda 8 days before the meeting
- SWEDEN - Annual Report and Auditor's Report have to be disclosed 14 days before the meeting + Notice of meeting has to be disclosed 28 days before the meeting,
- NORWAY – Annual report and Notice of meeting have to be disclosed one week (Limited Companies) or two weeks (publicly Limited Companies) before the meeting.
- SPAIN: Announcement of GM 30 days, publication of Agenda 15 days

European Commission Initiatives

2006 Proposal for a directive on the exercise of voting rights by shareholders

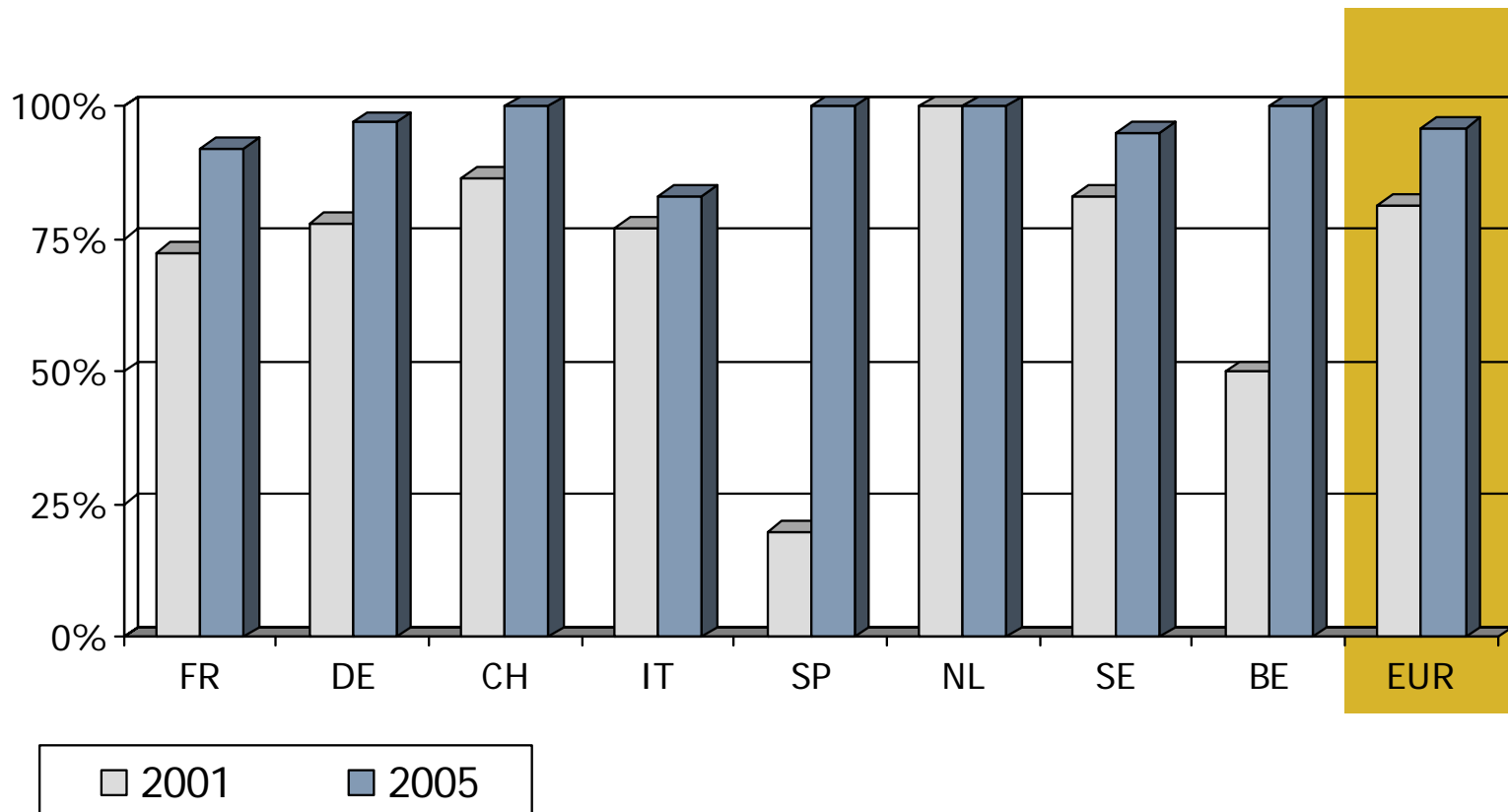
EU commission encourages timely disclosure and e-communication

- Deadline for inviting to GM and provision of documents at minimum of 30 calendar days prior to AGM
- All shareholders , no matter where located, should be able to cast informed votes.
- Requires complete and timely information > Challenge for non-resident investors, through chain of securities intermediaries

→The importance of timely disclosure and the impact it has on the cross-border exercise of shareholder rights cannot be stressed enough. ISS has long advocated that publicly listed companies disclose details on proposals at least 30 days prior to the meeting. When this information is not available well in advance of the meeting, investors are not left with sufficient time to evaluate proposals and, in the case of shareholders who will not be present at the meeting themselves, to submit voting instructions via a custodian bank. Untimely disclosure effectively disenfranchises shareholders and prevents them from making informed voting decisions.

Current Situation: Availability of Meeting Information in English improved significantly over the last 5 years

General Meeting Agenda in Europe - Disclosure in English (2001-2004) *% of FTSE 300*



Trends in Internet Shareholder Communication

General

- Companies use websites pro-actively as communication tools
- Corporate Websites as comprehensive and complete resource centers
- Analysts receive all info on a mouse click (vs. official journals or registered seat)
- Used for daily shareholder communication: “ad hoc” announcements, related party transactions, share info, web logs etc.
- Legal and financial “library”
- Links to related websites
- Multiple language versions

GM

- Electronic means make it easier for (international) shareholders to participate in GMs
- Direct e-voting increasingly made possible by local jurisdictions and companies
- Broadcasting of Meeting
- Publication of voting results published on the websites

Flaws of Internet Shareholder Communication

General

- Outdated or only infrequently updated websites
- Sections under construction for months
- Websites down
- Increasing complexity
- Differing information between info provided on website, other company documents and/or official filings
- English language version of website sometimes only basic
- Copy-cat effect. Avant-garde sets the pace for the late-comers.

GM

- Technology not advanced enough to permit active electronic participation with sufficient guarantee of security
- Costly to introduce
- Not frequently used by shareholders

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