



**GovernanceMetrics International**

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**GovernanceMetrics International Releases Ratings on 3800 Global Companies**

***Emerging market companies pose greatest risk.***

*New York, September 18, 2006* - GovernanceMetrics International (GMI), the corporate governance research and ratings agency, today announced new ratings on 3800 global companies, including for the first time 321 emerging market companies from 25 countries.

Thirty-eight companies achieved GMI's highest rating of 10.0. They include firms from Australia, Canada, the United Kingdom and United States. Three companies, Colgate-Palmolive, BCE of Canada and PepsiCo, have been among the highest rated in every GMI rating release since 2003. GMI ratings and company reports are used by pension funds, investment managers, mutual funds, banks, insurance underwriters and regulators to assess governance risk, as well as corporate advisory firms and corporate issuers to benchmark performance and conduct peer comparisons. The firm's investment industry clients include many of the world's largest institutional investors.

Gavin Anderson, GMI's CEO, said that "the inclusion of a universe of emerging market companies is most timely, given the increasing investment interest in these markets and the growing appearance of such companies as acquirers in industrialized nations. Investors have long perceived that emerging market companies have relatively poor governance attributes, and our research shows that for the most part perception is reality." As a group, the average rating of all 321 emerging market companies was 4.3, which GMI characterizes as below average. Indeed, only two emerging market companies achieved ratings that were above average on a global basis - Taiwan Semiconductor Manufacturing and Goldfields of South Africa, both of which were rated 7.5.

Our research into emerging markets uncovered companies where:

\* the Chairman, CEO and CFO duties at one steel company until last month all resided with the same person for the past three years. Related-party transactions, some of which involved entities in which the Chairman's family is invested, totaled \$130 million over this

period. A bank controlled by the Chairman's family was also used to manage certain investment funds and for foreign currency swap arrangements and received a commission for these services (Brazil);

\* a securities company with only one independent director on its 10 member board and a network of family controlled companies owning 18% of the company. This firm is now embroiled in a regulatory investigation concerning misappropriation of \$100 million worth of shares in the company of a customer (South Korea); and

\* a mining company where 44% of the votes are held by the government, which has exercised its influence to force constant reshuffles of management and directors (27 supervisory board members and 16 executives in the past 6 years) as political winds change in the country. In the six years, the company has had four new CEO's and four new chairmen (Poland).

GMI compared the characteristics of emerging market companies to those of all industrialized market companies and found that only 35% of emerging market companies have a majority of independent directors, compared to 75% for companies in industrialized markets. Fully 27% do not disclose the presence an audit committee, compared to only 13% for all industrialized companies. Where audit committees are disclosed among emerging market companies, only 29% are composed solely of independent directors, compared to 70% at all industrialized companies covered by GMI. Further, half of the emerging markets companies have no compensation committee whereas 86% of companies in the developed markets have such committees. Lastly, 22% of the emerging market companies have shares with unequal voting rights, slightly above the 21% in developed markets. The discrepancies are even starker when comparing emerging market companies to Australian, Canadian, UK and US companies, which as a group consistently rate higher than others in corporate governance practices. The chart below shows these comparisons.

	EM	Developed	Aus/Can/UK/US
Has a majority of independent directors	35%	75%	93%
Has an audit committee	73%	87%	99%
Audit committee of independent directors	29%	70%	90%
Has a compensation committee	50%	86%	98%
Unequal voting rights	22%	21%	9%

At the same time, not all emerging markets are equal. South African companies had better governance practices on average than the average for German, Singapore, Spanish or Swedish firms. After eliminating countries with only a handful of companies reviewed, the country whose companies had the lowest average ratings was South Korea, with a rating of 2.3 (51 companies examined), slightly below Greece where the average rating was 2.5 (24 companies examined).

Of those companies that scored GMI's lowest rating of 1.0, two thirds were located in emerging markets. The country tally of the lowest scoring companies was: South Korea with 12, Greece with 8, China with 7, Brazil with 3, France with 2 and one each in Belgium, Chile, Egypt, Japan and Portugal. The companies selected for GMI's emerging markets universe are those constituents of the MSCI Emerging Markets index with free float market capitalizations of at least \$750 million. The 321 companies represent approximately 40% of the total number of companies included in the MSCI Emerging Markets index but account for almost 90% of the total index market capitalization.

### **Developed markets not immune to governance weaknesses**

At the same time, investors in developed markets know too well that governance risk has no boundaries. Many shareholders of Livedoor learned to their pain of the accounting and conflict of interest problems associated with that high flying Japanese company earlier this year as its price plummeted on the arrest of its CEO. In Europe, shareholders of European Aeronautical Defence and Space (EADS) were treated to a 25% reduction in market cap when it became known that there would be severe delays in the delivery of new planes thus causing the cancellation of contracts. The remarkable feature of this debacle was that while executive directors knew in advance of the delay and were selling shares, fellow directors, according to the chairman, did not know about this production failure until the company announcement. Livedoor was not rated by GMI. EADS has had a below average score since 2003.

Meanwhile, in the US over the past several months, more than 100 firms have disclosed they are either undertaking internal reviews and / or under investigation for backdating of options grants to management and other employees. Under Sarbanes-Oxley legislation, the timing of option grants must now be reported within two days, so this backdating practice is unlikely to surface again. But, these companies are investigating options grants made years ago. Of the companies that have disclosed such investigations so far, 73 are rated by GMI. We looked at their very first GMI rating to see if these problems were occurring at well governed companies or were confined to companies whose governance profile was weak to begin with, and accordingly, might be more prone to governance oriented problems. In the vast majority of instances, our first rating of the company was in 2002 or 2003, a few years after most of these backdated grants had occurred but not too long a gap for boards to dramatically change. Interestingly, only four of the 73 companies we reviewed had an above average rating from GMI at the time of their first rating. This does suggest that governance ratings might help identify companies with a greater likelihood of some future problem.

### **Ratings changes and stock performance**

The GMI ratings system relies on approximately 400 individual metrics and subjective analysis. As a result, there must be some substantial change to a company's governance profiles before a rating change of more than a point occurs. GMI recently looked at the effects of significant ratings changes on total shareholder returns over a three-year period and found evidence suggestive of a relationship. We examined S&P 500 companies whose

GMI rating as of June 2003 had either increased or decreased by three points or more - a significant swing. As the chart below demonstrates, companies whose GMI rating improved by three points or more over the period both outperformed the index as a whole and had total shareholder return out-performance of 13.54% over those whose ratings declined by 3 points or more over the period.

Time frame tested: July 1, 2003 – June 30, 2006

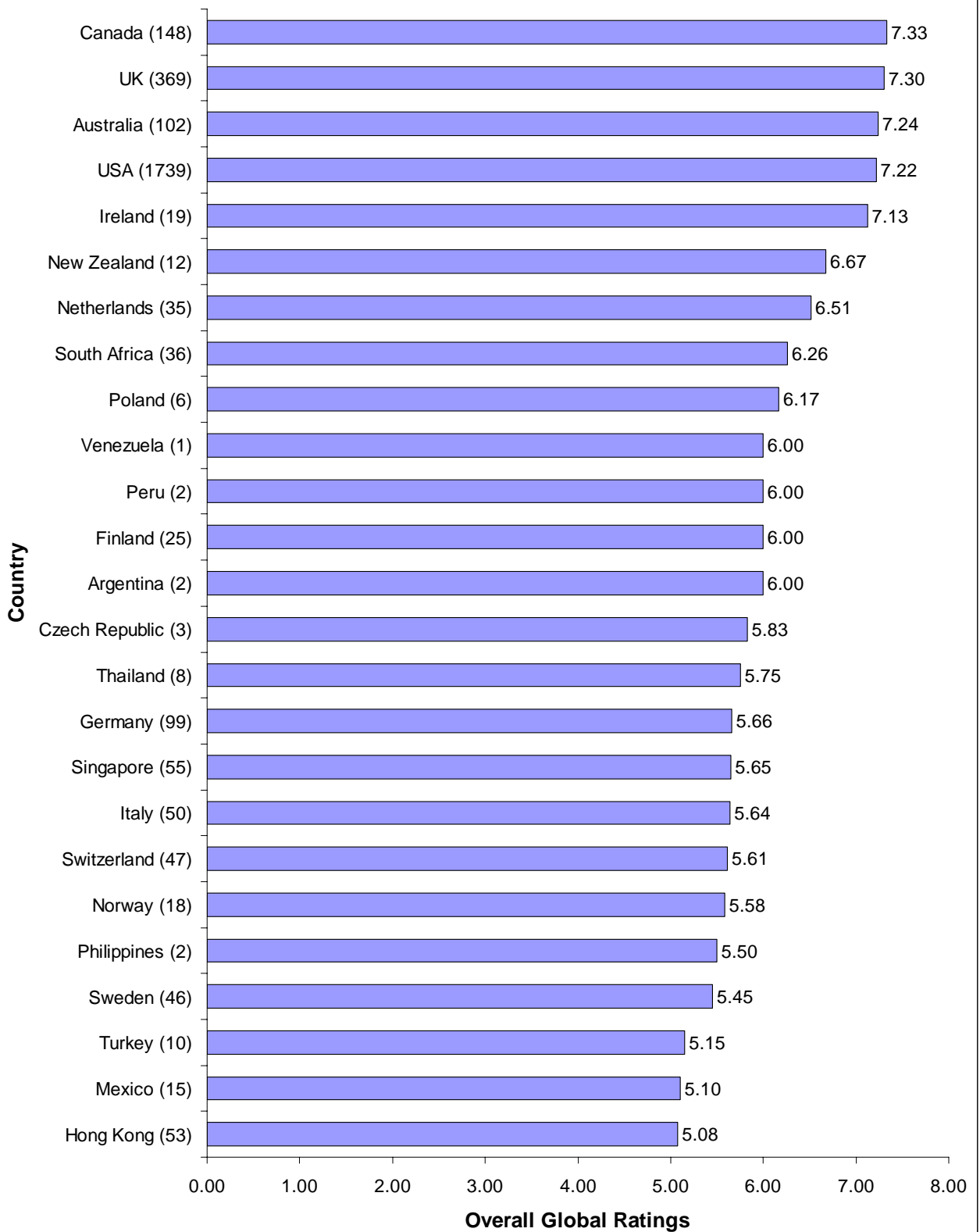
- Companies whose overall rating increased by 3 or more points returned 12.85%
- The S&P 500 Index returned 11.63%
- All S&P 500 companies rated by GMI in 2003 that still traded in 2006 returned 9.96%
- Companies whose overall rating decreased by 3 or more points returned -0.69%

Performance measure: Average Annualized TRS with Dividends Reinvested

While not considered conclusive, the results do suggest that there may be a linkage between significant changes in governance relative to a large peer group and medium-term shareholder returns.

Please see the following two pages for the average overall global rating by country for each market covered by GMI.

### Average Overall Rating by Country



### Average Overall Rating by Country (continued)

