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GMI Introduces Pay Alignment Rankings for US Companies

New Tools to Analyze CEO Pay v Performance

New York, September 25, 2007 - GovernanceMetrics International (GMI), the corporate governance research and ratings agency, today announced the introduction of its new Pay Alignment Ranking[SM] system. The information will be included in GMI Rating Reports for US companies starting with today's ratings release.

According to GMI's CEO Howard Sherman, "Concern over executive compensation has been growing the last few years. Many shareholders view executive pay decisions as a key insight into the overall quality of corporate governance, and there is a perception in the US market that too many executive remuneration plans are not tied closely enough to performance. As US shareholders look for ways to exert more influence over executive pay matters, and as board compensation committees respond to the new environment, we thought it would be useful to provide our clients with tools to systematically evaluate CEO pay relative to firm performance within specific market sectors."

GMI's Pay Alignment Ranking (PAR) is a number between 0% and 100% and is based on a sector by sector comparison of alignment between compensation and corporate performance. It indicates where a company sits in relation to a peer group of companies in achieving this alignment. For example, if a hypothetical company, ABC Inc., has a PAR of 23%, it means GMI considers that 77% of companies in the sector have a better pay alignment than ABC Inc. The PAR is calculated by determining the company's ranking within its market sector for three measures: ranking of total shareholder returns, ranking of change in total direct compensation expense for the CEO, and actual total direct compensation expense. GMI emphasized that the PAR is based on a relative assessment within each company's sector for each of these measures over a three-year period in order to provide a meaningful look at pay v. performance and its trend line.

GMI will be issuing a red flag when a company receives a PAR between 0% and 9.99%. Sherman noted that in the current GMI ratings release, those companies with a red flag based on their PAR were twice as likely to be rated below average by GMI than above average, "which underscores the connection between executive pay matters and governance quality."

The Pay Alignment Ranking will be included in a new Summary Compensation Report inside each GMI Rating Report and will graphically display CEO pay relative to firm performance. The report will also include the fees paid to management's compensation consultant and to the consultant retained by the compensation committee of the board, if any. "Surprisingly," said Sherman, "the level of disclosure in this area was quite low. Only 10 of the nearly 1,500 companies with a summary compensation report disclosed the fees paid to compensation consultants." Along with improvements in the new Compensation Discussion and Analysis (CD&A) and proposals to effect a "say on pay," Sherman predicted shareholders will start to focus on fees paid by both the management and board to their respective outside consultants in coming years.

A sample report is available on GMI's home page at www.gmiratings.com.

Top and bottom performers

In other news, Sherman said that 40 companies – one percent of GMI's research universe – had earned an overall global rating of 10.0, GMI's highest rating. They include firms from Australia, Canada, Ireland, the Netherlands, 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.

Looking at the average overall rating on a country basis, GMI announced that Australia had earned the top spot for the first time, followed by the UK, Ireland and Canada. "These results are consistent with governance environments based on transparency, meaningful shareholder rights and ongoing engagement and dialogue", said Sherman. At the other end of the spectrum, not surprisingly, were emerging markets, where transparency and shareholder rights often are less than robust. Colombia, Jordan, Chile, Morocco and Egypt were the lowest rated countries in GMI's latest release.

Commenting on recent news articles suggesting that leading index providers FTSE and MSCI are considering whether to move Taiwan and South Korea from emerging market to developed market indices, Sherman noted that "these countries, while growing strong financially, still have quite a way to go in terms of corporate governance reform." The average overall rating for the 75 Taiwanese companies rated by GMI was 4.71. The 84 Korean companies covered by GMI were rated 4.05 on average. Both are below average when compared to GMI's global research universe.

GMI also looked at the average overall rating on a sector basis. Life insurers, and gas, water and multi-utilities, earned the top two places, with average ratings of 7.07 and 7.02, respectively. Mobile telecommunications was the lowest rated sector with an average overall rating of 4.93. "It's interesting to see the same disparity between developed versus emerging industries as we see in developed versus emerging markets," said Sherman, "and it can also suggest some investment opportunities. In our view, finding the better governed company in a market sector – or country – where the average level of governance is poor can give you a leg up."

GMI ratings and stock performance

GMI's research and rating model relies on approximately 400 individual metrics and subjective analysis. In prior rating releases, we and outside research teams have found a positive correlation between governance ratings and firm performance, return on capital, return on assets and return on equity and an inverse relationship between governance and cost of capital (meaning better governed firms are afforded a lower cost of capital). One likely linkage between governance and stock price performance is through the discount rate implicit in capital asset pricing models. For example, a higher discount rate would be applied to company deemed relatively more risky from a governance perspective, which in turn lowers the price an investor would be willing to pay for the security, and vice versa. At least one GMI client has developed a fund based on this type of approach.

The general pattern appears to hold with GMI's latest release. Looking at those companies rated 10.0 overall in GMI's 2003 summer release (all of which were large cap US companies), GMI found that over the last four years, the better governed companies as a group have outperformed their benchmarks.

Time frame tested:	August 1, 2003 – July 31, 2007
Performance measurement:	Average annual total shareholder returns

- Companies rated 10.0 overall returned an average 16.69%

- Companies rated 10.0 overall returned an average 20.5% on a market-weighted basis

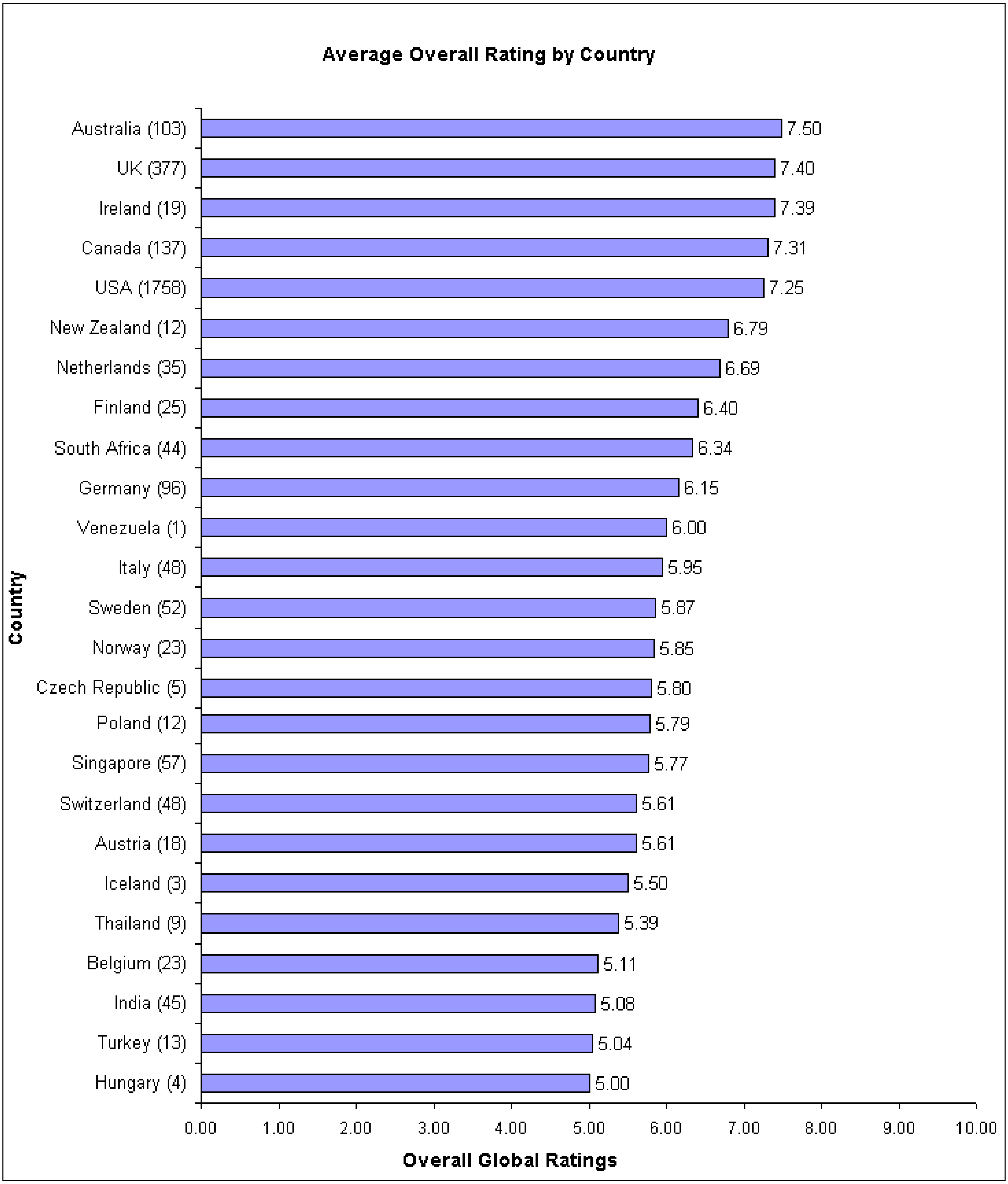
- The Dow 30 returned 11.08%

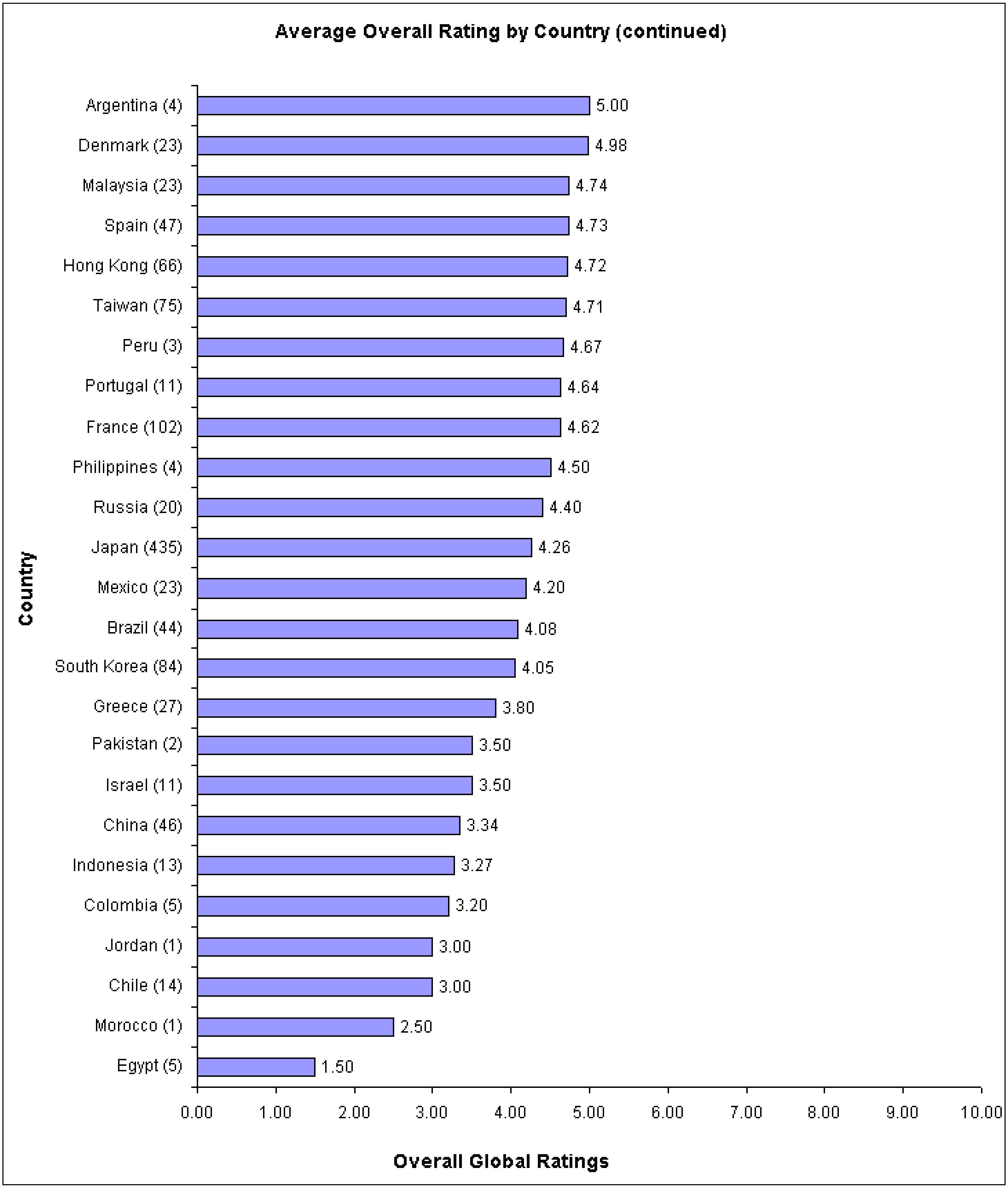
- The S&P 500 Index returned 12.12%

- The Russell 1000 Index returned 12.57%

GMI's research universe totals more than 4,000 companies worldwide, including the full MSCI EAFE Index and more than 500 companies from emerging markets. Within the US, GMI offers coverage of the S&P 500, S&P MidCap 400, S&P SmallCap 600 and the Russell 1000 Index. GMI research, ratings and informational services are used by leading pension funds, asset managers, banks, insurance companies, credit rating agencies, regulatory agencies, stock exchanges, corporate issuers and professional service firms worldwide to evaluate and benchmark superior governance practices and to identify governance risk.

GMI Country Rankings as of September 25, 2007




Average Overall Rating by Country (continued)
Country
Argentina (4) 5.00
Denmark (23) 4.98
Malaysia (23) 4.74
Spain (47) 4.73
Hong Kong (66) 4.72
Taiwan (75) 4.71
Peru (3) 4.67
Portugal (11) 4.64
France (102) 4.62
Philippines (4) 4.50
Russia (20) 4.40
Japan (435) 4.26
Mexico (23) 4.20
Brazil (44) 4.08
South Korea (84) 4.05
Greece (27) 3.80
Pakistan (2) 3.50
Israel (11) 3.50
China (46) 3.34
Indonesia (13) 3.27
Colombia (5) 3.20
Jordan (1) 3.00
Chile (14) 3.00
Morocco (1) 2.50
Egypt (5) 1.50
0.00 1.00 2.00 3.00 4.00 5.00 6.00 7.00 8.00 9.00 10.00
Overall Global Ratings