

October 22, 2008

Florence E. Harmon, Acting Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Via e-mail to rule-comments@sec.gov

Re: **File No. 4-567, 21st Century Disclosure Initiative, Section II (a) iv**

Dear Ms. Harmon:

Thank you for the opportunity to provide comments to the Commission on ways in which disclosure to investors can be modernized as part of the Commission's 21st Century Disclosure Initiative. The Initiative is a timely and important one and we hope that Domini Social Investments can provide background that will contribute to and enhance the process.

Domini Social Investments LLC ("Domini") is an SEC-registered investment adviser that manages \$1 billion in assets for individual and institutional mutual fund investors who wish to incorporate social and environmental criteria into their investment decisions. We manage a global family of mutual funds, covering North America, Europe and the Asia-Pacific region. All of our investment decisions are guided by a comprehensive set of social and environmental standards.¹

In particular, we wish to respond to the following question raised in Section II (a) iv:

What information that is not required to be filed or furnished with the Commission do investors or others use to make investment decisions or give investment advice?

We believe that *information on the social and environmental records of publicly traded U.S. corporations* is increasingly useful to investment decision-makers and advisors. In this letter, we wish to make the case that the time has come for the Commission to consider how comprehensive disclosure of corporate social and environmental performance can best be encouraged or mandated. We also urge the Commission to consider the proposition that the U.S. capital markets are falling behind other jurisdictions in addressing this area of increasingly important disclosure.

Competitiveness of U.S. Financial Markets

The disclosure of social and environmental data is rapidly becoming a worldwide phenomenon. By contrast, we believe U.S. financial markets and corporations run the danger of falling behind their competitors around the world. In fact, we believe this already may be taking place.

¹ A copy of our Global Investment Standards is attached, for your reference.



As managers of three international mutual funds, we regularly review the public documents of some 2,800 companies around the world. In the course of our research, we have become increasingly aware of the availability of social and environmental data from corporations headquartered outside the United States. In Europe, for example, publishing corporate social responsibility (CSR), or sustainability reports these days is more the norm than the exception. For example:

- As of 2007, 86% of the FTSE100 corporations issued CSR reports.
- As discussed in the attached paper, all publicly traded French companies of a certain size are required by law to include some 40 social and environmental indicators in the annual reports to shareholders.

Many European firms produce robust, and in some cases, audited¹, corporate sustainability reports providing detailed information on the company's social, environmental and economic performance. Some companies have gone so far as to integrate these reports into their financial statements. In our view, these reports can significantly enhance corporate reputation, provide management with critical data to more effectively steer the company, as well as provide investors with important information to judge the long-term risks of investments in these firms.

Currently, regulators and stock exchanges in numerous other jurisdictions around the world—including Brazil, France, Malaysia, South Africa and Sweden—have mandated or encouraged the disclosure of such data. The government of China announced in early 2008 that CSR initiatives, and reporting on these activities, will be expected of the many state-controlled corporations in that country. Attached, please find a research report we have prepared that provides case studies on actions taken in each of these jurisdictions.

The equivalent information is not systematically available from U.S. publicly traded corporations. We urge the Commission to address this lack of transparency in the U.S. financial marketplace. Left unaddressed, we believe our financial markets will soon be unable to compete on an equal footing with those outside the United States.

The Materiality of Social and Environmental Factors

Recent years have produced an increasing number of substantial studies on the materiality of environmental, social and governance factors.² In 2005, the law firm of Freshfields Bruckhaus Deringer

¹ According to the Corporate Register, 30% of European CSR reports are accompanied by some form of third party assurance statement. By contrast, only 7.5% of North American reports used third party assurance. See www.corporateregister.com.

² Numerous studies have examined the relationship between corporate social and environmental performance and corporate financial performance. For example, a meta-analysis of 52 studies yielding a total sample size of 33,878 observations, concluded that corporate social and environmental performance is positively correlated with corporate financial performance (Orlitzky, M., Schmidt, F.L., and Rynes, S.L., "Corporate Social and Financial Performance: A Meta-analysis." *Organization Studies* 24(3): 403–441). A study by Edmans examined the performance of stocks of companies on the Fortune magazine "Best Companies to Work For" list over the 1998-2005 time period and concluded that "employee satisfaction is positively related to corporate performance...." (Edmans, Alex. "Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices." MIT Working Paper, 2007. <http://www.sristudies.org/Edmans+%282007%29>). According to survey



issued a survey of the law of fiduciary duty in the United States, Europe, Japan, Canada and Australia, and concluded that in every jurisdiction, fiduciary duty arguably requires the consideration of environmental, social and governance factors when these factors may impact the long-term value of the portfolio.³

Investors managing more than \$57 trillion currently participate in the Carbon Disclosure Project, asking companies around the world to disclose information about their greenhouse gas emissions in order to help mitigate the significant risks to society and to shareholder value imposed by climate change.⁴ Investors managing more than \$15 trillion have signed on to the United Nations' Principles for Responsible Investment, committing themselves to incorporating environmental, social and governance factors into their investment processes.⁵

These fiduciaries, however, must rely primarily on voluntary corporate social responsibility reporting, and reports from a variety of third parties to obtain this material information from U.S. corporations. According to the Corporate Register, in 1992, there were 26 corporate social responsibility reports produced. In 1997, there were 2,797 such reports produced, worldwide.⁶ This dramatic trend is an indication that corporations are recognizing the materiality of these issues to their long-term performance and their reputation. Nevertheless, these reports vary widely in quality, and often fail to adequately disclose inadequacies in corporate performance, focusing instead on successes. Many corporations produce no such reports at all.

We urge the Commission to encourage the disclosure of these social and environmental factors by publicly traded U.S. corporations. Without such disclosure, investors will lack the means of assessing substantial numbers of material factors as they arise.

Domini's Use of Social and Environmental Data

Domini can also speak from its own experience on the importance of this data to our investment discipline, our experience with the increasing ease of obtaining such data for corporations headquartered in other jurisdictions and on our repeated attempts to encourage the disclosure of environmental and social data in the United States.

results reported in the October 2007 issue of *The McKinsey Quarterly*, 90% of the CEOs surveyed reported that they are doing more to incorporate environmental, social and governance issues into their core strategies as compared to five years ago. The authors note that, "Our research shows that while pressure from employees, consumers, and other stakeholders plays an important part in this trend, some CEOs see the new demands as opportunities to gain a competitive advantage and to address global problems at the same time." (Bielak, D., Bonini, S.M.J. and Oppenheim, J.M. "CEOs on Strategy and Social Issues," *The McKinsey Quarterly*, Oct. 2007.)

³ *A legal framework for the integration of environmental, social and governance issues into institutional investment*", produced for the Asset Management Working Group of the UNEP Financial Initiative by Freshfields Bruckhaus Deringer (October 2005).

⁴ <http://www.cdproject.net/faqs.asp>

⁵ See, generally, www.unpri.org. For current assets, see http://www.unpri.org/files/credit%20crunch%20_final.pdf

⁶ <http://www.corporateregister.com/>



Since the launch of the Domini Social Equity Fund in 1991, Domini has sought out information to assess corporate performance on a broad range of social and environmental factors, including predatory lending practices, emissions of toxic chemicals, hazardous waste liabilities, advancement of women and minorities in the workplace, working conditions in corporate supply chains, product safety, business ethics and numerous other crucial social and environmental indicators.

We have fully integrated this data into our investment process, communicated our concerns on the underlying issues to our shareholders, and worked with corporations to improve their practices in key areas of financial and social performance.⁷

Domini has integrated this data into its investment process because we believe it is essential to evaluating the ability of management to address some of the most significant long term risks faced by companies, and to capitalize on the potential rewards provided by superior management of these stakeholder relations. We believe that investment decisions based on these factors can help to identify opportunities to simultaneously provide strong financial rewards while also helping to create a more just and sustainable economic system with increased opportunities for all.

We believe that our approach enables us to capture sources of risk and opportunity often overlooked by traditional financial analysis. In our view, the indicators used in our analysis are an excellent proxy for the quality of the management teams at prospective and current holdings, which in turn is a key component of these companies' future success. In addition, investments based on social and environmental standards may:

- Uncover risks to company reputations,
- Serve as indicators of a firm's ability to retain talent,
- Forecast possible environmental and other liabilities, and
- Point towards risks raised by potential regulatory changes in response to negative externalities caused, or exacerbated by, corporate behavior (e.g., climate change or product liability concerns).

Domini's evaluation is currently organized into 33 stakeholder themes based on a company's relationship with ecosystems, employees, communities, suppliers, customers, and investors. We evaluate each company based on a qualitative assessment of their relationships with these stakeholders within the context of their industry. We are seeking to evaluate how companies are addressing the key sustainability challenges they face.⁸

⁷ Working closely with non-governmental organizations and other institutional investors, we engage with companies through direct dialogue with management, through the filing of shareholder resolutions (over 160 resolutions with more than 80 companies since 1994), and through the principled use of proxy voting. For more information, see <http://www.domini.com/shareholder-advocacy/index.htm>.

⁸ For example, in evaluating a company's environmental policy, practices and performance, we focus on key indicators based on an industry overview. We organize our evaluations into five themes: renewable and alternative energy, resource conservation, lifecycle design and product take-back, pollution control and abatement, and long-term environmental sustainability of a company's core business lines. These themes are then further divided into more than fifty sub-themes.



The absence of systematic disclosure of social and environmental data on U.S. corporations deprives us of what we view as an opportunity to make use of the optimal quantity and quality of data in our decision making process.

A Note on Social and Environmental Data and Stability in the Financial Markets

We also urge the Commission to consider the proposition that the incorporation of societal and environmental data into the valuation of corporations can help stabilize today's volatile stock markets and encourage a long-term perspective on the valuation of corporations at a time when price-oriented short-termism is seen as an increasing danger to our financial system.

Many of the most important societal and environmental issues today—issues such as climate change, working conditions at supplier factories, progress in encouraging equal opportunity employment in the workplace, and so on—tend to be long-term in focus and slow to change. And, as the current financial crisis demonstrates and the issue of predatory lending in particular has made all too obvious, it is often impossible to separate financial and social risks. One effect of incorporating these issues into the investment decision-making process is to lengthen investors' time horizon and dampen the volatility of investment valuations.

Conclusion

Over the past 15 years, Domini has urged corporations to increase their disclosure of data on such issues as climate change, global labor standards, environmental management systems, diversity on boards of directors, predatory lending, corporate political contributions, and the use of financial derivatives, among others—and has joined with others in petitioning the Commission to mandate increased disclosure in these areas.

We have done so because we believe that incomplete data makes for inefficient markets and that lack of transparency leads to unstable financial systems. Regardless of the social or environmental issue raised, the underlying concern is the same—lack of data can blind us to risks of great consequence. Waiting until crises strike before requiring disclosure is a clear case of locking the barn door after the horse has gone.

A prudent fiduciary seeks information about crises that have yet to materialize. Such fiduciaries require reliable, comparable data on a broad range of potential risks. There are many merits to voluntary disclosure regimes, but a purely voluntary disclosure scheme in a financial market as large as ours will not produce reliable, comparable data from all issuers.

We urge the Commission to consider ways in which it might most efficaciously remedy the current situation in which we find ourselves—the United States is rapidly falling behind much of the rest of the world with regard to transparency in the market place on our corporations' role in crucial social, environmental and economic arenas.



If we can provide the Commission with further thoughts or data on these developments, we would be glad to do so. In the meantime, we are enclosing a background paper that Domini has prepared on developments on mandated corporate social responsibility disclosure in five countries outside the United States. We hope that the Commission finds it useful as you work towards modernizing our system of disclosure.

Sincerely,

A handwritten signature in black ink, appearing to read 'Adam Kanzer', with a long horizontal line extending to the right.

Adam Kanzer
Managing Director & General Counsel

Enclosures:

- "Background on Developments in Social and Environmental Disclosure Outside the United States" (prepared by Domini Social Investments, July 15, 2008)
- Domini Global Investment Standards

Background on Developments in Social and Environmental Disclosure Outside the United States

July 15, 2008

**by Steven Lydenberg, CFA
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Section One: Summary and Overview

Introduction

This background paper highlights various noteworthy developments worldwide on environmental and social reporting requirements by regulatory bodies and stock exchanges. The growth in increasingly nuanced reporting requirements mirrors the rise in importance of corporate social responsibility reporting in today's financial markets. The initiatives in the five case studies presented demonstrate the need for similar regulatory action if US markets are to stay abreast of their competitors in transparency and efficiency.

This paper focuses only on issues relating to transparency in financial markets. Questions of the materiality of social and environmental data as it relates to publicly traded corporations and of the enhancement in the technologies of financial reporting are beyond the scope of this paper.

Mandatory Environmental and Social Disclosure by Regulatory Bodies

In recent years, disclosure of corporate social responsibility data has been mandated by a number of governments throughout the world including those of Sweden, France, Malaysia, the UK, and the city of Buenos Aires. France was the first country to require companies to report on non-financial information in 1977, when it mandated that companies employing more than 300 people report annually on 134 issues relating to employees and the workplace.¹ France expanded its requirements in 2001 under Article 116 of the *Nouvelles Regulations Economiques* which mandates that companies publicly listed on the Paris Stock Exchange's Primary Market include a report on social and environmental issues in their annual reports.²

In an effort to increase the transparency of Malaysian corporations and rebound from the 1997 Asian financial crisis, the Malaysian government has taken up mandatory corporate social responsibility reporting as an important part of its overall plan to strengthen the Malaysian economy. In 2007, the Prime Minister of Malaysia announced that all companies listed on Bursa Malaysia—the Malaysian stock exchange—would be required to disclose information on corporate social responsibility activities in their annual financial reports.³

The government of the United Kingdom requires companies to report on their business activities in an annual Business Review. The British Companies Act of 2006 mandates that companies listed on the London Stock Exchange disclose in their annual

¹ For more details and sources, see the accompanying case study on France.

² For a list of the information companies are required to disclose under Decree n. 2002-221, which elaborates on the requirements of Article 116, see Appendix A.

³ For more details and sources, see the accompanying case study on Malaysia.



Business Review information on environmental, workplace, social and community matters “to the extent that they are important to understanding the company’s business.”⁴

Corporate social responsibility is also a fundamental part of trade, investment, foreign, and domestic policy in Sweden. The Swedish government decided in late 2007 to promote good business practices by requiring all 55 fully or partially state-owned companies to produce annual sustainability reports in accordance with the Global Reporting Initiative’s G3 Guidelines.⁵ Similarly, China’s influential State-Owned Assets Supervision and Administration Commission (SASAC) released a directive on January 4, 2008, strongly encouraging state-owned enterprises to follow sound CSR practices and report on their CSR activities. While this is not yet a requirement, a directive from the SASAC carries substantial weight in the Chinese business community and signals the intention of the SASAC to focus heavily on CSR.⁶

Also in 2008, the Buenos Aires City Council passed Law 2598, requiring all companies with at least 300 employees to generate annual sustainability reports. The reports have to comply at minimum with the Ethos Principles, but companies have been encouraged to use the Global Reporting Initiative’s G3 guidelines when preparing their reports.⁷

More recently, Denmark has proposed legislation that would require the country’s 1000 largest businesses, as well as state-owned companies and institutional investors, to state in their annual reviews whether they have corporate responsibility policies, and if they do, what they are and how they implement them.⁸ The Australian government has also recently unveiled a three-year, \$2m project to expand responsible business practices across the country. Run by the non-profit St. James Ethics Center, the project aims to expand corporate networking on best practices of corporate social responsibility and update the nation’s Corporate Responsibility Index.⁹

Efforts by Stock Exchanges to Increase Environmental and Social Disclosure

In recent years stock exchanges, often working in tandem with government agencies, have also advanced the disclosure of corporate social responsibility (CSR) information by

⁴ “Policy & Legislation, UK,” *csr.gov.uk*, no date. Available at: <http://www.csr.gov.uk/ukpolicy.shtml> Last visited: July 9, 2008.

⁵ “Sweden leads by example in reporting and investment,” *Ethical Performance* Newsletter, Vol. 10 Issue 2, June 2008. See case study on Sweden for details on CSR disclosure in Sweden as well as sources.

⁶ “CSR as ‘No. 1’ Issue for state-owned enterprises in China,” *Global Links Initiative* article from CSR Asia, January 9, 2008. Available at: <http://www.glinet.org/standard.asp?id=4955> Last visited: July 9, 2008

⁷ “Buenos Aires mandates sustainability reporting,” *The International Corporate Sustainability Reporting Site*, March 7, 2008. Available at:

http://www.enviroreporting.com/detail_press.phtml?act_id=948&username=guest@enviroreporting.com&password=9999&publish=Y&username=guest@enviroreporting.com&password=9999&groups=ENVREP Last visited: July 9, 2008.

⁸ “Danish firms face new disclosure requirements,” *Ethical Performance* Newsletter, Vol 10 Issue 3, July 2008. Page 8.

⁹ *Ibid.* Page 2.



revising their listing requirements to require disclosure of social and environmental data from listed companies and by creating socially responsible investment (SRI) indices. JSE Limited (the Johannesburg Stock Exchange), Bursa Malaysia, the London Stock Exchange, Bovespa and the Tel Aviv Stock Exchange have all been influential in increasing the disclosure of CSR information.

In an effort to increase investment in listed companies, JSE Limited has strengthened its listing requirements to mandate that companies listed on JSE disclose CSR information in their annual reports.¹⁰ Bursa Malaysia has been central to the enforcement of government policies regarding CSR disclosure in Malaysia. In accordance with government regulations, Section 9C.A of Bursa Malaysia's listing rules have been revised to require that companies listed on the exchange include in their annual report a description of their CSR activities and policies.¹¹

As a co-owner of the FTSE Group, the London Stock Exchange was involved early on in the development of SRI indices when it helped launch the FTSE4Good Index Series in 2001. Since then, SRI indices worldwide have looked towards FTSE4Good's example for guidance.¹² In 2004, the JSE also launched a socially responsible investment (SRI) index, the first by a stock exchange and the first in an emerging market. Following in the footsteps of the JSE, Bovespa launched a Corporate Sustainability Index (ISE) in late 2005, which includes up to 40 of the Bovespa's highest ranked stocks in terms of sustainability and social responsibility.¹³

The Tel Aviv Stock Exchange launched its own SRI index, the Maala SRI Index, in 2005. Maala tracks the shares of the 20 highest-rated public companies listed on the Tel Aviv-100 index who have been ranked by Israeli non-profit Maala based on their level of community involvement and contribution to society.¹⁴

OMX, Northern Europe's stock exchange, has not mandated CSR disclosure but retains the right to review and remove from listings those companies whose actions seriously or systemically violate human rights or other international ethical norms.¹⁵

Conclusion

The following case studies demonstrate the move towards increased reporting standards by regulatory bodies and stock exchanges around the world. These strategies have

¹⁰ For more details and sources, see the accompanying case study on South Africa. See Appendix B for Section 7 of JSE's updated listing requirements.

¹¹ See Appendix C for Bursa Malaysia's listing rules.

¹² "FTSE4Good Index Series 5 Year Review," *FTSE*, 2006. Available at: http://www.ftse.com/Indices/FTSE4Good_Index_Series/Downloads/F4G_5Year_Review.pdf Last visited: July 10, 2008.

¹³ For more details and sources, see the case study on Brazil.

¹⁴ "Tel-Aviv Stock Exchange launches Socially Responsible Index," *Tel Aviv Stock Exchange*, February 14, 2005. Available at: http://www.tase.co.il/TASEEng/NewsandEvents/PRArchive/2005/PReng_20050214.htm Last visited: July 10, 2008.

¹⁵ OMX's Wholeheartedly Proud Policy. For more details and sources, see the case study on Sweden.



been largely driven by governmental goals to increase investment and to keep markets competitive. Given the increase of transparency in these foreign markets and the growth in funds directed towards socially responsible investing, U.S. financial markets are at risk of losing their competitive edge. As the importance of environmental and social data continues to work its way into the financial community, U.S. markets are likely to fall further behind their competitors if regulatory agencies or stock exchanges do not make concerted efforts to encourage such disclosure.



Section Two: Case Studies

Brazil

Introduction

Among the most rapidly growing nations in the developing world, Brazil has proven fertile ground for the promotion of corporate social responsibility. The nationwide business-driven rise of CSR and CSR reporting in Brazil since the 1990s has taken place within the context of social and economic transition, poverty, and social unrest.¹⁶

Background

Brazil's transition from military dictatorship to civilian rule has not been smooth. Since 1985, Brazil's economy has been in flux. The Brazilian business community has enjoyed international success alongside a national poverty rate of 30% and heavy public debt.¹⁷ Corporate social responsibility in Brazil, largely targeted at the health and education of local communities, has been driven by corporations and Bovespa, with the indirect support of the Brazilian government.

In a country with a multitude of social and environmental challenges, the Brazilian business community has taken up CSR as part of an effort to improve its corporate reputation globally.¹⁸ By publishing reports on their socially responsible actions, corporations have worked to increase corporate transparency and attract international institutional investors.¹⁹

CSR reporting has been so widely embraced by Brazil's corporations over the last two decades that it has virtually become the status quo. Of the 34 Brazilian companies listed on

¹⁶ Paola Cappellin and Gian Mario Giuliani, "The Political Economy of Corporate Responsibility in Brazil: Social and Environmental Dimensions" Abstract, UN Research Institute for Social Development, October 1, 2004. Available at: <http://www.unrisd.org/unrisd/website/document.nsf/0/400751A2D48E8DDDC1256F80003DA9CE?OpenDocument> Last visited: June 17, 2008.

¹⁷ 2004 and 2005 numbers, respectively. "Brazil," The CIA World Factbook, CIA, June 10, 2008. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/br.html> Last visited: June 17, 2008.

¹⁸ Ibid. Paola Cappellin and Gian Mario Giuliani, "The Political Economy of Corporate Responsibility in Brazil: Social and Environmental Dimensions" Abstract, UN Research Institute for Social Development, October 1, 2004. Available at: <http://www.unrisd.org/unrisd/website/document.nsf/0/400751A2D48E8DDDC1256F80003DA9CE?OpenDocument> Last visited: June 17, 2008.

¹⁹ Ana Paula M. do Nascimento, "Corporate Social Responsibility in Brazil: A Comparative Analysis of Two Paper Companies," *Department of Urban Studies and Planning, MIT*, September 2004. Available at: dspace.mit.edu/bitstream/1721.1/28800/1/60250011.pdf Last visited: June 17, 2008.



the 2008 Forbes Global 2000,²⁰ 75% publish an annual social report.²¹ Corporate social responsibility has virtually become a part of many Brazilian corporations' business plans, with over a thousand companies representing 35% of Brazilian GDP in the process of working with the Brazil's Ethos Institute to improve their CSR reporting and practices.²²

The main actor for corporate social responsibility activity and reporting in Brazil has been and remains the private sector, but innovative efforts by Bovespa and by the Brazilian government to support CSR are leading towards national CSR policies and practices.²³

Bovespa

BM&F Bovespa (BVSP) is a São Paulo-based stock exchange with a market capitalization of almost \$1.5 trillion.²⁴ Founded in 1890, Bovespa encourages changes in corporate governance and corporate social responsibility by providing incentives to companies willing to pursue higher standards.

Bovespa has been a crucial actor in the process of changing corporate governance and social responsibility practice in Brazil. Within its stock exchange, Bovespa has created three special listing segments for companies who opt to adhere to corporate governance standards above and beyond those required by the Brazilian Securities and Exchange Commission (CVM). Each segment corresponds to a different level of additional standards, with Level 1 at the lowest end, Level 2 in the middle, and Novo Mercado at the highest level of corporate governance standards. Of the 397 companies traded on Bovespa,²⁵ 163 have chosen to improve their corporate governance standards in the hope of realizing economic gains.²⁶

In addition, following in the footsteps of the Johannesburg Stock Exchange, Bovespa launched a Corporate Sustainability Index (ISE) in December of 2005. The Index includes up to 40 of the highest ranked stocks in terms of sustainability and social responsibility, according to criteria approved by the Corporate Sustainability Index Advisory Board. The

²⁰ The Global 2000 is a ranking of public companies based on composite scores from rankings for sales, profits, assets and market value.

²¹ "The Global 2000," *Forbes*, April 2, 2008. Available at:

http://www.forbes.com/lists/2008/18/biz_2000global08_The-Global-2000_Rank.html Last visited: June 17, 2008.

²² Zara Maung, "Latin America: Brazil's private sector -What community service really means," *Ethical Corporation*, December 14, 2006. Available at: <http://www.ethicalcorp.com/content.asp?ContentID=4743> Last visited: June 17, 2008.

²³ Susanne Schaller and Alexander Kocks, "The CSR Navigator: Country Profile—Brazil," Institute for Development and Peace, University of Duisburg-Essen. Available at: http://www.bertelsmann-stiftung.org/cps/rde/xchg/SID-0A000F0A-3C26D05A/bst_engl/hs.xsl/prj_5982_5988.htm Last visited: June 17, 2008.

²⁴ World Federation of Exchanges, "Domestic Market Capitalization (in millions of US dollars)," *Focus*, May 2008. Accessible at: <http://www.world-exchanges.org/publications/Focus508.pdf> Last visited: June 12, 2008.

²⁵ June 16, 2008 numbers, "Market Capitalization of the Stocks traded on Bovespa," *Bovespa*. Available at: <http://www.bovespa.com.br/InstDados/Negociacao/bursdiai.asp> Last visited: June 17, 2008.

²⁶ "For Investors, Listed Companies, Corporate Governance," and Number 10, "Corporate Governance: FAQ," *Bovespa*. Available at: <http://www.bovespa.com.br/indexi.asp> Last visited: June 17, 2008.



Board is made up of governmental and nongovernmental organizations as well as corporate associations including the United Nations Development Program, the Ethos Institute, the Brazilian Ministry of the Environment, and the National Association of Investment Banks.²⁷

One hundred and twenty-one of the top 150 performing stocks listed on Bovespa were sent a questionnaire that analyzed their performance on social, environmental, and economic issues as well as corporate governance, product suitability, and criteria relating to social responsibility generally. The questionnaire was created by the Center for Sustainability Studies at the Getúlio Vargas Foundation, and completion of the document was voluntary.²⁸

After the Advisory Board reviews all the replies, questionnaires are run through a statistical model using a cluster analysis that groups together businesses exhibiting similar performance in each of the above named criteria. The ISE portfolio is thus comprised of a “cluster” of corporations who demonstrate outstanding performance on all criteria.²⁹ The portfolio is revised annually, but companies can be removed throughout the year if they no longer meet the requirements of the index. As of mid-2008, there were 31 companies in the portfolio.

By providing good governance and socially responsible indicators for investors, Bovespa’s corporate government listings and Corporate Sustainability Index increase the likelihood that listed companies will attract investors concerned with social responsibility.³⁰ Bovespa gives companies a potential financial benefit for choosing to act in a sustainable and ethical fashion. While Bovespa has no CSR reporting listing requirements the exchange is taking substantial steps to promote corporate governance and social responsibility.

Brazilian Government

Government agencies have been involved with CSR activities both domestically and internationally. For example, the Brazilian Ministry of the Environment is a member of the advisory board overseeing Bovespa’s Corporate Social Responsibility Index. Brazil adheres to the OECD Guidelines for Multinational Enterprises, which were formally implemented in Brazil in 2003 and are overseen by the Ministry of Finance. The Brazilian government has taken a number of steps to indirectly support CSR.

In addition, Brazil has seen efforts towards the development of national standards on corporate social responsibility in recent years. Bishop Rodrigues, a member of the Chamber of Deputies, introduced legislative proposal 1305/2003 that would require all Brazilian companies to publish a “social balance sheet,” instate social responsibility codes, and create a

²⁷ “Corporate Sustainability Index Introduction,” *Bovespa*. Available at: <http://www.bovespa.com.br/indexi.asp> Last visited: June 17, 2008.

²⁸ “Bovespa Corporate Sustainability Index,” *IFC*. Available at: [http://www.ifc.org/ifcext/home.nsf/AttachmentsByTitle/Brazil_Corp_Sus_Index/\\$FILE/Brazil_Corp_Sus_Index.pdf](http://www.ifc.org/ifcext/home.nsf/AttachmentsByTitle/Brazil_Corp_Sus_Index/$FILE/Brazil_Corp_Sus_Index.pdf) Last visited: June 17, 2008.

²⁹ *Ibid.*

³⁰ Number 10, “Corporate Governance: FAQ,” *Bovespa*. Available at: <http://www.bovespa.com.br/indexi.asp> Last visited: June 17, 2008.



national regulatory body to oversee CSR performance and sanction non-compliers.³¹ In December 2004, the Brazilian Association of Technical Norms (ABNT) launched NBR 16001, Brazil's Social Responsibility Norm, establishing nation-wide minimum requirements for a social responsibility management system. The norm is not obligatory nor does it include specific performance criteria, but it considers companies' legal requirements, ethical commitments, transparency, and the promotion of sustainable development and incorporates them into a national standard.³²

Conclusion

A combination of endeavors by the Brazilian business community and Bovespa has brought corporate social responsibility into the mainstream in Brazil. The sheer number of corporations that voluntarily report their CSR activities indicates that the Brazilian business community recognizes the social and environmental benefits of good corporate citizenship.

³¹ Page 73, Lewis van Leeuwen, "Brazil: Forever the Country of the Future?," *Erasmus University*, December 2005. Available at: <http://www.basisboekmvo.nl/images/mvo-scriptie/22%20Lewis%20van%20Leeuwen.pdf> Last visited: June 17, 2008.

³² "About Ethos > Activities," *Ethos Institute*. Available at: <http://www.ethos.org.br/DesktopDefault.aspx?TabID=3892&Alias=EthosEnglish&Lang=pt-BR> Last visited: June 17, 2008.



France

Introduction

The first country to do so, France has required corporate social responsibility reporting since 1977. CSR reporting requirements in France, expanded in 2002, are the most extensive and detailed globally. Mandated CSR disclosure is intended to keep French companies on the cutting edge of international development and balance economic growth with social and environmental concerns. Integrated with financial reporting, corporate social responsibility reporting in France is part of a larger national plan for sustainable development.

Background

Since the 1990s, France has attempted extensive economic reforms in an effort to transition the country's economy from one of extensive government intervention and ownership to one of privatization and openness to market forces.³³ Labor reforms have met with widespread opposition and unemployment remains at rates upwards of 8%, particularly affecting young and minority populations.³⁴ For the French government, investment has been an important way to stimulate the economy and increase employment.³⁵

The government sees CSR as a way to promote social and environmental issues as well as increase competitiveness and attract investors. Worldwide developments towards socially responsible investing and corporate social responsibility reporting occurred as the French government worked to integrate CSR more closely into existing discussions of sustainable development.³⁶

By promoting CSR, the government hopes to improve corporate transparency, encourage corporations to meet triple bottom line stakeholder expectations, and put French companies at the front of the social disclosure movement.³⁷ A decision by French Parliament ultimately to mandate reporting instead of resorting to voluntary measures is

³³ "CIA World Factbook—France," *CIA*, June 19, 2008. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/fr.html> Last visited: June 23, 2008.

³⁴ "CIA World Factbook—France," *CIA*, June 19, 2008. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/fr.html> Last visited: June 23, 2008.

³⁵ "2005 Investment Climate Statement France," *US Department of State*, 2005. Available at: <http://www.state.gov/e/eeb/ifd/2005/42036.htm> Last visited: June 23, 2008.

³⁶ Pages 446-447. Lucien Dhooge. "Beyond Voluntarism: Social Disclosure and France's Nouvelles Regulations Economiques," *Arizona Journal of International and Comparative Law*, Vol 21 No 2, 2004. Available at: <http://www.law.arizona.edu/journals/ajicl/AJICL2004/Vol212/Dhooge.pdf> Last visited: June 23, 2008.

³⁷ Pages 447-448. *Ibid.*



partly attributable to French beliefs that the government should take an active role in encouraging corporate social responsibility disclosure.³⁸

French Government

Since 1977, French companies employing more than 300 people have had to file a *bilan social* or social balance sheet with their local works councils, firm level components of national trade unions.³⁹ These annual reports contained data on 134 indicators regarding work and employment situations as well as evaluations of changes that had been made over the last three years.⁴⁰ While these documents were not required to be disclosed publicly outside the works councils, social balance sheets were the first step towards mandated CSR disclosure.

In 2001, the French Parliament passed the *Nouvelles Regulations Economiques* (NRE) or New Economic Regulations Act. Embedded in the NRE is Article 116, mandating that companies listed publicly on Paris Stock Exchange's Primary Market include social and environmental information in their annual reports.⁴¹ By having such information published in annual reports, Article 116 makes CSR data publicly available to investors and the public.⁴²

Article 116 is elaborated in Decree n. 2002-221, passed in 2002, which explains in detail the specific social and economic indicators that companies are required to report on, in three areas: human resources, community involvement, and the environment.⁴³ By law, companies are required to produce missing information if asked by shareholders, and shareholders have the ability to sue if they have been harmed by a company's failure to disclose certain information.⁴⁴ However, without sanctions or specifications on form, length, or depth, the reporting performance of French companies has varied greatly.⁴⁵

³⁸ Susanne Schaller, "The CSR Navigator: Country Profile—France," *Institute for Development and Peace, University of Duisburg-Essen*. Available at: http://www.bertelsmann-stiftung.org/cps/rde/xchg/SID-0A000F0A-3C26D05A/bst_engl/hs.xsl/prj_5982_5988.htm Last visited: June 23, 2008.

³⁹ "Social Balance Sheet," European Foundation for the Improvement of Living and Working Conditions, October 31, 2007. Available at: <http://www.eurofound.europa.eu/emire/France/SOCIALBALANCESHEET-FR.htm> Last visited: June 23, 2008.

⁴⁰ Ibid. Susanne Schaller, "The CSR Navigator: Country Profile—France," *Institute for Development and Peace, University of Duisburg-Essen*. Available at: http://www.bertelsmann-stiftung.org/cps/rde/xchg/SID-0A000F0A-3C26D05A/bst_engl/hs.xsl/prj_5982_5988.htm Last visited: June 23, 2008.

⁴¹ Ibid.

⁴² Ibid.

⁴³ See Appendix A for full indicator requirements. "Mandatory Sustainability Reporting for French Corporations," press release, *Arise*, March 5, 2002. Available at: http://www.asria.org/news/press/lib/NRE_Press_Release.pdf Last visited: June 23, 2008.

⁴⁴ Pages 489-490. Lucien Dhooge. "Beyond Voluntarism: Social Disclosure and France's *Nouvelles Regulations Economiques*," *Arizona Journal of International and Comparative Law*, Vol 21 No 2, 2004. Available at: <http://www.law.arizona.edu/journals/ajicl/AJICL2004/Vol212/Dhooge.pdf> Last visited: June 23, 2008.

⁴⁵ Mary Lou Egan et al, "France's *Nouvelles Regulations Economiques*: Using Government Mandates for Corporate Reporting to Promote Environmentally Sustainable Economic Development," November 2003. Available at: <http://www.bendickegan.com/pdf/EganMauleonWolffBendick.pdf> Last visited: June 23, 2008.



In addition, the French government requires employees' savings funds and public pension funds to define and disclose the social, ethical, and environmental criteria they use when investing. The 2001 Law on the Generalization of Employee Saving Plans mandates that employee saving funds "specify the social, environmental or ethical considerations the fund management company must take into account when buying or selling stocks and securities" and indicate in the annual report how such considerations have been addressed.⁴⁶ The Law on Public Pension Reserve Funds, also passed in 2001, requires pension funds' management board to regularly report to the supervisory board on how investment policy guidelines have addressed social, ethical, and environmental considerations.⁴⁷

Conclusion

France's legal requirement for disclosure of CSR indicators by publicly listed companies is an important step towards greater transparency. Government legislation has kept French corporations competitive in SRI markets. Given the 88% growth of socially responsible investment in France between 2005 and 2006, it seems that France has made a sound business decision by mandating corporate social responsibility reporting.⁴⁸

⁴⁶ Page 24. "Corporate Social Responsibility: National Public Policies in the European Union," *European Commission on Employment & Social Affairs*, January 2004. Available at: http://ec.europa.eu/employment_social/soc-dial/csr/national_csr_policies_en.pdf Last visited: June 24, 2008.

⁴⁷ Ibid.

⁴⁸ "Socially Responsible Investment in France up 88% in One Year," *CSR Europe*, June 8, 2007. Available at: http://www.csreurope.org/news.php?type=&action=show_news&news_id=304 Last visited: June 24, 2008.



Malaysia

Introduction

Bursa Malaysia, Malaysia's stock exchange, and the Malaysian government have teamed up to make Malaysia one of the more advanced countries in the world with regards to corporate social responsibility (CSR) reporting. In the wake of the 1997 Asian financial crisis, a working group of industry members, NGOs, and government agencies embarked upon a decade-long effort to make Malaysia more investor-friendly and prevent future financial disasters. CSR is an important component of these macro-level plans to strengthen the structures of the Malaysian economy.

Background

Currently the world's 31st largest economy, Malaysia has been growing at a healthy clip since the 1970s.⁴⁹ Deft handling by the government of the Asian financial crisis in July of 1997 enabled Malaysia to rebound from a -7% GDP growth rate in 1997 to a 2007 GDP growth rate of 6.3 %.⁵⁰

The 1997 crisis drew attention to weaknesses in the existing corporate governance regulations in Malaysia. In March of 1998, a Finance Committee on Corporate Governance was organized to pinpoint problem areas and recommend solutions. Committee membership reflected the collaborative nature of the project. Participants included the Ministry of Finance, the Securities Commission, Bank Negara Malaysia, Bursa Malaysia, and the Federation of Publicly Listed Companies, among others. The Committee's work culminated in the publication in 1999 of the Finance Committee Report on Corporate Governance.⁵¹

As of December 2004, 90.4% of the Report's recommendations had either been successfully implemented or were partially completed.⁵² Malaysian laws and regulations governing companies have been overhauled to protect shareholders, ensure transparency, and support good governance practices. Bursa Malaysia has been an important part of the

⁴⁹ Rankings are by 2007 GDP purchasing power parity. CIA Factbook, "Malaysia." Accessible at: <https://www.cia.gov/library/publications/the-world-factbook/geos/my.html#Econ> Last visited: June 12, 2008.

⁵⁰ State Department, Bureau of East Asian and Pacific Affairs, "Background Note: Malaysia." No date. Accessible at: <http://www.state.gov/r/pa/ei/bgn/2777.htm> Last visited: June 12, 2008.

⁵¹ Securities Commission, Malaysia, "Overview of the Corporate Governance Reform Agenda." No date. Accessible at: <http://www.sc.com.my/> Last visited: June 12, 2008.

⁵² Securities Commission, Malaysia, "Implementation Reporting." No date. Accessible at: <http://www.sc.com.my/> Last visited: June 12, 2008.



implementation process as well as operating as a key enforcement mechanism for new requirements.⁵³

Extensive corporate governance reform was the first step towards making Malaysian companies attractive to investors as strong, effective, and competitive corporations. Corporate social responsibility, for the Securities Commission, followed right on the heels of corporate governance reform.⁵⁴ According to the Commission, CSR is the next important step in Malaysia's national plan for attracting investment through improved corporate citizenship, in tandem with the world's increasing interest in corporate social responsibility.⁵⁵

Government Initiatives

At a conference on corporate social responsibility in 2004, the Malaysian government came out publicly supporting *voluntary* CSR reporting and standards so as not to “interfere with the private sector's progress and initiatives within a voluntary framework.”⁵⁶ At that time, the Securities Commission supported an “industry-driven” initiative to put together a Malaysian CSR organization to facilitate progress on CSR and participated in a working group on “National Integrity Plan—Strategy 1” which dealt in part with CSR development.⁵⁷

Then, in the 2007 Budget speech, Prime Minister Yab Dato' Seri Abdullah Bin HJ. Ahmad Badawi announced that publicly listed companies would be required to disclose their corporate social responsibility activities in their annual financial reports, saying “To inculcate the culture of corporate social responsibility PLCs are required to disclose their CSR activities... It can be expected that PLCs which practice CSR are likely to attract investors, particularly large domestic and international institutional investors.”⁵⁸ The government also increased corporate tax deductions for charitable contributions from 5% to 7% of aggregate income.⁵⁹

In addition, the Prime Minister announced that the Malaysian Employee Provident Fund (EPF) would “consider favorably PLCs with good CSR practices” when making investment decisions.⁶⁰ The EPF provides retirement planning and social security for legally

⁵³ Securities Commission, Malaysia, “Overview of the Corporate Governance Reform Agenda.” No date. Accessible at: <http://www.sc.com.my/> Last visited: June 12, 2008.

⁵⁴ Securities Commission, Malaysia, “Corporate Social Responsibility (CSR).” No date. Accessible at: <http://www.sc.com.my/> Last visited: June 12, 2008.

⁵⁵ Ibid.

⁵⁶ Tan Sri Nor Mohamed Yakcop, “CSR & SRI: The Way Forward for Malaysia, Special Address,” delivered June 22, 2004. Available at:

<http://www.treasury.gov.my/index.php?WebsiteId=1&ch=36&pg=126&ac=379&lang=eng&act=srch> Last visited: June 13, 2008.

⁵⁷ Securities Commission, Malaysia, “Corporate Social Responsibility (CSR).” No date. Accessible at: <http://www.sc.com.my/> Last visited: June 12, 2008.

⁵⁸ Pages 22-23, paragraphs 88-90, Prime Minister Yab Dato' Seri Abdullah Bin HJ. Ahmad Badawi, “The 2007 Budget Speech,” delivered September 1, 2006. Available at: <http://www.epu.jpm.my/bajet/engbajet2007.pdf> Last visited: June 13, 2008.

⁵⁹ Page 23, paragraph 90, Ibid.

⁶⁰ Page 22, paragraph 88. Ibid.



employed workers in Malaysia, and is mandatory for all working citizens and permanent residents. At year-end 2006, EPF had 11.4 million members⁶¹ and stood at over \$79 billion.⁶²

The following year, the government announced in the 2008 Budget speech requirements for PLCs to disclose their employment data by race and gender, as well as their efforts (or lack thereof) to use local and Bumiputra⁶³ vendors.⁶⁴ The government also announced the creation of a \$15 million fund to help finance selected CSR projects, targeting the poorest sections of the population.⁶⁵

Exchange Initiatives

Bursa Malaysia is a key component to the enforcement of government policies regarding CSR disclosure and corporate governance. Formerly known as the Kuala Lumpur Stock Exchange, Bursa Malaysia (MYX/KLSE) was founded in 1930. As of April 2008, Bursa Malaysia's market capitalization stood just over \$300 billion.⁶⁶

Bursa Malaysia has been heavily involved in Malaysian efforts to improve corporate governance and social responsibility standards. Bursa Malaysia was a member of the Finance Committee that drafted recommendations for improving Malaysian corporate governance in 1999 as well as the Implementation Team that executed the recommendations.⁶⁷ The majority of legislation and regulation designed to improve corporate governance in Malaysia centered on strengthening Bursa Malaysia's listing requirements in accordance with the Malaysian Code on Corporate Governance.⁶⁸

In tandem with requiring corporate governance disclosure, Bursa Malaysia has also been on the forefront of CSR reporting in Malaysia. Bursa Malaysia as an organization has committed to practicing good CSR and setting an example for companies listed on its exchange. Bursa Malaysia's Corporate Responsibility Mission Statement states that they

⁶¹ EPF, "About EPF—Corporate Information," No date. Available at: http://www.kwsp.gov.my/index.php?ch=p2corporateinfo&pg=en_p2corporateinfo_geninfo&ac=1856 Last visited: June 13, 2008.

⁶² 260 billion ringgit, converted into US dollars. Tan Sri Nor Mohamed Yakcop, "Malaysia's Response to Globalization," delivered November 30, 2006. Available at: <http://www.treasury.gov.my/index.php?ch=36&pg=126&ac=1771&lang=eng> Last visited: June 13, 2008.

⁶³ Bumiputra is a term used to denote descendants of the ethnic indigenous peoples of Malaysia.

⁶⁴ Pages 22-23, paragraphs 104-108, Prime Minister Yab Dato' Seri Abdullah Bin HJ. Ahmad Badawi, "The 2008 Budget Speech," delivered September 7, 2007. Available at: <http://www.lawnet.com.my/lawnetpublic/Speech2008.pdf> Last visited: June 13, 2008.

⁶⁵ Ibid.

⁶⁶ World Federation of Exchanges, "Domestic Market Capitalization (in millions of US dollars)," *Focus*, May 2008. Accessible at: <http://www.world-exchanges.org/publications/Focus508.pdf> Last visited: June 12, 2008.

⁶⁷ Securities Commission, Malaysia, "Overview of the Corporate Governance Reform Agenda." No date. Accessible at: <http://www.sc.com.my/> Last visited: June 12, 2008.

⁶⁸ Chapter 15, Part E, Paragraph 26, page 282. See Appendix B for Bursa Malaysia listing requirements.



“view CSR as an integral part towards being an internationally competitive marketplace” and assume “a leadership role in developing CSR in Malaysia.”⁶⁹

In response to the aforementioned government requirements that PLCs disclose their CSR activities, Malaysia’s Finance Minister Tan Sri Nor Mohamed Yakcop gave a speech in 2007 detailing Bursa Malaysia’s CSR framework for PLCs. He called upon Bursa Malaysia’s “regulatory” capacity to shape the way PLCs “view, adopt, and integrate CSR” as well as Bursa’s prominence as a role model for other PLCs.⁷⁰ Bursa Malaysia, like other stock exchanges, has a capacity to influence the way CSR is practiced by publicly listed companies.

The CSR framework for PLCs is coordinated with national goals, drawing some CSR “focus areas” from sectors of the nation that need the most help. It is intended to be a guide and suggest ways that companies could practice good corporate social responsibility. The framework focuses on four areas: the environment, the community, the marketplace and the workplace, and encourages companies to think critically about the implications of their business models.⁷¹ For companies interested in acting more socially responsible, the framework highlights possible areas of improvement such as the protection of endangered species, increased employee volunteerism, and workplace diversity.⁷² Bursa Malaysia’s framework allows companies to prioritize their CSR activities based on their resources and inclinations, while still encouraging a comprehensive and innovative approach to ethical business practices.

The framework itself does not include any requirements, and acts as a voluntary resource for those who want to use it. However, in accordance with government policy, Bursa Malaysia’s listing rules require that companies listed on their exchange include in their annual report:

9C.A.

(29) A description of the corporate social responsibility activities or practices undertaken by the listed issuer and its subsidiaries or if there are none, a statement to that effect.⁷³

By requiring a CSR report, Bursa Malaysia reinforces government initiatives in this area and calls corporate attention to how their CSR practices are affecting the environment and society. In providing a framework, Bursa Malaysia guides corporations to better practice.

⁶⁹ Bursa Malaysia, “Corporate Social Responsibility Mission Statement,” No date. Accessible at: http://www.bursamalaysia.com/website/bm/about_us/the_organisation/csr/mission_statement.html Last Visited: June 12, 2008.

⁷⁰ Tan Sri Nor Mohamed Yakcop, “Launch of Bursa Malaysia’s CSR Framework in Conjunction with the Rat Race 2006,” delivered September 5, 2007. Available at: <http://www.treasury.gov.my/index.php?ch=36&pg=126&ac=1696> Last visited: June 13, 2008.

⁷¹ Bursa Malaysia, “Bursa Malaysia’s CSR Framework for Malaysian PLCs,” powerpoint by Yusli Mohamed Yusof, CEO Bursa Malaysia. Created 5 September 2006, accessible at: http://www.bursamalaysia.com/website/bm/about_us/the_organisation/csr/downloads/csr_framework_slides.pdf Last visited: June 12, 2008.

⁷² Ibid.

⁷³ Appendix 9C part A paragraph 29, page 204. See Appendix B for Bursa Malaysia’s listing requirements.



Conclusion

For Bursa Malaysia and the Malaysian government, good governance and corporate social responsibility practices are key to “cross[ing] the finish line ahead of the competition.”⁷⁴ Malaysian CSR is not just about ethical business, but about making Malaysia an economic powerhouse by tapping into the \$3 trillion of socially responsible investment funds worldwide.⁷⁵ Teamwork between the government and Bursa Malaysia has helped to create a burgeoning system for CSR reporting that is enforceable and simultaneously allows for creative innovation and expression.

⁷⁴ Tan Sri Nor Mohamed Yakcop, “Launch of Bursa Malaysia’s CSR Framework in Conjunction with the Rat Race 2006,” delivered September 5, 2007. Available at:

<http://www.treasury.gov.my/index.php?ch=36&pg=126&ac=1696> Last visited: June 13, 2008.

⁷⁵ 2006 numbers. Ibid.



South Africa

Introduction

South Africa's corporate social responsibility activities have taken place in a context of national economic progress. Government efforts to expand economic participation have led to the Broad-Based Black Economic Empowerment Act of 2003, legislation intended to "facilitate growth, development, and stability" in the South African economy.⁷⁶ In an effort to increase investment in listed companies, the Johannesburg Stock Exchange, JSE Limited, has strengthened its listing requirements to include CSR disclosure and launched a socially responsible investment (SRI) index.⁷⁷ Commitment to economic advancement by way of corporate social responsibility underpins CSR disclosure efforts in South Africa.

Background

South Africa held its first multi-racial election in 1994, ending 46 years of apartheid.⁷⁸ Apartheid left South Africa with a heavily racialized economic system as well as high unemployment and poverty rates. Whites, 10% of South Africa's population, controlled nearly the entire economy when apartheid ended.⁷⁹ The poverty rate in South Africa currently stands at 50% and the unemployment rate at 24%, with the top 10% of the population receiving 45% of national income.⁸⁰

After decades of international divestments and trade sanctions, the South African business community had to rebuild its image as well as investor confidence. Efforts to meet requirements of international investors and signal socially responsible companies led to the creation of stronger listing requirements in 2003 and the establishment of the first SRI index by a stock exchange in 2004.

Since apartheid, the government has tried to de-segregate the country by increasing multi-racial participation in the economy. For the government, racially-based disparity in wealth "acts as a deterrent to growth, economic development, employment creation and

⁷⁶ "South Africa's Economic Transformation: A Strategy for Broad-Based Black Economic Empowerment," *the dti*, no date. Available at: http://bee.sabinet.co.za/charters/bee_strategy_document.pdf Last visited: June 19, 2008.

⁷⁷ William Meyer, "The JSE's new listing requirements help to make the shareholder king," *Personal Finance*, September 6, 2003. Available at: <http://www.persfin.co.za/index.php?fSectionId=585&fArticleId=222669> Last visited: June 19, 2008. "JSE SRI Index Background and Selection Criteria," *JSE*, October 6, 2003. Available at: <http://www.jse.co.za/sri/docs/criteria/Background%20and%20Criteria.final.06%2010%2003.pdf> Last visited: June 19, 2008.

⁷⁸ "CIA World Factbook—South Africa," *CIA*, June 10, 2008. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/sf.html> Last visited: June 19, 2008.

⁷⁹ Vernon Wessels, "South Africa lures Overseas Banks to Help undo Apartheid's Sins," *Bloomberg*, July 30, 2006. Available at: <http://www.bloomberg.com/apps/news?pid=20601109&sid=aTWhmgrwPRWI> last visited: June 19, 2008.

⁸⁰ 2000 and 2007 numbers, respectively. *Ibid.*



poverty eradication.”⁸¹ To get South Africa’s economy growing at its full potential, the government instituted the Broad-Based Black Economic Empowerment Act in 2003. Essentially, all companies that want to do business in South Africa have to report what they are doing in compliance with specific black empowerment indicators as set forth by a Code of Best Practices.⁸²

In addition, the Institute of Directors of South Africa has put forth two King Codes on Corporate Governance: King I in 1994 and King II in 2002. King II is followed by many corporations in South Africa, and JSE’s listing requirements include reporting on compliance with King II.

CSR reporting requirements are an important component of South Africa’s economic revitalization. While government requirements are mostly concerned with black economic empowerment, JSE has taken a leading role in mandating CSR reporting and facilitating a consensus on what CSR means in South Africa.

JSE Limited

Established in 1887, JSE Limited is the largest stock exchange in Africa with a market capitalization of almost \$790 billion.⁸³ In 2003, the former Johannesburg Securities Exchange became the first stock exchange to require CSR disclosure and adherence to the King II Code on Corporate Governance.⁸⁴

The King II Code on Corporate Governance goes beyond standard governance regulations such as the composition and compensation of a company’s Board of Directors and processes for publicizing shareholder meetings to require “integrated sustainability reporting.” King II explicitly follows a “triple bottom line” policy that stresses strong economic, social and environmental performance. Companies are asked to examine the structure and depth of their social, ethical, health, and environmental practices. In addition, companies are asked to create and codify, with stakeholder input, a standard of corporate ethical behavior.⁸⁵

The JSE incorporates King II into its listing requirements by mandating that companies comply with the principles in the code or explain their non-compliance in both their pre-listing statements and annual reports. The JSE listing requirements read as follows:

7.F.5 Applicant issuers must include the following in its pre-listing statement:

⁸¹ Paragraph 1.5. “South Africa’s Economic Transformation: A Strategy for Broad-Based Black Economic Empowerment,” *the dti*, no date. Available at: http://bee.sabinet.co.za/charters/bee_strategy_document.pdf Last visited: June 19, 2008.

⁸² *Ibid.*

⁸³ World Federation of Exchanges, “Domestic Market Capitalization (in millions of US dollars),” *Focus*, May 2008. Accessible at: <http://www.world-exchanges.org/publications/Focus508.pdf> Last visited: June 12, 2008.

⁸⁴ “Corporate Governance Report 2003,” *JSE*. Available at: http://www.jse.co.za/docs/arep/2003ann/gen_com/corp_gov_main.htm Last visited: June 19, 2008.

⁸⁵ “Executive Summary of the King Code,” Institute of Directors of South Africa, 2002. Available at: http://www.ecgi.org/codes/documents/executive_summary.pdf Last visited: June 19, 2008.



- (a) a narrative statement of how it has applied the principles set out in the King Code, providing explanation that enables its shareholders and potential investors to evaluate how the principles have been applied; and
 - (b) a statement addressing the extent of the company's compliance with the King Code and the reasons for each and every instance of non-compliance.
- 8.63 ...issuers are required to disclose the following information in the annual report
- (a) the King Code:
 - (i) a narrative statement of how it has applied the principles set out in the King Code, providing explanation(s) that enable(s) its shareholders to evaluate how the principles have been applied; and
 - (ii) a statement addressing the extent of the company's compliance with the King Code and the reasons for non-compliance with any of the principles in the King Code, specifying whether or not the company has complied throughout the accounting period with all the provisions of the King Code, and indicating for what part of the period any non-compliance occurred⁸⁶

On May 19, 2004, JSE launched its SRI Index, the first by a stock exchange and the first in an emerging market. The index was created to “meet the emerging requirements of investors and civil society for companies to demonstrate more socially responsible behavior,” since “many large investment institutions have already announced policies to assess the social responsibility of the companies in which they invest.”⁸⁷ The Index was a way for JSE to mark for investors those companies that integrate SRI and sustainability into their business models.⁸⁸

The Index's criteria measure the policy, strategy, management systems, performance, and reporting of companies with respect to each of the three pillars of the triple bottom line. For each criterion, companies are scored across a number of indicators on a scale from 0-3. EIRIS, a UK-based SRI research firm, is in charge of researching and scoring company performance with regard to the indicators. Certain indicators are non-negotiable, and companies must score at least a 1 in 50% of non-negotiable indicators per criterion to be

⁸⁶ JSE Listing Requirements, Sections 7 and 8. See Appendix C for section 7 of the JSE's listing requirements.

⁸⁷ Page 2. “JSE SRI Index Background and Selection Criteria,” *JSE*, October 6, 2003. Available at: <http://www.jse.co.za/sri/docs/criteria/Background%20and%20Criteria.final.06%2010%2003.pdf> Last visited: June 19, 2008.

⁸⁸ *Ibid.*



eligible. In addition, companies must meet minimum scores in each of the triple bottom line areas and a minimum score overall to be included in the index.

JSE publishes the names of companies that are listed on the SRI index. For the first year, JSE did not publish any rankings on how companies performed in relation to one another. In 2005, outstanding performers were announced by environmental classification, and in 2006, top performers in each environmental impact category were announced. JSE has continued to release more extended rankings, releasing the names of the top 14 companies by environmental impact category in 2007. JSE does not release company specific scores publicly, nor are the names of non-participating and non-qualifying companies published. The Index does not screen out businesses involved in ethically questionable industries such as gambling or tobacco.

As of 2007, all companies listed on the JSE top 40 or the current JSE SRI Index will be automatically assessed against the Index's criteria. For companies listed on JSE's All Share Index, participation is voluntary. Ultimately, the Index hopes to assess all eligible companies.⁸⁹

The Index was updated in 2006 to reflect new global criteria and simplify the data collecting process. There are currently 56 members of the Index, which is in its fourth year of operation.

South African Government

The South African government has been receptive to the King Codes and has discussed codifying sections of the codes into South African law.⁹⁰ Another CSR reporting related activity has been in conjunction with the Broad-Based Black Economic Empowerment Act of 2004 (BBBEE).

The BBBEE seeks to address socioeconomic inequalities in the wake of apartheid through the use of market forces.⁹¹ The BBBEE creates Codes of Good Practice that all state-owned and public companies must adhere to, and are measured by way of a BEE scorecard. Privately owned companies who wish to do business with the state or any government enterprise, such as buying state-owned assets or applying for licenses, must also adhere to the Codes.⁹²

Essentially, companies who wish to do business in South Africa are required to report certain social aspects of their businesses. Corporations are judged on their levels of black

⁸⁹ "Development of Index," *JSE*, no date. Available at: http://www.jse.co.za/sri/development_index.jsp Last visited June 19, 2008.

⁹⁰ Michael Barrier, "Principles, not Rules," intv with Mervyn King, *Internal Auditor*, Aug 2003. Available at: http://findarticles.com/p/articles/mi_m4153/is_4_60/ai_106863373 Last visited: June 19, 2008

⁹¹ Susanne Schaller, "The CSR Navigator: Country Profile—South Africa," Institute for Development and Peace, University of Duisburg-Essen. Available at: http://www.bertelsmann-stiftung.org/cps/rde/xchg/SID-0A000F0A-3C26D05A/bst_engl/hs.xsl/prj_5982_5988.htm Last visited: June 17, 2008.

⁹² "South Africa's Economic Transformation: A Strategy for Broad-Based Black Economic Empowerment," *the dti*, no date. Available at: http://bee.sabinet.co.za/charters/bee_strategy_document.pdf Last visited: June 19, 2008.



empowerment by management and ownership composition, hiring practices, employment equity, preferential procurement and corporate social investment.⁹³

Conclusion

CSR reporting has become a key to the revitalization and globalization of the South African economy post-apartheid. JSE's reporting requirements and SRI index have increased the status of CSR reporting in South Africa. The South African government has used market forces to pressure companies to critically consider and report on their activities related to black economic empowerment, a distinctly South African effort to address racialized inequality. Strategies to put JSE on the map and attract foreign investment as well as government efforts to unleash economic growth are integral to the proliferation of CSR reporting in South Africa.

⁹³ Ibid.



Sweden

Introduction

The Swedish government has taken a leading role in promoting CSR in Sweden by way of promotional initiatives, partnerships and, most recently, through legislation to enhance Sweden's international competitiveness and reputation.⁹⁴ As a result of national strategies, engagement in corporate social responsibility in Sweden is widespread. In addition, national inclinations toward consensus-building and volunteerism have helped the evolution of CSR and CSR reporting in Sweden.

Background

Sweden, consistently ranked at the top of the UNDP's Human Development Index, has combined a strong market with extensive welfare benefits to give its citizens a comfortably high standard of living.⁹⁵ By virtue of being a welfare state, Sweden has embraced a broad and deep understanding of social responsibility. Sweden's lengthy track record on environmental issues is evidence of this ingrained social awareness.⁹⁶

Consistent with the development and cohesive nature of Swedish society, the Swedish business community has incorporated a strong set of social norms into its business practices.⁹⁷ Corporate social responsibility has an extensive history in Sweden. Partnerships between the government and business community have led to the development of CSR as a tool to boost Sweden's economy and enhance Sweden's role as a world leader.

On a governmental level, corporate social responsibility has become a fundamental part of foreign, trade, investment, and domestic policy. Increasingly the government has passed legislation mandating various levels of CSR disclosure. The government has also worked to raise awareness of CSR in the business and stakeholder communities as well as creating space in government agencies to promote and track CSR activities. Rather than legislate CSR activities, as opposed to CSR disclosure, the government places an emphasis on voluntary approaches.⁹⁸

The Stockholm Stock Exchange, a member of the OMX Nordic Exchange, has a limited role in CSR activities in Sweden. Recent activity involving a change in ownership of

⁹⁴ Doug Wheat, "Swedish Government Facilitates Social Responsibility," interview with Elisabeth Dahlin, December 15, 2006. Available at: <http://www.socialfunds.com/news/article.cgi/2186.html> Last visited: June 20, 2008.

⁹⁵ "CIA World Factbook—Sweden," *CIA*, June 10, 2008. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/sw.html> Last visited: June 20, 2008.

⁹⁶ David Wiles, "Sweden tops corporate social responsibility league," May 2, 2008. Available at: http://www.sweden.se/templates/cs/Article_19326.aspx Last visited: June 20, 2008.

⁹⁷ *Ibid.*

⁹⁸ Susanne Schaller, "CSR Country Profile—Sweden," *Institute for Development and Peace, University of Duisberg-Essen*, 2007. Available at: http://www.bertelsmann-stiftung.org/cps/rde/xchg/SID-0A000F0A-3C26D05A/bst_engl/hs.xsl/prj_5982_5988.htm Last visited: June 20, 2008.



OMX has stalled implementation of OMX's Corporate Social Responsibility Code, which bears relevance on the socially responsible actions of companies listed on the Exchange.

OMX Nordic Exchange

The Stockholm Stock Exchange is owned by OMX Exchanges, a division of OMX AB, a Swedish-Finnish financial services company. Recently purchased by Nasdaq, OMX operates eight stock exchanges in the Nordic and Baltic regions of Europe and has a market capitalization of over \$1.1 trillion.⁹⁹

On April 12, 2007, one month before being bought out by Nasdaq, OMX's Board of Directors approved OMX's "Wholeheartedly Proud Policy." This policy lays out OMX's views on corporate social responsibility as a business in six areas: securities transactions, the marketplace, employer/employee relations, company relations, environmental sustainability, and communication. In the marketplace, OMX has committed itself to an efficient and transparent exchange. As such, it lays out two important tools with regards to OMX's ethical corporate behavior.¹⁰⁰

Tools 8 and 9:

8. Even though a company may fulfill listing requirements, OMX Nordic Exchange has the right to refuse the application if the listing is considered to potentially damage confidence in the exchange or the securities market in general.

9. Companies that through their operations risk or commit serious or systematic violation of human rights or other ethical international norms shall be carefully investigated in conjunction with a listing on OMX Nordic Exchange. This means, for example, that companies that manufacture arms can be investigated as to their observation of conventions against the manufacture of chemical weapons and land mines. In the same spirit, companies can be investigated in terms of their observation of the International Labor Organization conventions against the exploitation of children.¹⁰¹

⁹⁹ World Federation of Exchanges, "Domestic Market Capitalization (in millions of US dollars)," *Focus*, May 2008. Accessible at: <http://www.world-exchanges.org/publications/Focus508.pdf> Last visited: June 12, 2008.

¹⁰⁰ "OMX Wholeheartedly Proud Policy," *OMX*, April 12, 2007. Available at: <http://ir.nasdaqomx.com/documentdisplay.cfm?DocumentID=3898> Last visited: June 20, 2008.

¹⁰¹ Page 4. *Ibid.*



Swedish Government

The Swedish government strongly promotes corporate social responsibility and has increasingly mandated varying aspects of CSR disclosure. Two government agencies, the Ministry of Foreign Affairs and the Swedish International Development Agency, have been responsible for the majority of ongoing government initiatives to improve CSR in Sweden. Collaborative work with the business and consumer communities has also been augmented by recent pieces of legislation regarding CSR disclosure.

The Ministry of Foreign Affairs is in charge of both Organization for Economic Cooperation and Development (OECD) guidelines and Sweden's *Globalt Ansvar* program. *Globalt Ansvar* (Global Responsibility) is a government initiative designed to encourage Swedish companies to be ambassadors for human rights, anticorruption efforts, decent social conditions and a healthy environment.¹⁰²

The Swedish International Development Agency (SIDA) has taken on an important role in promoting CSR activities, developing the only Swedish governmental position paper on the topic. The position paper lays down guidelines for the promotion of CSR in Sweden by way of partnerships, international dialogue, and the creation of a CSR-conducive environment as well as an action plan.¹⁰³ SIDA also provides support for *Globalt Ansvar* and Swedish participation in the UN Global Compact.

Legislatively, Sweden continues to promote CSR disclosure. Passed in 1999, the Accountants Act required companies of a certain size to include information on their environmental impact in their annual financial reports. The Public Pension Funds Act of 2000 mandated that national pensions funds draw up annual business plans that describe how environmental and ethical issues are considered in investment decisions. The Act also prohibited public pension funds from owning companies that violate environmental and ethical policies.¹⁰⁴

Most recently, in 2007, Sweden took a major step forward when it mandated that all 55 state-owned companies produce an annual sustainability report in accordance with the Global Reporting Initiative's G3 guidelines. The Swedish National Audit Office is in charge of ensuring compliance with the law and reports annually to Parliament. The Swedish government hopes that the example of state-owned corporations will set a national standard for corporate social responsibility reporting, but draws the line at extending the requirements to privately owned companies.¹⁰⁵

¹⁰² Susanne Schaller, "CSR Country Profile—Sweden," *Institute for Development and Peace, University of Duisberg-Essen*, 2007. Available at: http://www.bertelsmann-stiftung.org/cps/rde/xchg/SID-0A000F0A-3C26D05A/bst_engl/hs.xsl/prj_5982_5988.htm Last visited: June 20, 2008.

¹⁰³ "Guidelines for Sida's support to Corporate Social Responsibility," *Sida*, May 2005. Available at: www.sida.se/shared/jsp/download.jsp?f=SIDA4724en_CSR_web.pdf&a=3494 Last visited: June 20, 2008.

¹⁰⁴ Susanne Schaller, "CSR Country Profile—Sweden," *Institute for Development and Peace, University of Duisberg-Essen*, 2007. Available at: http://www.bertelsmann-stiftung.org/cps/rde/xchg/SID-0A000F0A-3C26D05A/bst_engl/hs.xsl/prj_5982_5988.htm Last visited: June 20, 2008.

¹⁰⁵ *Ibid.*



Conclusion

The expansion of corporate social responsibility and disclosure requirements is part of a broad effort to make Sweden a “sustainable society.”¹⁰⁶ As in Brazil, Malaysia, and South Africa, CSR is a key component of plans for economic expansion on the international stage. Government leadership through legislation, as well as efforts to actively engage companies in a national discussion on social responsibility, has contributed to the advancement of CSR disclosure in Sweden.

¹⁰⁶ Ibid.



Section Three: Appendices

APPENDIX A: Elements of Reporting Requirements under France's Nouvelles Regulations Economiques Article 116 (Egan, et al., p. 11)

<u>Topic</u>	<u>Suggested Quantitative Reporting</u>	<u>Suggested Qualitative Reporting</u>
Human Resources		
<i>Employment</i>	Total Employees	--
	Hires during the year	Details on recruiting process
	Short-term employees	Analysis and rationale
	Lay-offs	Analysis and rationale
	Contract employees	Analysis and rationale
	--	Outsourcing/subcontracting
	Efforts to mitigate effects of corporate restructuring	--
<i>Work Organization</i>	Amount of overtime	Analysis and rationale
	Work schedules	--
	Absenteeism	Analysis and rationale
<i>Compensation</i>	History of pay rates	--
	Payroll taxes	--
<i>Social Benefits</i>	--	Details
<i>Equal Opportunities</i>	Integration of women into different posts	Details/Analysis
	--	Integration of physically challenged into workforce
<i>Health & Safety</i>	--	Health and safety conditions
	--	Details of incidents and accidents
<i>Training</i>	--	Details
Community Involvement		
<i>Local Impacts</i>	--	Integration into the local community
<i>Local Partnerships</i>	--	Contacts with environmental NGOs, consumer groups, educational institutions and impacted populations
<i>Work conventions</i>	--	Extent to which ILO core labor conventions are followed by the



		firm's subsidiaries
	--	Extent to which the firm encourages its subcontractors to comply with ILO core conventions
<i>Local Development in Foreign Countries</i>	--	--
Environment		
<i>Resource Consumption</i>	Water	--
	Energy	Use of renewable energy
	--	Initiatives for energy efficiency
	Raw materials/natural resources	--
	Land use	--
<i>Emissions</i>	Air, water, land, odor, noise, waste	--
<i>Impact on biodiversity</i>	--	Programs to reduce impacts
	--	Programs to promote fauna and flora
<i>Environmental Management</i>	--	Audit and certification policy
	--	Compliance with environmental laws and regulations
	Expenditures	--
	--	Environmental management structures and organization
	--	Employee awareness and training programs
	--	Environmental risk management
	Provisions for environmental risks	--
	Penalties	--
	--	Integration of foreign subsidiaries within environmental management system



APPENDIX B: Bursa Malaysia Listing Requirements, Appendix



APPENDIX 9C

Part A

Contents of annual report (paragraph 9.25)

- (1) The address, telephone and facsimile numbers of the registered office;
- (2) The address, telephone and facsimile numbers of each office at which a register of securities is kept;
- (3) The particulars of each director in the listed issuer including the following information:-
 - (a) the name, age, nationality, qualification and whether the position is an executive or non-executive one and whether such director is an independent director;
 - (b) working experience and occupation;
 - (c) the date he was first appointed to the board;
 - (d) the details of any board committee to which he belongs;
 - (e) any other directorship of public companies;
 - (f) any family relationship with any director and/or major shareholder of the listed issuer;
 - (g) any conflict of interest that he has with the listed issuer;
 - (h) the list of convictions for offences within the past 10 years other than traffic offences, if any; and
 - (i) the number of board meetings attended in the financial year;
- (4) Name of the chief executive officer and where the chief executive officer is not a director, the following particulars:-
 - (a) the name, age, nationality and qualification;
 - (b) working experience;
 - (c) the date he was first appointed to the listed issuer;
 - (d) the details of any interest in the securities of the listed issuer or its subsidiaries;
 - (e) any directorship of public companies;
 - (f) any family relationship with any director and/or substantial shareholder of the listed issuer;
 - (g) any conflict of interest that he has with the listed issuer; and
 - (h) the list of convictions for offences within the past 10 years other than traffic offences, if any;
- (5) The name of the company secretary;



- (6) The audit committee report in respect of the financial year required under paragraph 15.16;
- (7) The Chairman's statement which represents the collective view of the board of directors setting out a balanced summary which includes the following:-
 - (a) a brief description of the industry trend and development;
 - (b) a discussion and analysis of the group's performance during the year and the material factors underlying its results and financial position. It should emphasise trends and identify significant events or transactions during the year under review; and
 - (c) the prospects of the listed issuer;
- (8) A statement relating to corporate governance in respect of the financial year required under paragraph 15.26;
- (9) A responsibility statement in respect of the annual audited accounts required under paragraph 15.27(a);
- (10) A statement on internal control in respect of the financial year required under paragraph 15.27(b);
- (11) The remuneration of directors of the listed issuer for the financial year and in the following manner:-
 - (a) the aggregate remuneration of directors with categorisation into appropriate components (e.g. directors' fees, salaries, percentages, bonuses, commission, compensation for loss of office, benefits in kind based on an estimated money value) distinguishing between executive and non-executive directors; and
 - (b) the number of directors whose remuneration falls in each successive band of RM50,000 distinguishing between executive and non-executive directors;
- (12) The total number of board meetings held during the financial year;
- (13) Where applicable, a brief explanation of the status of utilisation of proceeds raised from any corporate proposal;
- (14) The information required under paragraph 12.24 in respect of share buybacks for the financial year;
- (15) The amount of options, warrants or convertible securities issued by the listed issuer which are exercised during the financial year;
- (16) A brief explanation on the ADR or GDR programme sponsored by the listed issuer, including the following:-
 - (a) the number and names of the custodians holding the securities for which the ADRs or the GDRs are issued;
 - (b) the total number and percentage of the securities for which the ADRs or GDRs are issued against its issued and paid-up capital and a breakdown of the same in respect of the securities held by each custodian;
 - (c) the name of the depository bank; and



- (d) the stock market in which the ADRs or GDRs are traded (if applicable);
- (17) Particulars of all sanctions and/or penalties imposed on the listed issuer and its subsidiaries, directors or management by the relevant regulatory bodies;
- (18) The amount of non-audit fees incurred for services rendered to the listed issuer or its subsidiaries for the financial year by the listed issuer's auditors, or a firm or company affiliated to the auditors' firm;
- (19) Where the results for the financial year differ by 10% or more from any profit estimate, forecast or projection or unaudited results previously made or released by the listed issuer for that period, an explanation of the difference and a reconciliation thereof;
- (20) Any shortfall in the profit guarantee received by the listed issuer in the financial year as compared with the profit guarantee (if any) and steps taken to recover the shortfall;
- (21) Particulars of material contracts of the listed issuer and its subsidiaries, involving directors' and major shareholders' interests, either still subsisting at the end of the financial year or, if not then subsisting, entered into since the end of the previous financial year, providing the following particulars in respect of each such contract:-
 - (a) the date;
 - (b) the parties;
 - (c) the general nature;
 - (d) the consideration passing to or from the listed issuer or any other company in the group;
 - (e) the mode of satisfaction of the consideration; and
 - (f) the relationship between the director or major shareholder and the contracting party (if the director or major shareholder is not the contracting party).If no such material contract has been entered into, a statement to that effect;
- (22) Where the above contract relates to a loan, the following particulars in respect of each loan:-
 - (a) the names of the lender and the borrower;
 - (b) the relationship between the borrower and the director or major shareholder (if the director or the major shareholder is not the borrower);
 - (c) the purpose of the loan;
 - (d) the amount of the loan;
 - (e) the interest rate;
 - (f) the terms as to payment of interest and repayment of principal; and
 - (g) the security provided;
- (23) A statement indicating the date of such statement and setting out:-



- (a) the names of the substantial shareholders (excluding bare trustees) and their direct and deemed interests stating the number and percentage of shares in which they have an interest as shown in the register of substantial shareholders of the listed issuer;
- (b) a statement showing the direct and deemed interests of each director (including number and percentage) in the listed issuer, or in a related corporation, appearing in the register maintained under section 134 of the Companies Act 1965;
- (c) the number of holders of each class of equity securities and any convertible securities and the voting rights attaching to each class;
- (d) a distribution schedule of each class of equity securities and any convertible securities setting out the number of holders and percentage in the following categories:-

No. of Holders	Holdings	Total Holdings	%
	less than 100		
	100 to 1,000 shares		
	1,001 to 10,000 shares		
	10,001 to 100,000 shares		
	100,001 to less than 5% of issued shares		
	5% and above of issued shares		
			100%

- (e) the names of the 30 securities account holders having the largest number of securities from each class of equity securities and convertible securities according to the Record of Depositors (without aggregating the securities from different securities accounts belonging to the same person) and the number and percentage of equity securities and convertible securities of each class held. In the case of securities account holders which are authorised nominees as defined under the Securities Industry (Central Depositories) Act 1991, information in the account qualifier field of the securities account must also be stated;
- (24) A statement regarding the revaluation policy on landed properties in respect of the financial year;
- (25) Particulars of each property of the listed issuer or its subsidiaries which net book value is 5% or more of the consolidated total assets of the listed issuer as at the end of the financial year (hereinafter referred to as the "material properties"). In the event the number of the material properties is less than 10, particulars of the top 10 properties in terms of highest net book value (inclusive of the material properties) as at the end of the financial year. Particulars of such properties to be set out as follows as at the end of the financial year:
- (a) the address of each property;
 - (b) in respect of each property:-
 - (i) a brief description (e.g. land or buildings, approximate areas, etc);
 - (ii) the existing use (e.g. shops, offices, factories, residential, etc);
 - (iii) the tenure (i.e. freehold, or leasehold and if leasehold, the date of expiry of the lease);
 - (iv) the approximate age of the buildings;
 - (v) the net book value; and



- (vi) where revaluation has been carried out, the date of last revaluation and if none, the date of acquisition.
- (26) A statement by the audit committee in relation to the allocation of options pursuant to a share scheme for employees as required under paragraph 8.21A;
- (27) A breakdown of the options offered to and exercised (if any) by non-executive directors pursuant to a share scheme for employees in respect of the financial year in tabular form as follows:-
- | Name of director | Amount of options offered | Amount of options exercised |
|------------------|---------------------------|-----------------------------|
| 1. | | |
| 2. | | |
| 3. | | |
| Total | | |
- (28) A statement by the board of directors containing a brief description on the type of training that the directors have attended for the financial year. Where any of the directors have not attended any training during the financial year, to state the reasons thereof for each director;
- (29) A description of the corporate social responsibility activities or practices undertaken by the listed issuer and its subsidiaries or if there are none, a statement to that effect; and
- (30) A statement relating to the internal audit function of the listed issuer, i.e. whether the internal audit function is performed in-house or is outsourced and the costs incurred for the internal audit function in respect of the financial year.

Part B

Contents of annual reports and accounts of closed-end funds (paragraph 9.33)

- (1) A detailed statement of its investment objectives and policies and the manner in which those policies have been carried into effect (where applicable);
- (2) The gross revenue of the closed-end fund, to be divided separately to show at least the interest, dividends, profit/loss on the sale of investments and any item of revenue amounting to 5% or more of the gross revenue;
- (3) The initial service charges, management fees or any other fees paid to the Managers to be shown separately under gross expenses of the closed-end fund;
- (4) Generally, a disclosure of the composition of the investment portfolio of the closed-end fund, giving separately in respect of all investments:-
- a reasonable description of the business;
 - the number of securities owned;
 - the costs; and
 - if unlisted, the fair value, as agreed by the Managers and the board of directors of the closed-end fund and if listed, the market value thereof;



APPENDIX C: JSE Limited Listing Requirements, Section 7

Scope of section

This section sets out items of information that may be required to be included in pre-listing statements and circulars relating to rights offers, capitalisation issues and Category 1 or 2 transactions.

The requirements vary according to the nature and circumstances of the applicant, as set out in:

Section 6	Pre-listing statements
Appendix to Section 9	Transactions
Section 11	Circulars and Announcements
Section 12	Mineral Companies
Section 13	Property Companies
Section 15	Investment Entities
Section 18	Dual Listings and Listings by External Companies
Section 19	Specialist Securities

Where the disclosure of information required in terms of this section cannot be obtained or is considered to be harmful to the applicant, application may be made to the JSE for non disclosure or reduced disclosure. The JSE's decision will be final.

The information in this section is set out under the following paragraph headings:

- 7.A The applicant and its capital
- 7.B Directors, managers and advisors
- 7.C Securities for which application is being made
- 7.D Group activities
- 7.E Financial information
- 7.F General information
- 7.G Documents and consents to be available for inspection
- 7.H Vendors

7A The applicant and its capital

The following paragraphs detail the disclosure requirements relating to the applicant and its capital.



Name, address and incorporation

- 7.A.1 The name, address of the registered office and of the transfer office, the date of incorporation of the applicant and the place of incorporation or, if the applicant is an external company, the country in which it is incorporated and the date of registration as an external company in the Republic of South Africa.
- 7.A.2 If the applicant is a subsidiary, the name and address of the registered office of its holding company, or of any body corporate that, had it been registered under the Act, would have been its holding company.
- 7.A.3 If the applicant has changed its name within the last three years, the old name must be printed in bold type under the existing name on the cover and first page.

Share capital of the company

- 7.A.4 If the applicant's share capital consists of shares of par value the following information must be disclosed:
- (a) the authorised and issued or agreed to be issued share capital, detailing:
 - (i) the different classes of shares;
 - (ii) the number of shares in each class;
 - (iii) the nominal value of each share in each class;
 - (iv) shares held in treasury;
 - (v) the total value of each class; and
 - (b) the share premium account.
- 7.A.5 If the applicant's share capital consists of shares of no par value the following information must be disclosed regarding the authorised and issued (stated capital) or agreed to be issued stated capital, detailing:
- (a) the different classes of shares;
 - (b) the number of shares in each class;
 - (c) shares held in treasury; and
 - (d) the total value of the stated capital account for each class.
- 7.A.6 A description of the respective:
- (a) preferential conversion and/or exchange rights of any securities;

7.A.4(a)(iv) amended with effect from 15 October 2007.

7.A.4(a)(v), previously 7.A.4(a)(iv), renumbered with effect from 15 October 2007.

7.A.5(c) amended with effect from 15 October 2007.

7.A.7(d), previously 7.A.5(c), renumbered with effect from 15 October 2007.



- (b) voting rights of securities; and
 - (c) rights to dividends, profits or capital or any other rights of each class, including redemption rights and rights on liquidation or distribution of capital assets.
- 7.A.7 Information regarding the consents necessary for the variation of rights attaching to securities.
- 7.A.8 A summary of any issues or offers of securities of the applicant and/or its subsidiaries during the preceding three years, including:
- (a) the prices and terms at which such securities were issued or offered;
 - (b) by whom any offers were made;
 - (c) the number of securities allotted in pursuance of any issues or offers;
 - (d) whether the securities were issued to all securities holders in proportion to their holdings or, if not, to whom they were issued, the reasons why the securities were so issued and the basis of allotment of the securities;
 - (e) the dates of the issues or offers;
 - (f) the reasons for any premium or discount on the issue or offer, how any premium or discount was dealt with and where some securities were issued or offered at par and others at varying premiums or discounts the reasons for the differential;
 - (g) the value of the asset, if any, acquired or to be acquired out of the proceeds of the issue or offer; and
 - (h) the details of any share repurchases.
- 7.A.9 A summary of any consolidations or sub-divisions of securities during the preceding three years.
- 7.A.10 A statement advising who controls the issue or disposal of the authorised but unissued securities, i.e. the directors or shareholders in general meeting.
- 7.A.11 A statement as to what other classes of securities are listed and on which stock exchanges.

Borrowings

- 7.A.12 The borrowing powers of the applicant and its subsidiaries exercisable by the directors and the manner in which such borrowing powers may be varied.
- 7.A.13 A description of the circumstances, if applicable, if the borrowing powers have been exceeded during the past three years. Any exchange control or other restrictions on the borrowing powers of the applicant or any of its subsidiaries.



- 7.A.14 The number and value of debentures created in terms of a trust deed and the number and value to be issued or agreed to be issued.
- 7.A.15 Details of material loans, including issued debentures, made to the applicant and/or to any of its subsidiaries, stating:
- (a) whether such loans are secured or unsecured;
 - (b) the names of the lenders and/or debenture holders;
 - (c) the amount, terms and conditions of repayment or renewal;
 - (d) the rates of interest on each loan;
 - (e) details of the security provided, if any;
 - (f) details of any conversion or redemption rights; and
 - (g) where the applicant or any of its subsidiaries has debts that are repayable within 12 months, state how the payments are to be financed.
- 7.A.16 Particulars relating to debentures or debenture stock (“debentures”) issued by way of conversion or replacement of debentures previously issued stating all material differences between the security for the old debentures and the security for the new debentures or that the security for the new debentures is identical to the security for the old debentures.
- 7.A.17 Details of all material commitments, lease payments and contingent liabilities.
- 7.A.18 Disclose how the borrowings required to be disclosed by paragraphs 7.A.12 to 7.A.17 arose, stating whether they arose from the purchase of assets by the applicant or any of its subsidiaries.
- 7.A.19 If no loan capital is outstanding this fact must be stated.

Loans receivable

- 7.A.20 Details of material loans made by the applicant or by any of its subsidiaries, stating:
- (a) the dates on which the loans were made;
 - (b) to whom each loan was made;
 - (c) the interest and repayment terms of each loan;
 - (d) if the interest and/or capital redemption payments are in arrears, the last date on which payment was made and the extent of the arrears;
 - (e) the periods of the loans;
 - (f) the nature of any/all security held for any/all loans;
 - (g) the current fair value of such security and the method of valuation;



- (h) if a loan is unsecured, the reasons therefore; and
- (i) if any loan was made to another company, the names and addresses of the directors of such company.

7.A.21 Details (as described in paragraph 7.A.20) of loans made or security furnished by the applicant or by any of its subsidiaries to or for the benefit of any director or manager or any associate of any director or manager of the applicant.

7.A.22 Disclose how and why each loan receivable was made.

Options or preferential rights in respect of securities

7.A.23 Full disclosure of the substance of any contract or arrangement or proposed contract or arrangement, whereby any option or preferential right of any kind was or is proposed to be given to any person(s) to subscribe for any securities of the applicant or any securities of its subsidiaries, including:

- (a) the number and description of securities subject to such option or right;
- (b) the exercise period of such option or right;
- (c) the exercise date of such option or right and a statement as to whether such option or right is American or European in nature;
- (d) the exercise price to be paid for securities subscribed for in terms of such option or right;
- (e) the option premium or consideration given or to be given for receipt of such option or right;
- (f) the names and addresses of the persons to whom such right or option was or is to be given, excluding any options or rights given to participants of a bona fide share incentive or option scheme;
- (g) if such right or option was given to existing shareholders, material particulars thereof; and
- (h) any other significant facts or circumstances concerning the granting of such option or right.

7.A.24 Subscribing for securities shall, for the purpose of paragraph 7.A.23, include acquiring them from a person to whom they were allotted or were agreed to be allotted with a view to his/her/it offering them for sale.

Controlling shareholder(s)

7.A.25 The names of the controlling shareholder(s) so far as they are known to the directors of the applicant, or appropriate negative statement.



7.A.26 Details of any change in controlling shareholder(s) as a result of the issue.

Major shareholders

7.A.27 Insofar as is known to the applicant, the name of any shareholder other than a director, that, directly or indirectly, is beneficially interested in 5% or more of any class of the applicant's capital, together with the amount of each such shareholder's interest or, if there are no such shareholders, an appropriate negative statement.

7.B Directors, managers and advisors

The following paragraphs detail the disclosure requirements relating to directors, managers and advisors.

Directors and management

7.B.1 The full name, and if relevant, any former name, business address and function in the group of each of the following persons and an indication of the principal activities performed by them, including any activities performed outside the group where these are significant with respect to the group:

- (a) directors of the issuer and its material subsidiaries;
- (b) partners with unlimited liability, in the case of a limited partnership with share capital;
- (c) founders, if the issuer has been established for fewer than five years; and
- (d) in the case of the applicant and its material subsidiaries, any manager who is relevant to establishing that the requirements of paragraph 4.8 (directors) have been met, typically this will include any members of management forming part of the applicant's or applicant's material subsidiaries' executive and/or management committees responsible for the day to day running of the applicant group's business.

7.B.2 In the case of each person described in paragraph 7.B.1 (a) and (d), details of that person's relevant management expertise and experience (see paragraph 4.8) and the following information:

- (a) full names;
- (b) occupations and/or function, including whether in an executive or non executive capacity, for example; non executive chairman, executive chairman, chief executive officer, managing director, financial director, other relevant executive and non executive director functions/status and the executive functions of all managers specified;
- (c) business addresses;



- (d) nationalities;
 - (e) the names of all companies and partnerships of which such person has been a director or partner at any time in the previous five years, indicating whether or not the individual is still a director or partner. It is not necessary to list all the subsidiaries of a company of which the person is also director;
 - (f) details of any bankruptcies, insolvencies or individual voluntary compromise arrangements of such person;
 - (g) details of any receiverships, compulsory liquidations, creditors voluntary liquidations, administrations, company voluntary arrangements or any compromise or arrangement with creditors generally or any class of creditors of any company where such person is or was a director with an executive function of such company at the time of or within the 12 months preceding any such event(s);
 - (h) details of any compulsory liquidations, administrations or partnership voluntary arrangements of any partnerships where such person is or was a partner at the time of or within the 12 months preceding such event(s);
 - (i) details of receiverships of any asset(s) of such person or of a partnership of which the person is or was a partner at the time of or within the 12 months preceding such event;
 - (j) details of any public criticisms of such person by statutory or regulatory authorities, including recognised professional bodies, and whether such person has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company; and
 - (k) any offence involving dishonesty.
- 7.B.3 Details of the information contained in the director's declaration as set out in Schedule 21 of the Listings Requirements.
- 7.B.4 In the case of a foreign applicant, information, similar to that described in paragraph 7.B.2, relative to the local (South African) executive management committee, if any. Where the JSE considers the parent company is not adequately represented on the directorate of its South African or foreign subsidiaries an explanation is required.
- 7.B.5 The term of office for which any director has been or is to be appointed, the manner in and terms on which any proposed director will be appointed and particulars of any right held by any person (usually a contractual right given to a shareholder, provider of capital or other person/entity in terms of an agreement between such person/entity and the company) relating to the appointment of any particular director or number of directors.
- 7.B.6 The provisions, or a sufficient summary of the provisions, of the articles of



association or other corresponding document of the applicant and each of its subsidiaries with regard to:

- (a) qualification of directors;
- (b) remuneration of directors; and
- (c) any power enabling the directors to vote remuneration to themselves or any members of their board.

7.B.7 An analysis in aggregate and by director or proposed director, of emoluments paid or accrued as payable during the last financial period by the company, or group of which the company is a member, directly or indirectly, or proposed to be paid by the company, in their capacity as director(s), or in any other capacity, whether determined by the articles or not, distinguishing separately between executive and non-executive directors, of the following:

- (a) fees for services as a director;
- (b) management, consulting, technical or other fees paid for such services rendered, directly or indirectly, including payments to management companies, a part of which is then paid to a director of the company;
- (c) basic salary;
- (d) bonuses and performance-related payments;
- (e) sums paid by way of expense allowance;
- (f) any other material benefits received;
- (g) contributions paid under any pension scheme;
- (h) any commission, gain or profit-sharing arrangements; and
- (i) in respect of share options or any other right given which has had the same or a similar effect in respect of providing a right to subscribe for shares ("share options"):
 - (i) the opening balance of share options, including the number of share options at each different strike price;
 - (ii) the number of share options awarded and their strike prices;
 - (iii) the strike dates of differing lots of options awarded;
 - (iv) the number of share options exercised and at what prices;
 - (v) the closing balance of share options, including the number of share options at each different strike price;
- (i) to (v) above may be presented in tabular form;



- (j) any shares issued and allotted in terms of a share purchase/option scheme for employees (or other scheme/structure effected outside of the issuer which achieves substantially the same objectives as a share purchase/option scheme), usually held as a pledge against an outstanding loan to an employee in a share purchase scheme trust, which have not been fully paid for, including the number so issued and allotted, the price of issue and allotment, the release periods applicable to such shares and any other relevant information;
- (k) without derogating from the generality of 7.B.7 (a) to (j) above, the directors emoluments disclosed in accordance with 7.B.7 (a) to (j) above must include disclosure of all emoluments received or receivable from the following entities:
 - (i) the issuer' holding company;
 - (ii) the issuer's subsidiaries and fellow subsidiaries;
 - (iii) associates of 7.B.7 (k) (i) and (ii) above;
 - (iv) joint ventures of the issuer or of 7.B.7 (k) (i) to (iii) above; and
 - (v) entities that provide management or advisory services to the company or any of 7.B.7 (k) (i) to (iv) above.

7.B.8 Fees paid or accrued as payable to a third party in lieu of directors' fees are to be disclosed in a similar manner as that detailed in paragraph 7.B.7.

7.B.9 If the remuneration receivable by any of the directors of the applicant will be varied in consequence of the/any transaction, full particulars of the aggregate variation in the remuneration of the directors shall be stated; if there will be no variation, a statement to that effect.

7.B.10 If the business of the applicant or any of its subsidiaries or any part thereof is managed or is proposed to be managed by a third party under a contract or arrangement, the name and address, or the address of its registered office, if a company, of such third party and a description of the business so managed or to be managed and the consideration paid in terms of the contract or arrangement and any other pertinent details relevant to such contract or arrangement.

7.B.11 A summary of the provisions of the memorandum and articles of association of the issuer with regard to:

- (a) any power enabling a director to vote on a proposal, arrangement or contract in which he is materially interested;
- (b) any power enabling the directors, in the absence of an independent quorum, to vote remuneration, including pension or other benefits, to themselves or any members of their body;
- (c) borrowing powers exercisable by the directors and how such borrowing



powers can be varied; and

- (d) retirement or non-retirement of directors under an age limit.

Secretary

7.B.12 The full name, street and postal address and professional qualifications, if any, of the secretary of the applicant.

Auditor, attorney, banker, sponsor, trustee, underwriter and expert

7.B.13 The names and street and postal addresses of the auditor, attorney, banker, and sponsor to the applicant and, if applicable, the trustee, underwriter, advisor and any expert referred to in the pre-listing statement and any holding of securities in, options on securities in, or agreed to be acquired in the company, by such persons.

Amounts paid or payable to promoter

7.B.14 Any amount paid, or accrued as payable, within the preceding three years, or proposed to be paid to any promoter, disclosing his/her/its name and address, or to any partnership, syndicate or other association of which he/she/it is or was a member, and the consideration for such payment, and any other benefit given to such promoter, partnership, syndicate or other association within the said period or proposed to be given, and the consideration for the giving of such benefit.

Commissions paid or payable in respect of underwriting

7.B.15 the following must be disclosed in relation to commissions paid or payable in respect of underwriting:

- (a) the amount, if any, or the nature and extent of any consideration, paid, or accrued as payable, within the preceding three years, as commission to any person, including commission so paid or payable to any sub-underwriter that is the holding company or a promoter or director or officer of the applicant, for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions for any securities of the applicant;
- (b) the name, occupation and address of each such person; and if such person is a company, the names of the directors of such company and the nature and extent of any beneficial interest, direct or indirect, in such company of any promoter, director or officer of the applicant in respect of which the pre-listing statement is issued; and
- (c) particulars of the amounts underwritten or sub-underwritten by each such person and the rate of the commission payable for each such underwriting or sub-underwriting contract with such person.



- 7.B.16 Particulars of any commissions, discounts, brokerages or other special terms granted during the three years preceding the date of the pre-listing statement in connection with the issue or sale of any securities, stock or debentures in the capital of the applicant, where this has not been disclosed in any audited annual financial statements.

Preliminary expenses and issue expenses

- 7.B.17 The following disclosure is required with respect to preliminary expenses and issue expenses:
- (a) the total amount or estimated total amount of preliminary expenses incurred by the applicant within the three years preceding the date of the pre-listing statement, and separate disclosure of who the individual persons are/were and the individual amounts paid or payable to each such person of such total preliminary expenses; and
 - (b) the total amount or estimated total amount of the expenses of the issue, and separate disclosure of who the individual persons paid or payable are, including separate disclosure of each sponsor, financial adviser, corporate adviser, attorney, legal adviser, commercial banker, investment banker, accountant, auditor, underwriter, sub underwriter and any other adviser involved where there are two or more of each such advisers per advisory category, and the individual amounts paid or payable to each such individual person/adviser by the applicant.

Interest of directors and promoter

- 7.B.18 Full particulars of the nature and extent of any material beneficial interest, direct or indirect, of every director or promoter in the promotion of the applicant and in any property referred to in paragraph 7.D.9 acquired or proposed to be acquired by the applicant out of the proceeds of the issue or during the three years preceding the date of the listing statement, and where the interest of such director or promoter consists of being a member in a partnership, company, syndicate or other association of persons, the nature and extent of the interest of such partnership, company, syndicate or other association, and the nature and extent of such director's or promoter's interest in the partnership, company, syndicate or other association.
- 7.B.19 A statement of all sums paid or agreed to be paid within the three years preceding the date of the pre-listing statement to any director or to any company in which he is beneficially interested, directly or indirectly, or of which he is a director ("the



associate company”), or to any partnership, syndicate or other association of which he is a member (“the associate entity”), in cash or securities or otherwise, by any person either to induce him to become or to qualify him as a director, or otherwise for services rendered by him or by the associate company or the associate entity in connection with the promotion or formation of the applicant.

Directors’ interests in securities

7.B.20 A statement showing the direct and indirect beneficial interests of the directors’ (and his/her associates) holdings in the share capital of the applicant. The statement should include by way of a note any change in those interests occurring between the end of the preceding financial year and the date of the pre-listing statement or, if there has been no such change, disclosure of that fact.

Directors’ interests in transactions

7.B.21 All relevant particulars regarding the nature and extent of any material beneficial interests, whether direct or indirect, of directors of the group in transactions that were effected by the applicant:

- (a) during the current or immediately preceding financial year; or
- (b) during an earlier financial year and remain in any respect outstanding or unperformed; or
- (c) an appropriate negative statement.

Responsibility statement

7.B.22 A directors’ responsibility statement must be made by the directors after due, careful and proper consideration of same as follows:

“The directors, whose names are given in paragraph . . . on page . . . of this document collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the prospectus^A/pre-listing statement^B/circular^B contains all information required by law and the JSE Listings Requirements^X/the JSE Listings Requirements^Y.”

NB! ^A requires ^X and ^B requires ^Y

Responsibility of directors, managers and advisors

7.B.20 amended with effect from 15 October 2007.

7.B.21 amended with effect from 15 October 2007.



7.B.23 The prospectus/pre-listing statement/circular must be signed by every director of the applicant (or by his agent or attorney, with a copy of the authority of any such agent or attorney); provided that where responsibility for any information contained in different parts of the prospectus/pre-listing statement/circular has been extended to or accepted by any other person(s), such other person(s) (or his/their agent or attorney) shall also sign the prospectus/pre-listing statement/circular and it shall be stated clearly for which part or parts of the prospectus/pre-listing statement/circular each signatory bears responsibility.

7.C Securities for which application is being made

The following paragraphs detail the disclosure requirements relating to securities for which application is being made.

Purpose of the issue/offer

7.C.1 A statement of the purpose of the issue/offer giving reasons why it is considered necessary for the applicant to raise the capital in terms of the issue or, if it is an offer, the reasons therefore, and if the proposed capital to be raised is more than the amount of the minimum subscription referred to in paragraph 7.C.8, the reasons for the difference between the proposed capital to be raised and the said minimum subscription.

Particulars of the issue/offer

7.C.2 Particulars in respect of securities issued/offered must be disclosed, including:

- (a) the class of securities issued/offered;
- (b) the nominal value of the securities issued/offered, if applicable;
- (c) the number of securities issued/offered;
- (d) the issue/offer price of the securities issued/offered;
- (e) how the securities issued/offered rank for dividend;
- (f) whether the securities issued/offered rank pari passu with existing securities of the same class;
- (g) any convertibility or redemption provisions relating to the securities issued/offered;
- (h) the nature of the documents of title of the securities issued/offered;
- (i) the treatment of any fractions of the securities issued/offered; and
- (j) other terms and conditions of the issue/offer.



- 7.C.3 Particulars in respect of debentures issued/offered, including:
- (a) the class of debentures;
 - (b) the terms and conditions of the debentures;
 - (c) if the debentures are secured, particulars of the security, specifying the asset(s) comprising the security and the nature of the title to such asset(s); and
 - (d) any other important terms and conditions of the debenture issue/offer.

Timing

- 7.C.4 If applicable, the times and dates of the opening and of the closing of the subscription lists or of the issue/offer.
- 7.C.5 If known, the dates on which the securities will be admitted to listing and on which dealings will commence.

Issue price

- 7.C.6 The reasons for any premium or discount on the issue or offer, how any premium or discount was dealt with and where some securities were issued or offered at par and others at varying premiums or discounts the reasons for the differential;
- 7.C.7 Where no par value shares are to be issued, the price at which they are to be issued and where shares are to be issued at different prices the reasons for any such differentiation.

Minimum subscription

- 7.C.8 The minimum amount that, in the opinion of the directors, must be raised by the issue/offer of securities in order to provide the amounts required for, or, if any part thereof is to be defrayed in any other manner, the balance of the amounts required for:
- (a) the purchase price of any property, referred to in paragraph 7.D.9, purchased or to be purchased, that is to be defrayed in whole or in part out of the proceeds of the issue;
 - (b) any preliminary expenses payable, commission payable to any person in consideration for his agreeing to subscribe for, or for procuring or agreeing to procure subscriptions for, or underwriting commission(s) payable by the applicant;
 - (c) the repayment of any moneys borrowed, or other loans in respect of any of the foregoing matters;
 - (d) working capital, stating the specific purposes for which it is to be used and the



- estimated amount required for each such purpose;
- (e) any other material expenditure, stating the nature and purposes thereof and the estimated amount in each case; and
 - (f) any amounts to be provided in respect of the matters aforesaid otherwise than out of the proceeds of the issue, and the sources from which those amounts are to be provided.

Registrar of companies

- 7.C.9 If the document issued and published is a prospectus, it must contain a statement on the front cover that a copy of the prospectus has been registered by the Registrar of Companies in terms of the Act and the date of such registration.

Authorisations

- 7.C.10 A statement of the resolutions, authorisations and approvals by virtue of which the securities have been or will be created and/or issued.

Dividends

- 7.C.11 The time limit (if any) after which entitlement to dividends lapses, and an indication of the person in whose favour the lapse operates.
- 7.C.12 The fixed date(s) (if any) on which entitlement to dividends arises.
- 7.C.13 Particulars of any arrangement under which future dividends are waived or agreed to be waived.

Market value of securities

- 7.C.14 Where the securities for which application is being made are of a class that is already listed, a table of the aggregate volumes and values traded and the highest and lowest prices traded in those securities for each month over the twelve months prior to the date of issue of the prospectus/pre-listing statement/circular (“the twelve month period”); for each quarter over the two years prior to the twelve month period; and for each day over the 30 days preceding the last practicable date prior to the date of issue of the prospectus/pre-listing statement/circular.

Rights offers, capitalisation issues and scrip dividends

- 7.C.15 Where the securities for which application is being made are being issued and allotted by way of capitalisation of reserves (including current year distributable income) or the application of share premium, to securities holders of an existing listed security, the following information must be given in respect of such issue:



- (a) the reason for the capitalisation issue or scrip dividend;
- (b) the class and the par value (if any) of the securities involved;
- (c) if applicable, that the shareholder may elect to receive cash in substitution for the whole or part of his capitalisation issue or scrip dividend entitlement and vice versa;
- (d) if applicable, the last day on which shareholders must make their election;
- (e) a statement pointing out any tax implications of the issue for all securities holders , both resident and non-resident;
- (f) in the case of a scrip dividend, a statement should appear, in bold and upper case, on the front page drawing shareholders' attention to the type of election to be made (i.e. whether shareholders will receive either cash or scrip if they fail to make the election);
- (g) the amount to be capitalised from the share premium or reserves of the applicant in order to be able to issue the capitalisation securities as fully paid up;
- (h) the ratio in which the capitalisation securities will be issued and allotted to shareholders of the applicant;
- (i) the important events and dates contained in the relevant timetable in Schedule 24 applicable to the issue; and
- (j) whether or not the rights (if any) are renounceable.

7.C.16 In the case of a rights offer, the following information must be disclosed in the circular:

- (a) purpose of the rights offer;
- (b) the amount to be raised by means of the rights offer, and the number of securities that are proposed to be issued;
- (c) the terms of the offer;
- (d) if underwritten, details of the underwriter. The underwriting commission must be clearly stated;
- (e) where the underwriter is a company the following information must be furnished:
 - (i) the place and date of incorporation and registered number of the company;
 - (ii) the names of the directors of the company;
 - (iii) the name of the secretary of the company;



- (iv) the bankers to the company; and
- (v) the authorised and issued share capital of the company.
- (f) details regarding the proposed listing of the LAs, the subsequent listing of the new securities and the amount payable in respect of listing fees;
- (g) details regarding the LAs such as:
 - (i) acceptance;
 - (ii) renunciation; and
 - (iii) payment (payment must be made in South African currency); and
- (h) a statement regarding exchange controls as agreed to by the South African Reserve Bank.

Simultaneous issues

7.C.17 If, simultaneously or almost simultaneously with the issue of securities for which application is being made, securities of the same class are issued, or to be issued, details must be given of the nature of such issues and of the number of the securities concerned.

Over subscriptions

7.C.18 State the relevant facts where it is the intention in the event of over subscription to extend a preference on allotment to any particular company or group such as employees and pension funds.

7.D Group activities

The following paragraphs detail the disclosure requirements relating to the group's activities:

General

- 7.D.1 The general history of the applicant and its subsidiaries must be detailed including, inter alia:
- (a) the length of time during which the business of the applicant and of any subsidiary has been carried on;
 - (b) the name, date, place of incorporation and registration number and the issued or stated capital of its subsidiaries, together with details of the securities held by the holding company, indicating those not listed on the JSE and the main businesses of its subsidiaries and the date on which they became a subsidiaries;
 - (c) brief particulars of any alteration of the applicant's capital during the past three



years; and

(d) the date of conversion of the applicant into a public company.

- 7.D.2 A general description of the business carried on or to be carried on by the applicant and its subsidiaries and where the applicant or its subsidiaries carries on, or proposes to carry on, two or more businesses that are material, having regard to the profits or losses, assets employed, or to be employed, or any other factor, information as to the relative importance of each such business.
- 7.D.3 For the business(es) described in paragraph 7.D.2 detail the degree of any government protection and of any investment encouragement law affecting the business(es).
- 7.D.4 Details of any material changes in the business(es) of the applicant, during the past five years.
- 7.D.5 The opinion of the directors, stating the grounds therefore, as to the prospects of the business of the applicant and of its subsidiaries and of any subsidiary/ies or business undertaking to be acquired, together with any material information that may be relevant thereto.
- 7.D.6 The situation, area and tenure, including in the case of leasehold property the rental and unexpired term of the lease, of the principal immovable property held or occupied by the applicant and any of its subsidiaries.
- 7.D.7 Full details and terms of all material inter-company financial and other transactions, with specific disclosure of all inter company balances before elimination on consolidation.
- 7.D.8 The history of any change in controlling shareholder(s) and trading objects of the applicant and its subsidiaries during the previous five years. A statement of the new trading objects and the manner in which the new objects will be implemented. If the applicant, or as the case may be, the group carries on widely differing operations, a segmental statement showing the contributions of such respective differing operations to its sales, trading results and profits/losses before and after taxation. The proposed new name, if any, the reasons for the change and whether or not consent to the change has been obtained from the Registrar of Companies.

Property acquired or to be acquired

- 7.D.9 The following information regarding any material acquisition(s), within the last three years as at the date of the circular, or proposed acquisition by the applicant or any of its subsidiaries, of any securities in or the business undertaking(s) of any other company/ies or business enterprise(s) or any immovable property/ies or other property/ies in the nature of a fixed asset (collectively “the property”) or any option to acquire such property/ies:



- (a) the date of any such acquisition or proposed acquisition;
- (b) the consideration, detailing the portion(s) settled by the issue of securities, the payment of cash or other means, and how any outstanding consideration is to be settled;
- (c) details of the valuation of the property;
- (d) any goodwill paid and how such goodwill was or is to be accounted for;
- (e) any loans incurred, or to be incurred, to finance the acquisition, or proposed acquisition;
- (f) the nature of title or interest acquired or to be acquired; and
- (g) the details regarding the vendors as described in paragraph 7.H.

Disposal of property

7.D.10 The following details regarding any material property (as described in paragraph 7.D.9) disposed of during the past three years as at the date of the circular, or to be disposed of, by the applicant, or any of its subsidiaries:

- (a) the dates of any such disposal or proposed disposal;
- (b) the consideration received, detailing the portion(s) settled by the receipt of securities, cash or other means and how any outstanding consideration is to be settled;
- (c) details of the valuation of the property; and
- (d) the names and addresses of the purchasers of material assets sold. If any purchaser was a company, other than a public company, the names and addresses of the beneficial shareholders of the company. If a public company, the names and addresses of the controlling shareholders of the company. If any promoter or director had any interest, directly or indirectly, in such transaction or where any promoter or director was a member of a partnership, syndicate or other association of persons that had such an interest, the names of any such promoter or director, and the nature and extent of his interest.

Litigation

7.D.11 Information on any legal or arbitration proceedings, including any proceedings that are pending or threatened of which the issuer is aware, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the group's financial position or an appropriate negative statement.

7.E Financial information



The following paragraphs detail the disclosure requirements relating to financial information:

Accountants reports

- 7.E.1 The relevant accountant's report, as described in paragraph 8.45, on the applicant.
- 7.E.2 If applicable, an accountant's report, as described in paragraph 8.45, on the asset the subject of the transaction.

Report of historical financial information

- 7.E.3 The requirements set out in paragraphs 8.1 to 8.14 is to be complied with and included in the pre-listing statement.

Acquisitions made from proceeds

- 7.E.4 If the application for listing coincides, directly or indirectly, with the acquisition by the applicant, or any of its subsidiaries, of securities in or of the business undertaking of any other company in consequence of which that company or business undertaking will become a subsidiary of or part of the business of the applicant, in respect of each of the preceding three years, the same particulars must be provided relating to such company or business undertaking acquired or being acquired as are required mutatis mutandis by paragraph 7.E.1 and a general history of such company or the business undertaking acquired or being acquired as required by paragraphs 7.D.1 to 7.D.3.
- 7.E.5 If the application for listing coincides, directly or indirectly, with the acquisition by the applicant or any of its subsidiaries of securities in or the business undertaking of any other company, then cognisance of such proposed acquisition must be taken in arriving at the particulars described in paragraph 7.E.2 above.
- 7.E.6 If the application for listing coincides, directly or indirectly, with the acquisition by the applicant or its subsidiaries of securities in or the business undertaking of any other company in respect of each of the preceding three years, the following particulars must be provided relating to such company or business undertaking being acquired in accordance with paragraph 7.D.1;
 - (a) the profits before and after tax; and
 - (b) its general history.

Statement as to working capital

- 7.E.7 A statement by the directors of the applicant issuer that in their opinion the working capital available to the applicant and its subsidiaries, if any, is sufficient for the group's present requirements, that is, for at least the next 12 months from the date of issue of the listing particulars, or, if not and the issuer has securities already listed,



how it is proposed to provide the additional working capital thought by the issuer to be necessary.

The JSE will not require a working capital statement to be made by an issuer whose business is entirely or substantially that of banking, insurance or the provision of similar financial services, provided that the JSE is satisfied that:

- (a) the inclusion of such a statement would not provide significant information for investors; and
- (b) the issuer's solvency and capital adequacy are suitably regulated by another regulatory body.

7.E.8 The working capital statement should be prepared on the group, as enlarged, by the acquisition of any assets.

7.E.9 Applicant issuers and sponsors must comply with the requirements of Schedule 25 with regard to paragraphs 7.E.7 and 7.E.8.

Material change

7.E.10 A description of any material change in the financial or trading position of the applicant and its subsidiaries that has occurred since the end of the last financial period for which either audited annual financial statements or unaudited interim reports have been published, or an appropriate negative statement.

Profit forecasts

7.E.11 Profit forecasts must comply with paragraphs 8.35 to 8.44.

Pro-forma statements

7.E.12 Pro-forma statements should comply with paragraphs 8.15 to 8.33.

7.F General information

Material contracts

The following paragraphs detail the disclosure requirements relating to general information:

7.F.1 Subject to paragraph 6.17, the dates and the nature of, and the parties to every material contract entered into either verbally or in writing by the applicant or any of its subsidiaries, being a contract entered into otherwise than in the ordinary course of the business carried on or proposed to be carried on by the applicant or any of its subsidiaries:

- (a) entered into within the two years prior to the date of the pre-listing statement or circular; or



- (b) entered into at any time and containing an obligation or settlement that is material to the issuer or its subsidiaries at the date of the pre-listing statement or circular.
- 7.F.2 If any contract referred to in paragraph 7.F.1 relates to the acquisition of securities in an unlisted subsidiary, or associated company, where all securities in the company have not been acquired, state the reason why 100% of the holding was not acquired, and whether anyone associated with the controlling shareholder(s) of the applicant, or associated companies, or its subsidiaries is interested and to what extent.
- 7.F.3 A brief summary of existing contracts or proposed contracts, either written or oral, relating to the directors' and managerial remuneration, secretarial and technical fees payable by the applicant and any of its subsidiaries and restraint payments, provided that details of the directors and managerial remuneration need only be disclosed in accordance with paragraph 7.B.7.
- 7.F.4 Particulars of royalties' payable or items of a similar nature in respect of the applicant and any of its subsidiaries.

King Code

- 7.F.5 Applicant issuers must include the following in its pre-listing statement:
 - (a) a narrative statement of how it has applied the principles set out in the King Code, providing explanation that enables its shareholders and potential investors to evaluate how the principles have been applied; and
 - (b) a statement addressing the extent of the company's compliance with the King Code and the reasons for each and every instance of non-compliance.
- 7.F.6 Applicant issuers must comply with the following specific requirements concerning corporate governance and must disclose their compliance therewith in their pre-listing statement:
 - (a) there must be a policy detailing the procedures for appointments to the board. Such appointments must be formal and transparent, and a matter for the board as a whole, assisted where appropriate by a nomination committee. The nomination committee must constitute only non-executive directors, of whom the majority must be independent (as defined in paragraph 7.F.6 (f) (iii), and should be chaired by the board chairperson;
 - (b) there must be a policy evidencing a clear division of responsibilities at board level to ensure a balance of power and authority, such that that no one individual has unfettered powers of decision-making;
 - (c) the chief executive officer must not also hold the position of chairperson;
 - (d) the audit committee must set the principles for recommending the use of the



external auditors for non-audit services;

- (e) a brief CV of each director must be provided; and
- (f) the capacity of each director must be categorised as executive, non-executive or independent, using the following as guidelines to determine which category is most applicable to each director:
 - (i) executive directors:

are directors that are involved in the day to day management and running of the business and are in full time salaried employment of the company and/or any of its subsidiaries;
 - (ii) non-executive directors:

are directors that are not involved in the day to day management of the business and are not full-time salaried employee of the company and/or any of its subsidiaries;
 - (iii) independent directors are non executive directors who:
 - (1) are not representatives of any shareholder who has the ability to control or significantly influence management and/or the board;
 - (2) has not been employed by the company or the group of which it currently forms part in any executive capacity for the preceding three financial years;
 - (3) is not a member of the immediate family of an individual who is, or has been in any of the past three financial years, employed by the company or the group in an executive capacity;
 - (4) is not a professional advisor to the company or the group, other than in the capacity as a director;
 - (5) is not a significant supplier to, or customer of the company or group;
 - (6) has no significant contractual relationship with the company or group; and
 - (7) is free from any business or other relationship which could be seen to materially interfere with the individual's capacity to act in an independent manner;
- (g) all applicant issuers must appoint an audit committee and remuneration committee and if required, given the nature of their business and composition of their board, a risk committee and nomination committee. The composition of such committees, a brief description of their mandates, the number of



meetings to be held annually and other relevant information must be disclosed.

Experts' consents

7.F.7 Where a pre-listing statement includes a report purporting to be made by an expert, a statement that the expert has given and has not withdrawn his/her/its written consent to the issue of the prospectus/pre-listing statement/circular, with the report in the form and context in which it is included.

7.G Documents and consents to be available for inspection

The following paragraphs detail the disclosure requirements relating to documents and consents to be available for inspection:

7.G.1 The following documents (or copies thereof), where applicable, relating to the applicant and its subsidiary companies, if any, must be able to be inspected at a place where the applicant has its registered office, and in Johannesburg for a reasonable period of time (being not less than 14 days):

- (a) the memorandum and articles of association;
- (b) any trust deed or agreement affecting the governance of the applicant or the interests of shareholders;
- (c) copies of any special or notarial contract bearing on the trust deed or memorandum and articles of association entered into within the last three years;
- (d) all material contracts (including patent rights, and franchise agreements);
- (e) in the case of a material contract not reduced to writing, a memorandum giving full particulars thereof;
- (f) the latest competent person's report, in the case of a mineral company;
- (g) the latest sworn appraisals or valuations relative to movable and immovable property and items of a similar nature, if applicable;
- (h) copies of service agreements with directors (or a summary of such agreements), managers or secretary/ies; underwriters, vendors' and promoters' entered into during the last three years;
- (i) all reports, letters, audited annual financial statements, income statements, valuations and statements by an expert any part of which is extracted or referred to in the prospectus/pre-listing statement/circular; and
- (j) the audited annual financial statements since the incorporation of the applicant or for the preceding three years, whichever is the lesser, together with all notes, certificates, or information required by the Act.



7.H Vendors

The following paragraphs detail the disclosure requirements relating to vendors of material assets to the applicant or its subsidiaries (or the target in the case of a circular relating to an acquisition):

- 7.H.1 State the names and addresses of the vendors of any material assets purchased or acquired by the applicant or by any subsidiaries of the applicant during the three years preceding the publication of the prospectus/pre-listing statement/circular or proposed to be purchased or acquired, and the amount paid or payable in cash or securities to the vendor, and where there is more than one separate vendor, the amount so paid or payable to each vendor and the amount (if any) payable for goodwill or items of a similar nature. The cost of assets to the vendors and dates of purchase by them, if purchased within the preceding three years. Where the vendor is a company, the names and addresses of the beneficial shareholders, direct and indirect, of that company if required by the JSE. Where any of the above information is unobtainable, the reasons are to be stated. Transactions between the applicant and a vendor, where the vendor is a related party, will be regulated in terms of the requirements of this paragraph and Section 10 of the Listings Requirements.
- 7.H.2 State whether or not the vendors have guaranteed the book debts or other assets and whether or not “normal” warranties have been given.
- 7.H.3 State whether the vendors’ agreements preclude the vendors from carrying on business in competition with the applicant or any of its subsidiaries; or impose any other restriction(s) on the vendor(s), also details of any cash or other payment regarding restraint(s) of trade and the nature of such restraint(s) of trade.
- 7.H.4 State how any liability for accrued taxation, or any apportionment thereof to the date of acquisition, will be settled in terms of the vendors’ agreements.
- 7.H.5 Where securities are purchased in a company that will become a subsidiary of the applicant, a reconciliation must be provided showing the difference between the amounts paid for the securities and the proportionate value of the net assets of that company attributable to such securities acquired. Where securities are purchased in companies that will not be accounted for as subsidiaries a statement must be provided detailing how the value of the securities was determined.
- 7.H.6 Where any promoter or director had any beneficial interest, direct or indirect, in such transaction or where any promoter or director was a member of a partnership, syndicate or other association of persons that had such an interest, the names of any

7.H amended with effect from 15 October 2007.



such promoter or director, and the nature and extent of his interest must be disclosed. Where the vendors or any of them are a partnership, the members of the partnership shall not be treated as separate vendors.

- 7.H.7 State the amount of any cash or securities paid or benefit given within the three preceding years or proposed to be paid or given to any promoter, not being a director, and the consideration for such payment or benefit received or receivable.
- 7.H.8 State whether the assets acquired have been transferred into the name of the applicant or any of its subsidiaries and whether or not the assets have been ceded or pledged.

GLOBAL INVESTMENT STANDARDS

The Way You Invest Matters[®]



Domini 
SOCIAL INVESTMENTS[®]

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Introduction

At Domini Social Investments, we have a strong commitment to communicate with the investors in our funds, with the corporations and financial institutions around the world in which we invest, with our fellow members of the financial community, and with the general public about the standards we use in choosing our investments. This booklet is part of that commitment.

These standards guide our investments in the stocks and the fixed-income securities in our funds. We apply these standards to all our investments, believing they help identify opportunities to simultaneously provide strong financial rewards while helping to create a more just and sustainable economic system with increased opportunities for all.

Our Objectives

Two fundamental principles underlie these global standards: the promotion of a society that values human dignity and the enrichment of our natural environment. We view these twin goals as crucial to a healthier, wealthier, and more sustainable world.

For our stock funds, which invest primarily in the stocks of publicly traded companies, these principles lead us to apply standards based on the strength of corporations' relationships with the following stakeholders:

- Communities
- Customers
- Ecosystems
- Employees
- Investors
- Suppliers

We view these stakeholders as *partners* with corporations, and believe corporations have important opportunities to invest in their partners and, in turn, to be rewarded by them. We also recognize that corporations can create substantial risks – financial, social, and environmental – when they fail to manage their partnerships appropriately. Because there is often a

mutual interdependence between corporations and their partners, our assessments of the strength and vitality of their relationships are a vital part of our investment process.

We assess the strength of these relationships by evaluating key themes relevant to each stakeholder. We believe that companies will succeed and prosper in the long run when they do the following, among other things:

- Contribute to the local communities in which they are located
- Produce high-quality, safe, and useful products
- Enrich the ecosystems on which they depend
- Invest in the health and development of their employees
- Treat their investors and lenders openly and transparently
- Strengthen the capabilities of their suppliers

By applying our standards to equities, we believe we can help identify strong long-term investments, as well as highlight companies that enrich their relationships with these partners. These considerations help to build the demand for data on corporate social and environmental performance and to communicate our expectations to corporations and other investors.

For our fixed-income fund, which invests in the securities of government agencies and financial institutions, these principles lead us to seek opportunities that do the following:

- Increase access to capital for those historically underserved
- Support the creation of public goods in economically disadvantaged regions
- Encourage responsible innovation in financial services to these regions

These are each important building blocks in the creation of a more just economic system.

To measure this ability to enhance access, create public goods, and innovate, we assess our fixed-income investments against a five-level gradient of community impact, within the risk parameters of our bond fund. Our Community Impact Gradient assesses our investments' impact,

for example, in helping those with low and moderate incomes to purchase a house or start a business; enabling financially challenged cities and towns to reclaim environmentally damaged properties or to redevelop deteriorated neighborhoods; making it possible for underserved communities to enhance their education and healthcare systems; or assisting those who never participated in the financial system to open a checking and savings account. Such investments help create the communities of opportunity and trust that are necessary to address the problems of tomorrow.

These standards are also consistent with our choice of our partner for our money market account, ShoreBank, which is located in Chicago and is one of the first and leading community development financial institutions in the United States. ShoreBank has a long record of providing products and services that increase access to capital, economic development, and environmental innovation in historically underserved regions.

Our standards are designed to address the financial as well as social needs of our investors, who ask us to align their investment decisions with their concerns for society and the environment. We believe that these twin social and financial goals can be achieved and we are pleased to offer this description of how we put our principles into action.

Our Global Standards – Stock Funds

The standards for our stock funds focus on key themes that we believe best capture the strength of a corporation's relationships with its partners and promote human dignity and a healthy natural environment.

These themes help identify companies that invest in and enrich their stakeholders, building strong partners who will in turn reward companies in ways that enhance their long-term financial vitality and productivity. We seek to invest in companies that cultivate the skills and talents of their employees, that earn the trust and respect of their customers, suppliers, and investors, that strengthen their local communities, and that enhance the ecosystems upon which we all depend for survival.

The word *partners* stresses the importance of what is, in our view, a necessarily cooperative and reciprocal relationship between corporations and their stakeholders. Legal contracts can specify many particulars in these relationships – and are useful in doing so – but their strength ultimately depends on mutual trust and respect. Fairness, honesty in dealings, commitment to quality, and regard for the public interest cannot always be legislated, regulated, or assured by contract. Without the spirit of cooperation and understanding of mutual benefit that is achieved in strong partnerships, the more intangible factors so important to long-term corporate success cannot be realized.

These themes also help us identify patterns of behavior that impose costs on the company's partners – or, in the vocabulary of economics, externalize costs onto society. This kind of short-term profiteering undermines companies' relationships with their stakeholders, incurring burdensome debts that destroy the long-term wealth-creating potential of both companies and the societies in which they operate.

It takes forward-looking, skilled managers to effectively manage their operations without imposing the costs of doing business onto their partners or onto the ecosystems within which they operate. Managers without imagination all too frequently see extracting value from their stakeholders or the environment as the fastest and simplest road to financial success. Our standards recognize the critical importance of

reciprocity in these transactions. Relationships where one side only extracts value often do not last long. Our standards help to identify companies run by managers talented enough to operate profitably while enriching multiple stakeholders and the environment around them. These managers recognize the importance of networks of relationships where mutual support helps assure long-term survival.

Not all companies we hold score well on all our themes. Indeed, we don't necessarily expect them to. We recognize that relationships with partners are complicated and even the best of companies often run into problems day to day. Mixed records do not necessarily mean that progress is not being made, that companies are not grappling with the important issues in their industries, or that long-term value is not being created. These mixed records mean, however, that it is not always easy for us to make our judgments and that we will invest in companies with a combination of controversies and praiseworthy initiatives when we feel that, on balance, progress is being made toward long-term benefits.

We seek to exclude from our funds companies with mixed records where negatives substantially outweigh the positives. There is a wide variety of companies that have mixed records. Some, for example, may have a range of relatively negligible negatives, but few countervailing positives. Others may have a variety of positive characteristics, but have been involved in controversies of substantial proportions. Still others may have a series of substantially negative characteristics relating to their core business. We evaluate these companies case-by-case, looking for signs of improvement and positive trends. Nevertheless, companies in our portfolios can have substantial controversies on issues as diverse as human rights, labor standards, diversity, accounting, or product quality.

We also exclude from our portfolios companies with significant involvement in the production of addictive products whose abuse results in substantial health, safety, or psychological harm: tobacco, alcohol, and gambling. The more successful such companies are, the more they can harm their customers and customers' families and friends and the more costs they often impose on society. This is not a business model we support.

Similarly, we also exclude corporations substantially involved in nuclear weapons production and military weapons production more generally, and

owners and operators of nuclear power plants. The dangers of weapons of mass destruction and the international arms trade are among the greatest we face today, and we view the spread of nuclear power technology as tied to the proliferation of nuclear weapons. The responsibility for controlling these technologies belongs most appropriately with government, not with profit-driven private enterprises. The capital markets are highly effective mechanisms for delivering a wide variety of products and services, but we do not believe they are well suited to deliver products that have the potential to cause incalculable harm.

Our standards can lead us to eliminate substantial numbers of companies in certain industries where prevailing industry norms weight our evaluations toward the negative. For example, we have historically underweighted the energy and utilities sectors. Conversely, we have historically overweighted certain industries, such as information technology, where our evaluations generally tend toward the positive.

The themes we use in assessing the strengths of corporations' stakeholder relations are ones for which we believe sufficient information is usually available to make judgments and are themes that represent goals we believe are reasonably achievable. Other themes may also be important but, in our view, are not reasonably achievable. Some may be achievable, but are not measurable at this time due to a lack of sufficient data. By assessing companies' performance against these reasonably verifiable and achievable goals, we hope to create a forum for public discussion and debate that improves corporate performance and leads corporations to compete on the strength of their relationships with stakeholders, just as they already compete on efficiency.

We also tend to focus more on outcomes and results than on general corporate policies and procedures, although both policy and practice, and the interrelationship between them, are important. Today's forward-looking policies lay the foundation for tomorrow's improved practices.

Ultimately, we believe that corporations can play a positive role in our lives, but much depends on their specific actions. If they channel their tremendous energy and resources to the betterment of the full range of their stakeholders, they can create great value for the societies in which they operate, as well as for themselves and their investors. We therefore use our investments to raise standards and explore themes that we believe

will benefit all parties in the long run, recognizing our obligations as owners in publicly traded corporations to help create a more just and sustainable economic system, built on principles of fairness and sustainability, that will last well into the future.

In our analysis, we look at the following partners and themes:

- *Community – Local and National*
 - Generous and Innovative Philanthropy
 - Community Partnerships and Trust
 - Protection of Community and Public Goods
 - Fair Tax Dealings
 - Government Relations

- *Community – Global*
 - Geopolitical Stability, Nuclear Weapons, Nuclear Power, and International Peace
 - Endorsement of International Norms and Standards
 - Acknowledgement of Human Rights
 - Respect for Indigenous Peoples and Local Cultures
 - Antibribery, Anti-Money Laundering, and Anticorruption Programs

- *Customers*
 - Harmful and Addictive Products: Tobacco, Gambling, Alcohol
 - Commitment to Safety, Quality, and Customer Service
 - Bridging the Divide in Access to Products
 - Innovation and Creativity
 - Marketing and Pricing Practices

- *Ecosystems*
 - Renewable and Alternative Energy Sources
 - Eco-Efficiency and Resource Conservation
 - Recycling, Safer Technologies, and Lifecycle Design
 - Pollution Control and Abatement
 - Long-Term Environmental Sustainability

- *Employees*
 - Continuous Improvement in Health and Safety
 - Fair and Just Compensation and Benefit Programs
 - Commitments to Diversity in the Workplace
 - Empowerment and Investments in Training
 - Solidarity with Unionized Workforce

- *Investors*
 - Accounting, Credibility, and Business Ethics
 - Openness in Communications
 - Commitment to Diversity of Representation
 - Relationships with Controlling Owners

- *Suppliers*
 - Labor Practices and Other Human Rights
 - Quality, Environment, and Other Issues
 - Diversity Within the Supply Chain
 - Empowerment and Viability

Community – Local and National

Cities, states, and national governments invest substantially in public goods that support corporations in their daily business, including basic infrastructure such as roads, ports, airports, railways, water, and sewage systems, as well as legal systems, an educated workforce, a national defense, local security, a financial system, public health services, and social security for the retired, unemployed, and disabled. Governments also frequently provide business with subsidies or markets protected from foreign competition. In doing so, local and national communities place substantial investments at risk in support of industry, in the belief that a healthy and productive business community is good for society.

We believe that when companies treat their local and national communities fairly in return, they are making an investment in their own well-being by enriching the communities upon which they depend for financial success. Creative and generous philanthropy, open dialogue and ongoing partnerships with community-based organizations, honest and transparent relations with government, and paying a fair share of taxes are among the ways companies can reinvest in their communities, strengthening the base from which they operate. Conversely, corporations that harm their communities or benefit disproportionately or inappropriately from them will ultimately undermine their own long-term self-interest.

Themes

The following are the five major themes we use to assess the strength of corporations' relationships with their local and national community partners. While other issues are also important in this regard, these five are those which we believe we can most meaningfully and consistently assess.

Generous and Innovative Philanthropy

Traditionally, corporations have used philanthropy to give back to the local communities in which they operate. Too many of these programs, however, are little more than public relations campaigns seeking to protect a company's good name at minimal cost. With corporate giving programs averaging less than 1% of pretax profits and many corporate initiatives focusing only on high-profile giving to well-established sports, academic, or cultural programs, most companies fail to identify those causes that

foster much-needed economic self-sufficiency among recipients and fail to devote sufficient resources to solve communities' greatest challenges.

We look for companies that target their giving creatively, particularly those that assess the actual needs of their communities and, drawing on their own greatest strengths, work toward empowering local communities. Endowing a corporate foundation, which companies can do with their own stock, or giving generously from pretax earnings, demonstrates a willingness to allocate serious resources to enriching the more intangible aspects of the communities in which companies operate. Corporations should seek to use their philanthropy to fill the most important gaps left by local or national governments in developing a self-sufficient community. These efforts demonstrate an understanding of the importance of the company's investments in the spirit, as well as the economy, of the regions in which it operates.

Community Partnerships and Trust

Communities and corporations often find themselves at odds over basic issues such as the siting of a new plant or store, the effects of their pollution on the economically disadvantaged, their policies on layoffs or plant closings, or their use or abuse of local resources. Corporations rarely seek proactive involvement in collaborative partnerships with groups that understand and give voice to the basic concerns of those in the communities in which they are operating. True partnerships require considerable investments in time and a willingness to communicate openly – on both sides. The reward from such hard work, however, is a mutual understanding and trust that can help reduce litigation, avoid plant siting disputes, and generally keep problems from escalating into major controversies.

We look for companies that are willing to listen to their communities' opinions and act collaboratively to reach mutual understanding. These partnerships can address complicated environmental and natural resource challenges, difficult issues of health and safety, matters of adequate housing or improved education, job training for the economically disadvantaged, or the legacy of racial or gender discrimination. We believe that such partnerships not only strengthen the community base on which corporations build, but establish a trust between corporations and society that benefits both parties in long-term and intangible ways.

Protection of Community and Public Goods

The wave of privatization and deregulation that has swept over the world as part of the globalization of national economies since the 1980s has aroused controversies around the world about the proper role of corporations in society. We believe that companies have an obligation to understand that a clear boundary often needs to be drawn between government and the private sector and to support government's responsibility to provide basic public goods that are as varied as healthcare, prisons, primary school education, and national security. We also understand that in different countries and different regions, historical and cultural differences have led to different decisions about which goods and services are best provided by government and which by the private sector, and understand that these decisions are often part of involved political processes.

We look for companies that appropriately balance their efforts to innovate and experiment with respect for the role of government in assuring the availability of public goods. The market is not the solution to all problems and companies should not inappropriately interfere with the political processes by which local and national communities allocate responsibilities to the public and private sectors.

Fair Tax Dealings

Paying their fair share of taxes is in many senses the most basic responsibility of corporations to society. Without the public services that a well-financed government can provide, corporations cannot operate successfully or generate the profits upon which their employees and stockowners depend. However, today's global economies combined with the sophistication of today's accounting principles mean that companies often have a wide range of choices of how much in taxes they pay and where they pay them. The temptation to cut taxes to enhance profits is great and companies are increasingly successful in this tactic. In the United States, for example, the share of the national revenues derived from corporate tax payments has declined from 20% to 25% in the early 1960s to 10% to 12 % by the early 1990s. Without adequate tax revenues, society will suffer to the detriment of all participants, including corporations themselves.

Judging the appropriateness of a specific company's tax payments is a difficult task and beyond the scope of our research. However, we look for

broad indications of corporations' willingness to pay their way and we take seriously disputes between government and companies over tax avoidance schemes and situations in which corporations appear to have inappropriately used their influence to obtain tax abatements by threatening to site or move their factories to other regions, or have abused the trust of communities that have offered such abatements.

Government Relations

The relationship between corporations and government is of great importance, of great complexity, and of great concern to Domini. The relationship is complex because government is sometimes a customer, and frequently a good one; sometimes a regulator, and potentially a strict one; sometimes an owner, and occasionally an involved one; and sometimes a financial supporter or a partner, and often a generous one. Corporations simultaneously want as little contact as possible with governments when it comes to oversight by them and as much contact as possible when it comes to doing business with them; as small a role as possible when it comes to government participating in the marketplace and as large a role as possible when it comes to setting the rules for that marketplace. To complicate the matter further, governments in Europe and Asia are often stockowners in the companies they contract with, regulate, and support.

For these reasons, we believe transparency and openness are crucial in dealings between companies and governments. This means disclosure and effective internal controls on lobbying, contributions to candidates or political groups, payments to government officials, hiring, and other interactions with government and public policy institutions.

We also believe that collusion and corruption are particularly serious when they involve government officials and corporate representatives. Corruption within the corporate world – whether through bribery, price fixing, or anticompetitive practices – is serious in and of itself. But when public officials are compromised by corporate misdeeds or actively collude with business to steal from the public, the resulting contamination of public trust in our local and national governments is of great concern.

Community – Global

In an economy where global transportation and communications, along with the international flow of funds, increase in ease and speed every day, corporations reap the benefits of international peace and security, free trade, and worldwide standards that allow them to move operations, resources, and assets quickly from region to region. International bodies, including the United Nations, the International Atomic Energy Agency, the World Health Organization, the International Labor Organization, the International Organization for Standardization, UNICEF, and many others help maintain a peaceful and orderly world within which companies can pursue their business opportunities. Because these international bodies have some, but often limited, powers to regulate corporations, these corporations' cooperation is of great importance. By acknowledging and enhancing the role of these organizations in creating the network of global public goods upon which they depend for their prosperity, corporations not only help assure a just and equitable world order, but also increase their own ability to conduct business profitably.

Themes

The following are the five major themes by which we assess the strength of corporations' relationships with their partners in the international communities within which they operate. While other issues are also important in this regard, these five are those which we believe we can most meaningfully and consistently assess.

Geopolitical Stability, Nuclear Weapons, Nuclear Power, and International Peace

One of the greatest threats to humanity and the global environment today is that of nuclear terrorism and war. Although the nuclear arms race between the United States and the Soviet Union has now passed, the arsenals of nuclear weapons maintained by the world's superpowers have not been dismantled. As of 2004, the U.S. nuclear weapons arsenals stood at an estimated 4,986 warheads, that of Russia at 7,730, France 348, the United Kingdom 185, and China some 400. In addition, India and Pakistan have joined the nuclear weapons club, Israel is generally acknowledged to have such weapons, and North Korea and Iran have reportedly taken steps to develop nuclear weapons technology.

In addition, military spending in general by major powers raises other threats to international peace. The thriving international trade in conventional arms fuels internal and regional conflicts around the world. In 2004 the international arms trade totaled an estimated \$19.2 billion dollars and there were 19 internal and regional armed conflicts in the world, including that in Iraq. Out-of-control spending on military systems and conflicts also diverts funds from much needed investments on the range of domestic public goods and international aid that are essential for the creation of prosperous, stable nations.

The achievement of nuclear disarmament and international peace is among the most difficult tasks that governments around the world face today. We view the involvement of publicly traded corporations in the production of nuclear and conventional weapons as complicating these tasks, which should be left to government, and consequently we do not invest in companies deriving significant revenues from the manufacture of military weapons.

Similarly, we do not invest in companies that are significant owners or operators of nuclear power plants, the spread of which, in many experts' opinions, is difficult at the current time to divorce from the proliferation of nuclear weapons.

Endorsement of International Norms and Standards

In an increasingly global economy, the role of international standards-setting and quasilegal organizations is of growing importance. Whether the issue is labor, health, climate change, ozone depletion, product quality, the environment, bribery, transparency, or children's rights, these international bodies play an important role in raising the standards of conduct and in promoting the provision of public goods essential for growing economies.

Companies that invest in their compliance with such norms help create a world of improved health, cleaner environments, more satisfying workplaces, and increased public and private goods. These investments accrue to the long-term benefit of all, including corporations. We view positively companies that recognize, support, and take concrete steps to adhere to these international standards.

Acknowledgement of Human Rights

As companies operate in an increasingly global economy, they face the challenge of accommodating their operations to the varying legal systems of the countries within which they operate. Where questions of human rights abuses by national governments arise, these challenges are particularly complex and may involve corporations in high-profile controversies – especially when the government is also a client. Whether the question is freedom of speech, the rights of minority groups, or abusive labor practices, corporations are often forced to make decisions that mix business and politics in complicated ways and for which no tested guidelines exist.

We seek companies that acknowledge the complexities of these situations and make concerted efforts to confront them in their operations, although we recognize that their decisions will not always leave them free of controversy. Not only can corporate actions make a substantial difference to the individuals their policies affect, but they can also set examples for others to follow. Corporations that neglect or remain indifferent to these questions, however, not only open themselves up to public controversy, but fail to help the societies in which they operate achieve the stable and just social systems that are the foundation for prosperity.

Respect for Indigenous Peoples and Local Cultures

Few controversies are as damaging to the long-term reputation of corporations as those involving the rights and cultures of indigenous peoples. Moreover, these controversies can complicate relationships with local governments and populations, and jeopardize a corporations' ability to operate locally or regionally. Pitting large faceless corporations against often small and relatively defenseless communities, such confrontations can frequently be avoided if companies show initial and ongoing sensitivities to the cultures of those around them. The value of the diversity that these groups bring is incalculable and its loss is irretrievable. Responsible corporations can help preserve unique cultural riches in our world that are all too easily destroyed in a rush to short-term profit.

We evaluate such controversies with great care both because we respect the rights of indigenous peoples to preserve their cultures and because the effect of confrontations between companies and indigenous peoples can be so harmful to corporate reputations.

Antibribery, Anti-Money Laundering, and Anticorruption Programs

Corruption in international trade has been called the Achilles' heel of capitalism. It costs hundreds of billions of dollars each year to governments in lost tax revenues, to honest businessmen in foregone opportunities, to whole economies in inefficient market operations, and to societies themselves in the loss of democratic freedoms and practices. Without honest and transparent markets, societies cannot reap the benefits that the business world is so efficient in creating – or spread them equitably among their citizens.

We consequently look for companies that have implemented strong ethics, antibribery, and anti-money laundering programs, paying particular attention to companies in industries with a history of such scandals, such as the construction, banking, and natural-resources extractive industries, and companies with a significant, or growing, presence in countries with a known history of widespread bribery and corruption.

Customers

Customers look first and foremost to corporations for quality goods at a fair price. They can most easily reward or punish companies by remaining loyal customers or taking their business elsewhere. However, customers also have more at risk than the simple price of their purchase when they patronize a corporation. They risk their physical well-being when it comes to product safety and health, their financial well-being when it comes to financial services, and their peace of mind more generally when it comes to appropriate levels of customer service and satisfaction. Corporations that invest in long-term relations with customers through exceptional attention to innovation, product quality, and customer service can expect to be rewarded by increased market share and longer-lasting customer loyalty.

Themes

The following are the five major themes by which we assess the strength of corporations' relationships with their customer and client partners. While other issues are also important in this regard, these five are those which we believe we can most meaningfully and consistently assess.

Harmful and Addictive Products: Tobacco, Gambling, Alcohol

Certain products – such as tobacco, gambling, and alcohol – are both harmful and addictive. Tobacco is highly addictive, causes more than 400,000 deaths annually in the United States alone, and can cause health problems for those in the vicinity of its users. Alcohol abuse was estimated to have been responsible for some 85,000 deaths in the United States in 2000 and cost the economy an estimated \$185 billion in 1998. Approximately 16,000 of the 40,000 automobile fatalities each year in the U.S. are caused by drunk drivers. Pathological gamblers make up an estimated 1% to 2% of the U.S. population, and problem gamblers make up an additional 3%.

These products can play a useful role in society, providing individual pleasure, and in the case of alcohol even health benefits, if appropriately used. However, we believe that putting these products in the hands of large publicly traded corporations dramatically increases the potential for their abuse and their costs to society. Large public corporations are relentlessly driven to innovate and expand their reach, marketing their

products as aggressively as possible to as many customers as possible. For these companies, effective marketing often means exploiting customers' addictions to these products or ignorance of their risks. For these reasons, we do not invest in companies that are significant manufacturers of alcoholic beverages or tobacco products, or significant providers of gambling goods and services.

Commitment to Safety, Quality, and Customer Service

The benefits to companies from providing their customers with quality goods and services are substantial and the costs from product safety lapses are high. Companies that are willing to invest in improvements in their manufacturing processes, and in the customer-service training of their employees, can look forward to long-term rewards in the marketplace. High-profile scandals from product safety issues can cost companies not only in short-term legal bills and loss of customer confidence, but in long-term damage to their public reputation that is particularly hard to undo. A drug company that handles a highly publicized safety problem well can enjoy decades of high esteem. One that handles such a problem poorly can be embroiled in equally long controversy. We consequently look for companies that understand the long-term benefit of investing in product safety, quality manufacturing processes and training, and company-wide commitments to customer service.

Bridging the Divide in Access to Products

All too often, companies neglect markets in the mistaken belief that customers cannot afford their products. Whether it is the poorer neighborhoods of urban centers or the rural regions of the developing world, potential markets are often neglected through ignorance, prejudice, or simple laziness. Yet investing in creative ways to serve these markets not only provides companies with an expanding customer base, but speeds economic development and poverty alleviation around the world.

We therefore value highly companies that have, among other things, found ways to bridge the digital divide by making computing technology available around the globe, to site retail outlets in depressed inner cities of the United States, to provide drugs at affordable prices in poverty-stricken regions, or to bring personal care products to the rural poor in the developing world.

Innovation and Creativity

One of the great benefits of capitalism is its ability to drive companies to innovate. Such innovation, often with the support of government, leads to improvements in existing products or development of new products, the discovery of new technologies, or the application of old technologies to new purposes. True innovation and creativity can bring about transformative advances such as personal computers and the Internet, or cell phones and mobile communication.

However, innovation can be a two-edged sword. Failure is, almost by definition, a part of the process of innovation. Investments in research and development can be wasted by management that lacks the ability to bring products to market. More seriously, new products or technologies can cause more harm than good. Lead additives to boost the octane of gasoline, chlorofluorocarbons to manufacture packing materials, asbestos as a fire-retardant insulator, and persistent organic pesticides for use in agriculture are examples of products that in retrospect it is safe to say should never have come to market. However, hindsight is not always possible and it is often difficult to evaluate new products that depart radically from today's norm, such as genetically modified foods or chemical compounds created with new nanotechnologies.

Moreover, lack of proper attention to product testing and evaluation procedures can lead to controversy. Two areas of particular concern to us are proper procedures in the clinical trials for drugs and efforts to reduce the use of animals in product safety testing. Elaborate trials for approval of new drugs are a necessary part of our pharmaceutical industry. However, their very complexity opens them up to the possibility of abuse. Among other things, data can be faked, trials can be used as a covert form of marketing, and inappropriate procedures can be used to solicit human participants in these trials. We expect drug companies to minimize the risk of such abuses.

In addition, for these and other products, the use of animals may also be required. We look for companies that are not only minimizing their use of animals in all required safety tests, but also investing in, and advocating the use of, new testing technologies, so that adequate substitutes for animals can be found.

Companies' investments in innovation and testing must be judicious and effective, and management needs to take appropriate actions when evidence of harm or failure is at hand. Firms that strike this difficult balance successfully have every reason to expect to be market leaders. We therefore look for companies that are committed to research and development, are effective in bringing innovative products to market, take due considerations in the management of their product safety testing, and appropriately recognize and manage the potential for failure or for harm of new products and technologies.

Marketing and Pricing Practices

Appropriate decisions about marketing and pricing are the daily bread and butter of well-run firms. These are the fundamental market mechanisms through which managers can learn what customers want and need, how their firms can best operate efficiently, and how best to allocate their capital. However, the pressures of the marketplace all too often lead weak management to abuse and distort these market mechanisms through such short-sighted practices as colluding to fix prices, offering doctors rewards for prescribing medicines, aggressively marketing to children who can't exercise independent judgment, and other steps that often tread on the edge of legality. These practices not only harm customers, but weaken the very markets they were meant to enhance.

Price-fixing controversies are a frequent occurrence and we evaluate them on a case-by-case basis. In doing so we take into account the often effective role governmental regulators already play, the extent of the harm done to customers and other stakeholders, and the type of customer harmed. We usually do not take into consideration patent disputes and charges of unfair marketing practices so often made between business competitors. We view with concern, however, such disputes when they occur between corporations and communities or governments, such as those concerning the rights to indigenous knowledge, or other intellectual property disputes.

Ecosystems

The ecosystems upon which we all depend provide benefits of incalculable worth – including clean air and water, minerals, timber, oil, and fertile land. These natural resources are often available to companies at little or no cost. In addition, the extraction of these resources threatens the viability of other environmental riches that may not be of immediate benefit to the corporation, such as biodiversity. Companies that fail to treat these environmental riches with due respect, and that jeopardize the long-term viability of the gifts that our ecosystems provide, can cause great harm. We believe that companies that, among other things, acknowledge the long-term sustainability challenges of their industry, maximize energy efficiency, use alternatives to fossil fuels, use recycled materials, reduce use of toxic chemicals in manufacturing, and produce less solid and hazardous wastes, will benefit not only the environment but themselves by increasing their potential efficiencies and reducing their potential liabilities.

Themes

The following are the five major themes by which we assess the strength of corporations' relationships with the ecosystems that support their activities. While other issues are also important in this regard, these five are those which we believe we can most meaningfully and consistently assess.

Renewable and Alternative Energy Sources

Without doubt, the greatest and most difficult environmental challenge of our time is how to produce cheaply and efficiently the energy needed for economic development without harming the environment. Burning fossil fuels is ultimately unsustainable because it produces the greenhouse gases, including carbon dioxide, chiefly responsible for global warming. Yet, as of 2006, the world was consuming some 85 million barrels of oil daily, not to mention huge amounts of coal and natural gas, and global energy consumption was sharply on the rise. Equally convenient and inexpensive alternative sources of energy are simply not available at this time. But the future of our planet as we know it depends upon developing these renewable, sustainable alternatives. Corporations have played a tremendous role in creating this problem and have the potential to play an equally large role in its solution. They have the resources to develop and

market alternative clean-fuel technologies. We are particularly optimistic about wind, solar, and tidal power. We have questions about such alternatives as clean-coal and ethanol, and very serious concerns about nuclear power.

Corporations have the capability to reduce their own carbon emissions. We applaud the work of the Carbon Disclosure Project and those companies that report their carbon emissions, thereby creating a framework for accountability that allows society – including investors and corporate managers – to quantify and reduce these harmful emissions. Companies can also play an important role in helping consumers increase their energy efficiency. We therefore look for companies that are aggressive about the energy efficiency of the products and services they provide.

In addition to the significant opportunities corporations have to be part of the solution to climate change, and to benefit financially from the transition to an alternative fuel-based economy, companies that fail to address these risks may face substantial financial risks of their own by failing to adequately prepare for the onset of a carbon-constrained world, or to protect themselves from the significant, and growing, physical risks posed by climate change, such as increasing storm intensity and erratic weather patterns.

We therefore seek corporations that are substantial users, producers, or developers of resources, products, and technology that reduce the risks of climate change and increase the use of sustainable alternatives to carbon-based fuels – and we avoid many of the oil, coal, electric utility, and automobile companies whose products are contributing most heavily to climate change. We also recognize, however, that government must play the central role in making a transition to sustainable energy sources and that corporations and the marketplace alone cannot solve this problem.

Eco-Efficiency and Resource Conservation

Efficiency, whether it is in energy or materials usage, is simply good business. Investments made in eco-efficiency bring some of the clearest and most immediate benefits to both the financial and environmental bottom lines. It is essentially little more than sound financial management for companies to take the relatively obvious and simple steps toward efficiency in their use of energy and natural resources that will bring them

into a more harmonious relationship with the ecosystems within which they operate. We consequently view a company's record in eco-efficiency and resource conservation as a key indicator of the quality of management.

Recycling, Safer Technologies, and Lifecycle Design

Environmental organizations stress the necessity of incorporating recycling and reprocessing into the lifecycle of product design. Starting with the selection of environmentally benign materials, going through minimization of the environmental effects of product packaging and use, and ending with product takeback and recycling, lifecycle design can lighten the environmental footprint we all leave as consumers. For example, those companies willing to invest in the research and development necessary to eliminate toxics are providing a long-term benefit to both workers and the environment. Companies have been notably successful in finding nontoxic alternatives to volatile organic compounds used as solvents. Finding equivalent substitutes for paints, coatings, and adhesives is a greater challenge. Although balancing costs with benefits is often a challenge in such investments, we believe that the long-term benefits of such decisions generally outweigh short-term costs.

We therefore seek out companies that make major use of recycled materials in their manufacturing processes, that are working to solve the challenges of product takeback and recycling, that have found nontoxic substitutes for toxic chemicals used in manufacturing processes, and that are in other ways willing to invest in making their products and services compatible with the ecosystems they affect. We believe that these companies provide substantial long-term benefits to ecosystems, as well as to their employees and customers.

Pollution Control and Abatement

A company's minimum obligation to its local communities and the natural environment is to assure that no substantial harm is done by its current operations. For industrial firms, for example, this means cleaning wastewater before it is discharged and capturing volatile organic compounds before they escape into the atmosphere. For electric utilities, this means installing scrubbers to prevent particulates and sulfur dioxides being released. For chemical companies and refineries, this means preventing spills and leaks, and disposing of hazardous wastes appropriately. These basic steps help prevent immediate harm and through

today's investments avoid tomorrow's problems. We recognize that pollution prevention often requires expensive capital expenditures that force management to make short-term financial sacrifices. We believe, however, that these investments can often pay long-term returns to communities, neighbors, and companies themselves that more than compensate for their short-run costs. We therefore favor companies that have a record of handling today's pollution challenges effectively and without regulatory controversy, while developing more sustainable practices for tomorrow.

Long-Term Environmental Sustainability

Despite the tremendous progress toward increased awareness of the need for compatibility and partnership between society and ecosystems, a surprising number of corporations still deny or ignore the need to manage their long-term environmental risks appropriately. Some oil companies still deny the reality of climate change. Some forestry companies still destroy the rainforests of the world. Some manufacturers still build toxic chemicals into their products. It is of substantial concern to us when companies lag behind on such fundamental matters of long-term environmental sustainability.

On the positive side, a handful of companies have had the foresight to think systematically about their environmental footprint and to pioneer long-term sustainability models for their industries. A carpeting firm rethinks the fundamental environmental implications of its operations. A food retailer acts as a pioneer for the markets for organic or Fair Trade foods. A furniture manufacturer rethinks the environmental implications of the basic manufacturing materials it uses. We recognize these initiatives as having the paradigm-shifting implications necessary to achieve true long-term environmental stability.

Employees

Employees are willing to invest themselves in the corporations for which they work and to put various aspects of their lives at risk. In certain industries this means risking their health and safety, in others it means investing time that they could otherwise share with their family, and in others it means investing intellectual capital and developing company-specific skills. By treating employees fairly, by investing in their personal health, safety, skills, and sense of self-worth, as well as by assuring a living wage and comfortable retirement, companies can go beyond their mere contractual relations with employees to create a positive work environment. We believe that corporations that treat their employees well should, in the long run, attain high levels of employee loyalty, high levels of productivity, and low levels of turnover – all potentially substantial contributors to profitability.

Themes

The following are the five major themes by which we assess the strength of corporations' relationships with their employee partners. While other issues are also important in this regard, these five are those which we believe we can most meaningfully and consistently assess.

Continuous Improvement in Health and Safety

The health and safety of employees are among the primary obligations of employers. Commitments to perfection in workplace safety, proactive programs to improve physical fitness, and assistance to employees in dealing with personal or family problems are all investments that corporations can make in their workforce that are not only the right thing to do, but will increase worker productivity and loyalty. Cost cutting in these areas, we believe, can be a shortsighted approach to management and impose on society costs that companies have a legal and moral obligation to bear.

We therefore seek companies that have made substantial investments in health and safety programs that produce strong results. Conversely, we view with concern those that have a pattern of neglect, particularly those where neglect has resulted in fatalities or regulatory sanctions.

Fair and Just Compensation and Benefit Programs

Appropriate levels of compensation and benefits are a foundation upon which the relationship between corporate management and the average employee is built. Abuses of this relationship damage not only executives' credibility with workers, but undermine stockowners' trust in management and, more broadly, the public's trust in business itself. By contrast, companies that take steps to assure gender equity in pay, appropriate commitments to the financial well-being of their retirees, and a management bonus system that rewards implementation of social and environmental policies as well as financial goals build their credibility with their stakeholders and align their companies' reward systems with larger societal goals.

We understand that numerous complications can arise in these areas and focus our evaluations on the cases of most extreme abuse or notable success. On both the positive and negative sides we consider how a company handles these issues as a strong indicator – and indeed determinant – of corporate culture.

Commitments to Diversity in the Workplace

We believe that in a global economy diversity in the workforce is one of the hallmarks of a well managed corporation. Definitions of diversity can include diversity related to gender, ethnicity or race, age, sexual orientation, disability, economic or class background, religion, and political opinion. Corporations benefit from a diverse workforce because they can better capitalize on the capabilities of the full spectrum of their employees; can better understand the needs and desires of the full range of their current and prospective customers; can better anticipate new societal trends and emerging issues; can better foster understanding, mutual respect, and cooperation among their workforce; and can better recruit from the widest possible pool of talent. A diverse workforce, particularly among positions of authority, can indicate a corporate culture based on merit and open to new ideas and perspectives.

We therefore look for companies that have substantial representation of women and minorities among management-level positions, in particular among their senior line executives; companies that have created a notably open work environment for minority groups – for example, for gay and lesbian employees; and companies with strong programs for training on sexual harassment and respect for diversity. Conversely, we view with

concern companies that have a record of diversity-related controversies and regulatory sanctions, including those related to sexual harassment and discrimination.

Empowerment and Investments in Training

In addition to the compensation and benefits employees are entitled to through employment contracts, companies can, and should, commit to investing in their workforce through employee involvement programs, skills training, support for general education, sharing in the financial success of the firm, and other programs that enrich employees' lives and empower them in the workforce. A company where employees work only to the letter of their legal obligations, without passion, commitment, or creativity, is a company that will struggle in the marketplace. It is through such investments that companies align employees' sense of personal growth and satisfaction with the growth and success of the firm, in a relationship equally beneficial to both parties.

In this regard, we look for companies that share their financial success through profit sharing, stock option plans, employee stock ownership, employee suggestion plans, or other forms of employee involvement and empowerment. In addition, we look for firms that invest substantially in employee training and skills development, provide substantial tuition reimbursement for education, and generally foster a culture of self-realization and growth.

Solidarity with Unionized Workforce

The acceptance of unions as a positive force in the workplace and the government protection for their activities that emerged through a series of hard-fought battles throughout the 20th century have made a major contribution to the stability of the capitalist system and addressed many of its worst abuses. The rights to freely associate and form or join a union of one's choice and to bargain collectively for the terms of one's employment are among the core conventions of the International Labor Organization and are recognized as fundamental human rights. Healthy and vital unions play a crucial role in addressing the imbalances in power that often arise between corporate management and workers in their struggle for fair working conditions. Without unions, the possibilities for long-term equal partnerships between management and labor would be vastly diminished.

Managing union relations, however, is a difficult task. Antagonistic relations between unions and management can spiral downward out of control to the detriment of both parties, whereas independent, but tough relations can be useful in confronting many of the challenges that businesses inevitably face. Moreover, overly aggressive efforts by management to stop drives to unionize non-union employees can lead to protracted battles that cause more harm than good for all parties.

We therefore seek to identify companies where management and unions work respectfully with each other in balancing the appropriate needs of both constituencies. We understand that negotiations between management and unions must necessarily be hard-fought at times, but view with great concern situations where relationships have deteriorated into fundamental mistrust and disrespect.

Investors

Corporations depend on a variety of financial partners for their development and survival, including stockowners, bondholders, private investors, and, at financial services firms, depositors. Boards of directors, corporate managers, and those entrusted with the management of investors' funds act as fiduciaries and agents for others. As such, they bear a particular obligation to communicate clearly and transparently with these financial partners, to manage their assets with the utmost integrity, to act in the best interests of investors, and to maintain the highest levels of ethical responsibility.

This obligation can be subsumed under the rubric of good corporate governance. However, the term corporate governance is often used narrowly, particularly in the United States, to assert an obligation on the part of boards of directors and corporate managers to maximize profits for shareholders. Properly understood, we believe that corporate governance should encompass a responsibility to the corporation as a whole and include a duty to understand and address the full range of social and environmental risks faced by the firm itself and posed by the firm for others. As such, it is of great concern to us.

Although the term corporate governance is not specifically used in the themes described here, we believe that companies that perform well in the areas outlined below must, essentially by definition, be governed well. Our positions on the more traditional measures of good governance (e.g., separation of the roles of chairman of the board and chief executive officer, staggered boards, independence of key board committees, and so on) are described in our Proxy Voting Guidelines. These structural mechanisms can help ensure that there are checks and balances in place, and create an environment where broader accountability is at least possible.

A company's financial partners play a crucial role in maintaining the credit, stock price, liquidity, and financial viability of a firm and their good faith and trust is therefore vital to the firm. This reciprocal relationship is crucial to the long-term financial viability of the corporation, as it is to the long-term financial prospects of its various investors.

Themes

The following are the four major themes by which we assess the strength of corporations' relationships with their financial partners. While other issues are also important in this regard, these four are those which we believe we can most meaningfully and consistently assess.

Accounting, Credibility, and Business Ethics

Markets cannot be efficient and effective unless they are honest. Financial regulators and legislators have devoted much attention to assuring the credibility of the financial accounting systems for publicly traded companies. In addition, an increasing number of companies are voluntarily implementing ethics programs to assure that employees conduct their affairs honestly. When companies such as Enron or Parmalat lie outright about their financial condition, the cost to the public can be tremendous. Similarly, bribery scandals can cause firms major political and financial difficulties. Once this trust is broken, it is difficult to restore. At the same time, we recognize that accounting is a profession involving considerable judgment, and honest differences can arise between regulators and firms. By the same token, the line between questionable payments and legitimate business practices is not always clear.

We consequently look for companies that cultivate a culture of honest accounting and business practices throughout their daily operations, with adequate systems and safeguards in place to prevent systematic abuse, and view with concern those that have a pattern of accounting fraud or business scandals.

Openness in Communications

Markets also cannot be efficient and effective unless communications are open and free with shareholders, bond owners, and others who have invested financial assets in a firm. In our opinion, these communications should cover not only traditional financial indicators, but also nontraditional financial indicators such as social and environment factors. We believe that these social and environmental factors are relevant to investors' assessments of the competence and quality of management, and can have profound long-term (and occasionally short-term) financial implications for firms that often go unrecognized by the mainstream financial community.

We therefore look for companies that communicate openly about the challenges they face, are willing to be thorough in the data they provide, and are willing to enter into ongoing dialogue with stakeholders with legitimate concerns in these areas. We do not, however, automatically take failure to communicate as a sign that a company has no positive initiatives, nor do we automatically take willingness to communicate as a positive indicator. It is the quality of these communications and the company's actual record that are our primary concern.

Commitment to Diversity of Representation

As with diversity among employees, diversity on a firm's board of directors can bring vitality and openness to a corporation. It is surprising to us, for example, when consumer products companies that serve primarily female consumers have boards consisting of only men. Similarly, in an increasingly diverse global economy, individuals with diverse ethnic and racial backgrounds can provide valuable insights about doing business in different countries, cultures, and economic environments. Moreover, as the pace of innovation increases, a culturally diverse board is likely to understand new trends, to innovate, and to seek changes that benefit society broadly. Finally, the public is generally well served by corporations that lead by example in giving equal opportunity to all segments of society in this strategically important and high-profile public role.

Relationships with Controlling Owners

Cross-ownership among companies or ownership by governments, foundations, or families can raise complicated questions for us in setting standards. If controlling interest rests with an organization other than the firm itself, we generally evaluate the company as if it were a wholly owned subsidiary of the controlling entity. When the controlling entity is a corporation, this process is fairly straightforward – a positive or negative record for the controlling company becomes the crucial factor in our decision-making, outweighing most other factors.

However, when the controlling owner is a family or individual, a foundation, or a government, the situation becomes more complicated. We evaluate these situations case-by-case, but some general principles apply. When the controlling owner is an individual or family, we generally do not factor the family's reputation or politics into our analysis. However, if the owners have a record of public or political involvement that in our

opinion threatens to cause conflicts of interest in the operation of the company or to harm the company's reputation, we will take these factors into account. Our sensitivity to such conflicts varies from industry to industry. For example, if a media company is controlled by an individual holding high public office, we view this with great concern.

In general, we regard ownership by foundations with a public service mission favorably. If, however, the foundation is simply a vehicle for family control, the same positives do not necessarily apply. Indeed, in family-controlled companies, whether the control is direct or through a foundation, the owners may on occasion have access to financial information not available to general investors in the marketplace that introduces conflicts and inefficiencies into stock pricing and even potentially into the management of the firm.

Finally, in the case of majority ownership by national governments, we evaluate such situations carefully. Although it can be argued that the state should logically be expected to play the role of an owner who takes the public interest to heart, in fact numerous possibilities for conflicts of interest exist under state control. We look to several factors in our evaluations, including the government's record for honesty and public service and the likelihood of the abuse of the company for purely personal or political purposes.

When third parties own 20% to 50% of a company's stock, we look for indications of whether these parties exercise significant or effective control. If they do, then we apply the same general principles as if they held a majority ownership. If they do not, we consider them passive investors, and do not take their ownership into account. The relationship between such owners and the companies in which they hold stock is often difficult to evaluate and considerable judgment is required on our part.

Suppliers

Corporations and their suppliers can survive and thrive in a relationship of mutual benefit. Companies depend on reliable, high-quality goods and services from suppliers, and suppliers depend on corporate customers to pay a fair price in return. Companies can invest both figuratively and literally in their suppliers to assure the survival of long-term relationships, and suppliers often tailor their operations and products to the needs of specific customers.

Increasing specialization has driven many firms to outsource large portions of their business. Consequently, the reputations of companies increasingly depend on those of their suppliers. It is no longer acceptable for companies to say they didn't know or they have no influence, when their suppliers become embroiled in controversy. Many corporations around the world now require their suppliers to meet standards in the areas of quality, environment, and labor rights, as a precondition to conducting business with them. We believe that companies that have developed relationships with their suppliers that enhance their mutual well-being and create complementary social and environmental programs will help both parties prosper and thrive in the long run.

Themes

The following are the four major themes by which we assess the strength of corporations' relationships with their supplier partners. While other issues are also important in this regard, these four are those which we believe we can most meaningfully and consistently assess.

Labor Practices and Other Human Rights

Few issues are more important or more controversial in today's rapidly globalizing economy than labor practices at the vendors that international companies employ in the developing world. Although business can naturally be expected to seek to lower its labor costs, the line between a reasonable approach and the abuse of labor is not always clear. Put differently, while most consumers are pleased by lower prices, few would say they want to buy goods produced by forced or child labor, or even under abusive, if technically legal, conditions. Corporations can play a valuable role in improving working conditions at their vendors, and by

doing so, not only raise living and working standards around the world, but strengthen their long-term ties to reliable suppliers.

We therefore look for companies that have adopted comprehensive labor standards for their suppliers that incorporate the International Labor Organization's core conventions, recognize the potential pitfalls of outsourcing policies, have been effective in preventing labor abuse, monitor actual practices at their suppliers, and confront these issues honestly and openly with the public. Actual company practices are often difficult to research. We often rely on communications and engagement with corporations on this issue, seeking to increase mutual understanding of potential problems and the sophistication of all parties in dealing with these challenges.

Quality, Environment, and Other Issues

Raising levels of awareness and performance on issues of corporate social responsibility at the huge number of small and medium-sized companies in the business world is a major challenge, which if met can do much to extend the reach of corporate social responsibility. Large companies have a particularly effective means of raising these standards through their subcontracting arrangements with these firms. Making contracts contingent on meeting quality standards was one of the first and most widely used such tactics. An increasing number of companies, however, are now requiring disclosure of subcontractors' environmental records as part of their requests for proposals, inserting human rights clauses into their contracts, and even requiring vendors to make similar requirements of their own suppliers. Such mutually beneficial arrangements can improve quality and reduce costs, while assuring investors and consumers of the integrity of their investments and purchases.

We view favorably companies that systematically communicate their concerns about quality, the environment, and human rights to their vendors, and look particularly favorably at firms that monitor and act upon these concerns.

Diversity Within the Supply Chain

Local, small businesses are often the backbone of a thriving and independent middle class. By maintaining a diverse supplier base of smaller firms that build local communities and provide access to financial independence for those who might otherwise be shut off from financial

success, large corporations can foster stable and just societies. At the same time, we recognize that economies of scale are driving some corporations increasingly to use fewer and larger subcontractors in the name of profits and efficiencies, or to assure high levels of quality, labor, and environmental standards. A company's ability to enforce labor standards, for example, is largely dependent upon the volume of purchasing that the company accounts for, and the length of the company's relationship with the individual supplier. Companies that rely upon short-term relations with a large number of suppliers may achieve the flexibility to fill orders at lower prices, but also may find it difficult to hold these suppliers to social or environmental standards. Managing this creative tension is a challenge, but corporate managers with the long term in mind understand the benefits, for both their company and society, of cultivating and maintaining appropriate levels of diversity in their supply chain.

Within the United States, companies often pursue a commitment to diversity by contracting with vendors owned by women and minorities. Support for such businesses, often struggling to obtain a foothold in mature markets, provides groups that have historically been excluded from the business world with the opportunity for success.

We believe that a diverse base of long-term suppliers not only benefits societies generally, but also provides large corporations with insurance against the dangers of an overly concentrated supply chain.

Empowerment and Viability

Large corporations can strongly affect, either positively or negatively, the viability of their suppliers and the quality of the lives of their suppliers' employees. For example, on the positive side, large corporations can invest in their suppliers to increase their technological capabilities and sophistication to meet quality, health, or environmental standards. Small suppliers often lack the resources, motivation, or training to make substantial and often costly upgrades. As long-term purchasers of commodities, large companies can also assure stable or preferential "fair trade" prices to protect their suppliers from the often devastating swings of the markets. These cooperative arrangements, which promote long-term, stable relationships, can work to strengthen and benefit both parties over time.

By contrast, through abusive contracting, large purchasers can turn their suppliers effectively into indentured servants, tied solely to a single large customer who imposes oppressive financial and production conditions and keeps them out of a truly competitive market. Such arrangements not only harm suppliers and their employees, but also weaken our economic systems.

Information on supplier contracts tends to be anecdotal and usually surfaces for a relatively limited number of corporations that are exceptional on either the upside or the downside. When available, we view positive or negative indicators in this area as particularly significant.

Our Global Standards — Bond Fund and Money Market Account

Bond Fund

The standards applied to the Domini Social Bond Fund focus on three key themes. We seek investments that do the following:

- Increase access to capital for those historically underserved by the mainstream financial community
- Create public goods for those most in need
- Use financial innovation in the service of the economically disadvantaged

These three themes flow from our belief that healthy economies must be built on a strong foundation of fairness and opportunity for all.

The need for access to capital arises when individuals, neighborhoods, or regions are poorly served by traditional financial institutions. Neglect can occur because traditional lenders or investors view potential clients as too risky, fail to understand their needs, have no history of serving them, or allow discrimination or cultural dissimilarities to interfere with deal making. Such situations can lead to capital “gaps.” We seek to play a role in filling these gaps through our fixed-income investments.

Access to capital increases, among other things, opportunities to purchase housing for those with low and moderate incomes, to start small businesses for those who have not traditionally had access to the financial markets, to have credit at affordable rates for those who are otherwise considered high-risk borrowers, and to obtain knowledge of the basics of finance for those who have not participated in the mainstream financial systems.

The need for additional public goods arises when communities or regions have historically been deprived of the resources to develop the basic infrastructure that assures, among other things, healthcare, education, sanitation, transportation, and personal security. A downward cycle of unmet needs and deteriorating infrastructure can be reversed through lending and investments that support the creation of these public goods. These goods help assure an equal footing to members of a community to participate in homeownership, job training, small business development,

and economic revitalization projects. We look to identify opportunities where our fixed-income investments can help break these negative cycles.

The need for financial innovation in the service of the economically disadvantaged arises because, although the mainstream financial community often uses its resources and talents to innovate and create new financial products for rich and sophisticated investors, it rarely makes a corresponding effort to find new ways to serve the poor responsibly and well. Yet, as the recent success of the microfinance world has shown, there is a huge untapped world of economically disadvantaged clients who have yet to be well served by our financial institutions, whether through prejudices, lack of imagination, or simple inertia.

We therefore seek out investments that serve these community development and social purposes. While most fixed-income investments, particularly those offered by public institutions, can be said to serve a social purpose, some have a greater community development impact than others. For example, Fannie Mae and Freddie Mac play a particularly prominent role in increasing access to affordable housing in this country. Among the range of debt instruments they offer, those targeted to low-income neighborhoods, low-income borrowers, or specific community revitalization projects have a particularly direct social impact.

Similarly, certain municipal bonds are issued by cities or states with below-average levels of resources. These bonds help create public goods, such as affordable housing, transportation infrastructure, educational facilities, brownfield redevelopment, technical assistance for small enterprises, and other services needed to close the gap between these localities and the rest of society.

We strongly emphasize investments in community development financial institutions (CDFIs) because of their abilities to serve those historically neglected by the mainstream financial community. Up to 10% of our bond fund's assets may be invested with CDFIs, which operate in market niches underserved by traditional financial institutions. Our investments here are made primarily through certificates of deposit.

CDFIs include community banks, low-income credit unions, and community loan funds, working in neighborhoods or regions that are among the poorest in this country. They serve clients who may never

before have had a checking or savings account, may never have had the opportunity to purchase a home or start a business, or may lack the basic knowledge and skills to effectively manage their personal finances. For more than 30 years, these CDFIs have pioneered ways to serve these communities.

Most fixed-income securities issued by governments and quasi-governmental bodies, by definition, tend to serve social purposes. We will, however, exclude those relatively few government-issued bonds explicitly issued to finance the development of projects such as nuclear power plants or casinos that are excluded by our standards for our stock funds. In addition, for corporate debt obligations, we apply the same set of standards that we apply to our stock funds.

Additionally, we exclude U.S. Treasuries – the general obligation securities issued by the U.S. government – from our investments. While we recognize that these securities support many public goods essential for our society, we have adopted this policy to reflect our serious concerns about the risks posed by our country’s nuclear weapons arsenal and continuing large military expenditures. The U.S. government (along with Russia) maintains one of the largest nuclear-weapons arsenals in the world, still totaling almost 5,000 warheads as of 2004. These nuclear arsenals are among the greatest and most immediate threats to the world today. U.S. Treasuries go to fund repayment of our national debt, incurred in part by our ongoing military expenditures, including those devoted to maintaining our nuclear weapons arsenal.

Money Market Account

Domini's choice of ShoreBank as a partner for the Domini Money Market Account is driven by a similar concern for maximizing our positive community impact. Deposits in this account go directly to one of the foremost community development financial institutions in the United States: ShoreBank, headquartered in Chicago, along with ShoreBank Pacific, the first U.S. community development bank with an environmental focus. The Domini Money Market Account provides ShoreBank with a stable source of assets for its work. Investors can thus be assured that every dollar they place in their account goes to support ShoreBank's strategic community economic development and environmental projects.

Domini Community Impact Gradient – Levels and Breadth of Social Impact

Fixed-income investments are crucial in addressing many of the financial disparities that arise in our society today. We seek to address some of these disparities through the investments of the Domini Social Bond Fund, while simultaneously seeking to achieve competitive returns for investors. To help us assess our success in addressing these challenges, we have developed a tool to measure the level of community development impact for each investment in the Fund.

We use this tool, called the Domini Community Impact Gradient, to score each of the investments in the Fund on a range from one to five – five being those community development financial institutions with the highest and broadest level of community development impact.

Along with depth of impact, we also note the breadth of impact. We look to diversify our holdings across a broad range of social issues, including affordable housing, small business development, education, community revitalization, rural economic development, environment, and health. In today's fixed-income markets, investments in affordable housing are most widely available, and consequently most of our holdings support these efforts. We look, however, to find investments that support other community development issues as well.

The five levels of community impact are listed below, with a brief description of the type of investments that are most readily available for our Fund at each level.

Level 5 Impact (Highest Level of Impact)

In this category are investments with community development financial institutions that serve communities in substantial need of capital inflows, in substantial need of public goods, and in substantial need of innovative financial services to fill these needs. Examples include the following:

- Community Development Banks – for-profit banks whose mission is to serve low-income or underserved communities.

- Community Development and Low-Income Credit Unions – member-owned credit unions that serve low-income neighborhoods.
- Community Development Loan Funds – nonprofit loan funds whose mission is to promote community development in low-income regions.
- Community Development Pools – highly rated securities backed by pools of community development loans and issued by financial services companies devoted to community economic development.

Level 4 Impact (Substantial Direct Impact)

In this category are investments that flow directly to regions in need of substantial capital inflows and the creation of substantial public goods.

Examples include:

- Project Loans and DUS (Delegated Underwriting and Servicing) Bonds – securities issued by government-sponsored enterprises, such as Ginnie Mae or Fannie Mae, and backed by loans to a single project, or limited number of projects. When these projects serve low-income communities, we view them as having a particularly identifiable and direct social impact.
- Agency CRA (Community Reinvestment Act) Pools – securities created by Fannie Mae or Freddie Mac that include mortgages made to individuals or families with income levels below those in their standard affordable housing pools.
- Taxable Municipal Bonds – bonds issued by state or local governments, or nonprofit organizations to support such public goods as low-income housing, economic revitalization, education, a clean environment, and healthcare. When these go to support low-income or underserved communities, we categorize them as having a substantial direct level of social impact.

Level 3 Impact (Moderate Direct Impact)

In this category are investments that directly support organizations specifically funding affordable housing, small business creation, and

economic revitalization, and creating public goods in regions of moderate need. Examples include the following:

- Ginnie Mae, Fannie Mae and Freddie Mac Mortgage-Backed Securities – securities issued by these government-sponsored enterprises and backed by mortgages on single-family, multiple-family, and rental properties priced at moderate levels, or in the case of Ginnie Mae, mortgages insured by the Federal Housing Administration, Department of Veteran Affairs, Rural Housing Service, and the Office of Public and Indian Housing.
- Securities issued by the U.S. Small Business Administration and backed by loans to small businesses.
- Taxable Municipal Bonds – bonds issued by state or local governments, or nonprofit organizations to support such public goods as low-income housing, economic revitalization, education, a clean environment, and healthcare. When these go to support moderate-income communities, we view them as having a moderate, direct level of social impact.

Level 2 Impact (Moderate Indirect Impact)

In this category are investments that provide general, indirect support to organizations working to promote affordable housing, rural development, education, and related activities. Examples include the following:

- Agency Bonds issued by government-sponsored entities such as Fannie Mae, Freddie Mac, the Federal Home Loan Bank, and Farmer Mac to support their mortgage lending in general.
- Securities issued by Sallie Mae, formerly a government-sponsored entity, either backed by student loans or in support of its general work in making student lending.

Level 1 Impact (Lowest Level of Impact)

In this category are investments in mainstream for-profit corporations that meet our standards for our stock funds. Examples include the following:

- Securities issued by mainstream financial institutions and backed by mortgages that tend to serve moderate- or high-income regions (whole-loan collateralized mortgage obligations).
- Selected Corporate Bonds – general-purpose debt securities issued by for-profit corporations that meet our standards.

Each investor should consider the Domini Funds' investment objectives, risks, charges, and expenses carefully before investing. Obtain a copy of each Fund's current prospectus for more complete information on these and other topics by calling 1-800-762-6814 or at www.domini.com. Please read the prospectus carefully before investing or sending money.

Past performance is no guarantee of future results. The Domini Funds are subject to market risks and are not insured. Investment return, principal value, and yield will fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost. You may lose money.

The Domini Social Bond Fund is subject to market risks, including interest rate and credit risks. During periods of rising interest rates, bond funds can lose value. The Domini Social Bond Fund currently holds a large percentage of its portfolio in mortgage-backed securities. During periods of falling interest rates, mortgage-backed securities may prepay the principal due, which may lower the Fund's return by causing it to reinvest at lower interest rates. Some of the Domini Social Bond Fund's community development investments may be unrated and carry greater credit risks than its other investments.

The Domini Social Bond Fund may hold a substantial portion of its assets in the direct obligations of U.S. government agencies and government-sponsored entities, including Fannie Mae and Freddie Mac, and in the mortgage-backed securities of Government National Mortgage Association (Ginnie Mae), Fannie Mae, and Freddie Mac. Ginnie Mae is a wholly owned government corporation that guarantees privately issued securities backed by pools of mortgages insured by the Federal Housing Administration, the Department of Veterans Affairs, and the Department of Agriculture under the Rural Housing Service Program. Fannie Mae and Freddie Mac are government-chartered, but shareholder-owned, corporations whose mandate is to enhance liquidity in the secondary mortgage markets. (Ginnie Maes are guaranteed by the full faith and credit of the U.S. Treasury as to the timely payment of principal and interest. Freddie Macs and Fannie Maes are backed by their respective issuer only, and are not guaranteed or insured by the U.S. government or the U.S. Treasury.)

Investing internationally involves special risks, such as currency fluctuations, social and economic instability, differing securities regulations and accounting standards, limited public information, possible changes in taxation, and periods of illiquidity.

The composition of the Funds' portfolios is subject to change. Obtain a copy of the Funds' most recent Annual or Semi-Annual Report, containing a complete description of each Fund's portfolio at www.domini.com or by calling 1-800-762-6814.

Unlike a mutual fund, the rate of return for the Domini Money Market Account is determined by ShoreBank and will vary from time to time. The Domini Social Equity Fund, Domini Social Bond Fund, Domini Institutional Social Equity Fund, and Domini European Social Equity Fund are not affiliated with any bank and are not insured by the FDIC. All funds may not be available at all firms.

Domini, at its discretion, may choose to apply different criteria, or to modify the application of the criteria discussed above, to the Domini Funds, at any time, without shareholder approval. Please see the Funds' most current prospectus for more information. The Global Investment Standards are Copyright © 2006 by Domini Social Investments LLC. All rights reserved.

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