

## KORN/FERRY INTERNATIONAL WORLDWIDE OFFICES

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404-577-7542

Bogota  
57-1-658-3000

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617-345-0200

Buenos Aires  
54-11-4114-0000

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403-269-3277

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58-212-285-0067

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312-466-1834

Dallas  
214-954-1834

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713-651-1834

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949-851-1834

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51-1-221-4202

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310-552-1834

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305-377-4121

Minneapolis  
612-333-1834

Monterrey\*  
52-81-8220-5959

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212-687-1834

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703-761-7020

Philadelphia  
215-496-6666

Princeton  
609-452-8848

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5932-2986-562

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55-21-2518-1380

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415-956-1834

Santiago  
562-233-4155

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5511-3708-2222

Seattle  
206-447-1834

Silicon Valley  
650-632-1834

Stamford  
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64-9-309-4900

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662-636-1466

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8610-6535-9600

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Jakarta  
62-21-573-9933

Kuala Lumpur  
603-2078-1655

Melbourne  
613-9631-0300

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91-22-6651-5959

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91-124-432-1000

Seoul  
82-2-399-7475

Shanghai  
86-21-6256-7333

Singapore  
65-6224-3111

Sydney  
612-9006-3400

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81-3-3560-1400

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64-4-460-4900

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Amsterdam  
31-20-799-9000

Athens  
30-210-722-8000

Barcelona  
34-93-217-91-31

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32-2-640-3240

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40-21-224-7124

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36-1-346-0600

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45-33-28-85-00

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49-69-7167-00

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41-22-310-2071

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358-9-61-22-560

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90-212-231-3949

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44-20-7312-3100

Luxembourg  
35-2-46-43-421

Madrid  
34-91-701-4380

Milan  
39-02-80600-1

Moscow\*  
7-495-234-0608

Oslo  
47-22-82-39-00

Paris  
33-1-45-61-8686

Prague  
420-221-033-730

Rome  
39-06-80687-090

Stockholm  
46-8-611-5015

Vienna  
43-1-531-03-0

Warsaw  
48-22-622-28-29

Zurich  
41-43-366-77-88

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Dubai  
971-4-2045-777

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27-11-722-1600

\*Denotes satellite or  
affiliate office



# 33rd Annual Board of Directors Study

Celebrating More Than Three Decades of Governance Analysis





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### OBSERVATIONS AND COMMENTARY

A director's dedication is not easily explained. To the uninitiated, serving as a director is seemingly a thankless job, a pursuit filled with aggravation, ever-increasing demands, and risks – all for constituencies with a shared goal of a secure, large return on investment. When asked why they undertake directorships, two-thirds (65 percent) of respondents in the Americas indicate their desire to make a difference.

With the challenges that have arisen during the past five years, there has been ample opportunity to make a difference. The corporate environment today appears to have strengthened the resolve of study participants rather than defeat them. The majority of those surveyed in Japan (62 percent) and in Europe (55 percent) state they derive greater satisfaction from serving as a director now than they did five years ago. This is also true of 33 percent of those surveyed in Australasia and 46 percent in the Americas.

Directors energised by challenge take full responsibility for making a difference. They believe the calibre of an individual and the ability to work with others has the greatest impact on board productivity. In identifying criteria influencing boardroom success in Europe, individual and collective board action was found to be the sole primary driver determining the quality of governance. The majority (68 percent) of these directors in Europe rate their board as “very good” or “excellent” regarding this criterion. Sixty-five percent of directors in the United Kingdom assign this rating to their boards. Ensuring legal and ethical integrity was determined to be an expected driver of success, a criterion expected of all boards.

In the Americas, individual and collective board action was also deemed a primary driver, or one criterion having the highest impact on board success. Seventy-seven percent of respondents assign an “excellent” or “very good” rating to their board for their individual and collective board action. However, the effects of severe regulation can be seen when it comes to the weight given to ensuring legal and ethical integrity. Rather than being seen as an expected driver, this was found to be a primary driver of board success in the Americas. The vast majority (93 percent) of responding directors in the Americas think their board's integrity is beyond question and deserves an “excellent” or “very good” rating.

These findings suggest that directors around the world find established rules to be no guarantee of good governance or corporate performance and may even have counterproductive results.

Despite the desired outcome of improved governance, the majority of survey respondents believe that recent regulations have actually inhibited necessary risk taking and fostered an environment of conservatism. Seventy percent of participants in both the Americas and Japan believe Sarbanes-Oxley has made their boards more cautious, 67 percent of those surveyed in Germany share this opinion of The Cromme Commission recommendations and 44 percent in France think this to be true of the best practice guidelines in France.

With compliance mandates met, the next step is to replace excessive caution with courage and confidence. To do so, boards must enhance the individual performances within the boardroom. While full board reviews are commonplace, the vast majority of directors surveyed for this study believe individual reviews should be required. These will undoubtedly aid in strengthening both professional contributions and teamwork and facilitate an environment that promotes calculated risk-taking and quality decision-making.

Participating board members around the globe report they are eager to help drive companies to greater success. Seventy-three percent of respondents in the Americas state they would like to be more involved in strategic planning, compared with the 56 percent wishing this in 2005. Forty-four percent say they want to assist the CEO in assessing marketing opportunities, up from 14 percent in 2005. When asked why directorships might be less appealing, 43 percent of those surveyed in Australasia report their ability to add strategic value is limited. However, structured CEO performance evaluations, now the norm throughout the world, do allow directors to provide counsel to the chief executive.

Although regulations have not proven to be a panacea and have been laced with some unintentional consequences, the overall impact has proven largely positive. Boards today, while cautious, are more independent, diligent and focused than at any other time in corporate memory, and the quality of corporate governance continues to improve around the globe.



**Stephen P. Mader**  
Board Services Practice  
Global

A handwritten signature in black ink that reads "Stephen P. Mader".



**Didier Vuchot**  
Board Services Practice  
Europe

A handwritten signature in black ink that reads "Didier Vuchot".



**Sakie Fukushima**  
Board Services Practice  
Asia Pacific

A handwritten signature in black ink that reads "Sakie Fukushima".

### METHODOLOGY

Korn/Ferry International's 33rd Annual Board of Directors Study has expanded its analysis of the worldwide evolution of governance. For the first time ever, the study probes deeper to identify the success criteria of highly effective boards and the elements that enable a board to maximize performance. This data, reported in the new Drivers to Board Success and Cluster Analysis sections, measures the relevance of the execution of specific duties to delivery of successful board performance.

For example, while some directors feel their board is excellent in developing yearly goals, they do not consider this a primary factor to good governance. By linking the value of a particular practice to board success, the study shows those practices with the strongest potential to influence the quality of governance.

Expectedly, directors diverge in their definitions of success. Using the information gleaned from these drivers, boards could be categorised accordingly. The Clusters section highlights data based on type of board, evidencing the influence of board culture, region and stage of board maturation in the Americas and in Europe. Questions not included in the Asia Pacific questionnaires precluded us from incorporating the results from that region.

The Clusters data is particularly meaningful to directors throughout the world dedicated to continuous improvement. Findings reveal both commonalities and differences, providing a basis for objective evaluation when considering adoption of new practices.

Directors from premier organisations in Asia Pacific, Europe and the Americas were invited to share their views and information regarding their boards with more than 1,000 directors from 18 nations by returning a completed questionnaire. To better illustrate the differences in governance worldwide, responses have been reported by global region. The Americas comprise Canada, the United States, Brazil and Mexico. The European region encompasses the United Kingdom, France, Germany, Sweden, Switzerland, Austria and Denmark. Asia Pacific consists of Australia, New Zealand, Japan, China (which includes Hong Kong), Korea, Singapore, Thailand and India. Where meaningful, data is shown by country.

The study also includes a quantitative analysis of proxy data from 896 Fortune 1000 organisations.\* Information was reported between July 1, 2005 and June 30, 2006. To provide historical perspective of trends, comparisons to data reported in previous studies are shown, where appropriate.

### In Appreciation

The growing demands made on directors have substantially increased the time board members worldwide must commit to service. By virtue of their participation, these directors have enabled us to continue our efforts to provide a unique view of corporate governance in this study.

Korn/Ferry is deeply grateful to these directors who invested their time to share information regarding their boards, their professional experiences and their opinions.

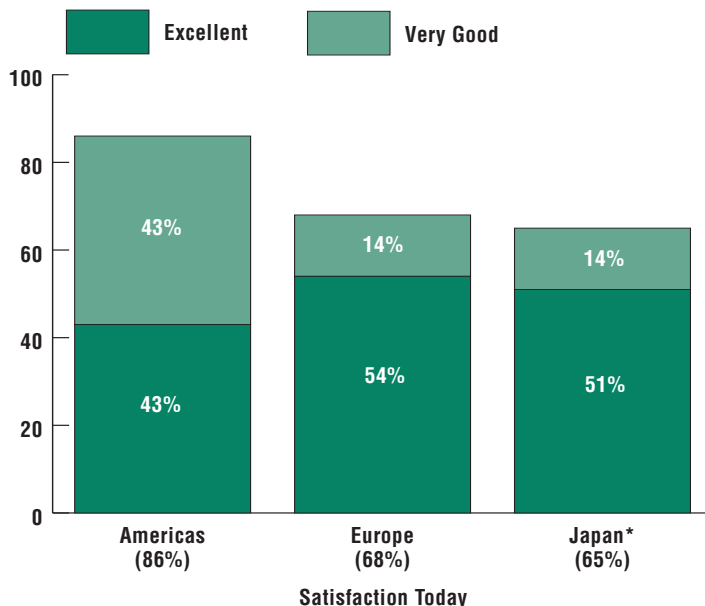
\* Of the 104 companies we were unable to include, 56 were either private/mutual insurance companies, 24 were in the process of a merger/acquisition, 13 were in Chapter 11, three were undergoing SEC investigations, and eight companies did not issue proxies during our proxy year.

## EXECUTIVE SUMMARY: HIGHLIGHTS OF GLOBAL FINDINGS

Business life cycles, competitive pressures, differing cultures, regulation, politics and forms of ownership are all factors that influence the actions of directors and are issues often lost in truncated news reports. However, board members around the world are willing to discard obsolete practices and implement new measures to ensure better governance, not merely to pacify constituencies.

Findings of this year's study illustrate aspects of governance common to directors worldwide: dedication to executing responsibilities, an acute awareness of increased demands of service and potential risks, the struggle to institute appropriate compensation, commitment to improving individual and group performance, and an unswerving confidence in the quality of their boards.

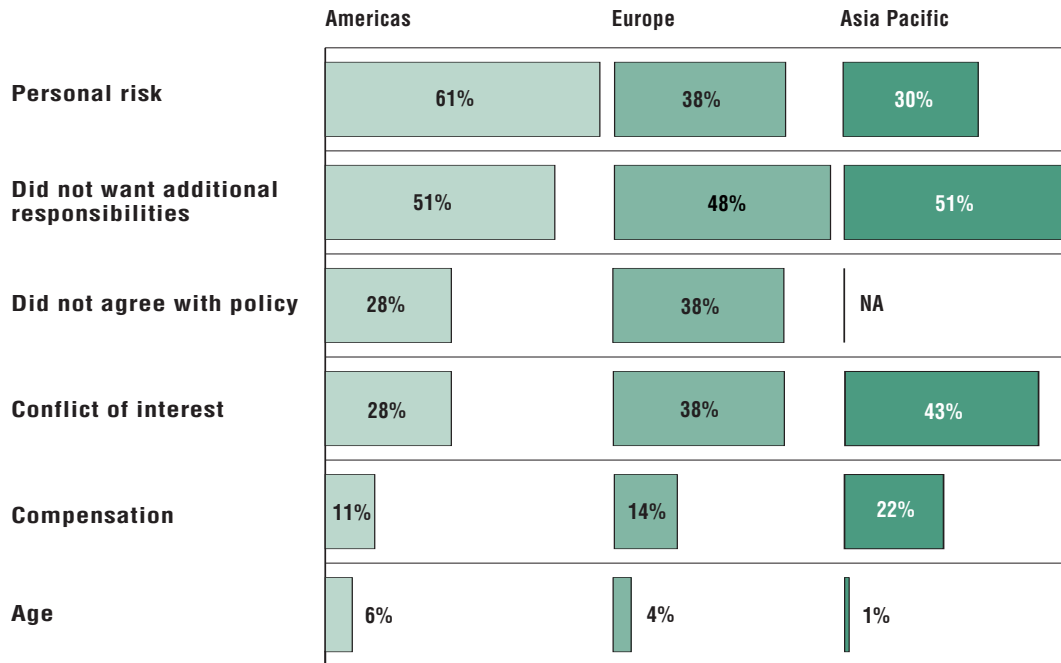
### Board Quality



Appreciation of new processes designed to improve governance may be the reason that two-thirds of directors surveyed worldwide assign their boards a “very good” or “excellent” rating. Working together in a turbulent era of stringent reform may have influenced 43 percent of participants in the Americas, who deem their boards “excellent,” more than twice the number doing so in Europe.

\* Necessary data not collected in the rest of Asia Pacific

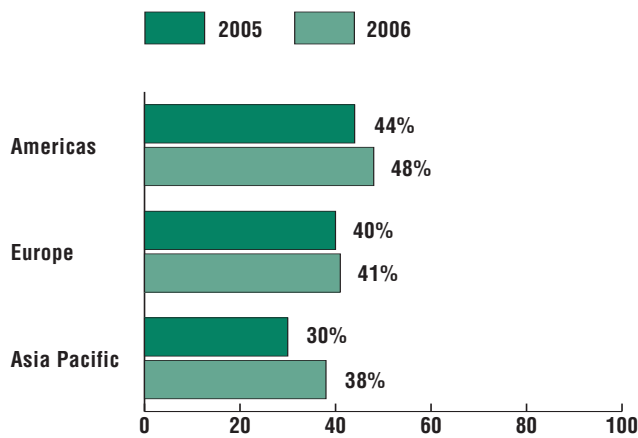
## Factors in Declining Directorships



The reasons cited by respondents for declining new directorships reveal their integrity and dedication. Existing commitments and personal philosophies often preclude acceptance of board invitations. Similar to 48 percent of their peers in Europe, 51 percent of those surveyed in the Americas and in Asia Pacific have been unwilling to take on the additional responsibilities of another directorship. Thirty-eight percent of participants in Europe and 28 percent in the Americas state a disagreement with a company's policies led them to refuse a board seat. Conflict of interest was identified by 43 percent of participants in Asia Pacific, 38 percent in Europe and 28 percent in the Americas.

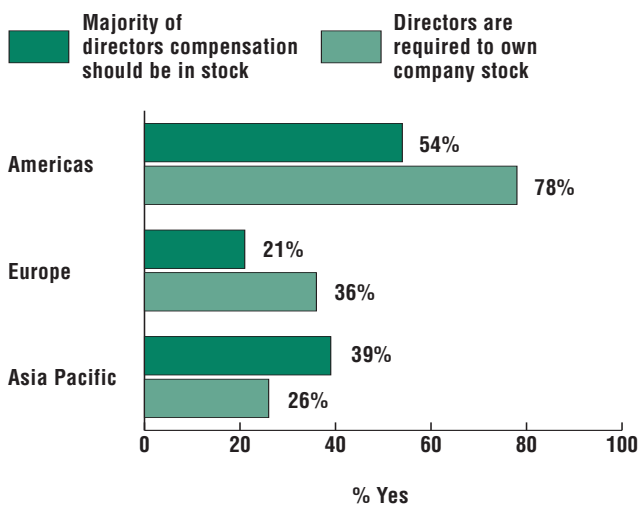
Differing legal ramifications could be a reason for the contrast in the number of those deeming personal risk as the primary factor in turning down a board seat. Only 38 percent of respondents in Europe and 30 percent in the Asia Pacific region cite this, compared with 61 percent of their peers in the Americas.

## Members New to Board Service



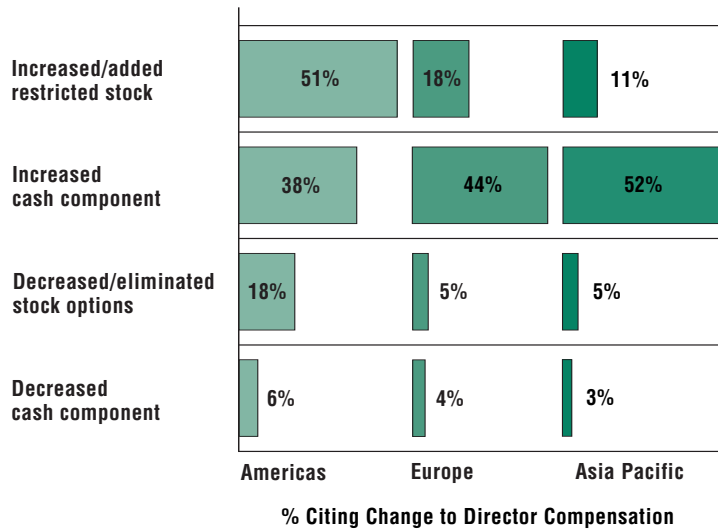
Global business opportunities, regulation and foreign investors can influence board composition. These factors, combined with the often limited availability of seasoned talent, have made boards more accepting of individuals new to board service. In the Americas, 48 percent of boards include such a member. Thirty-eight percent in the Asia Pacific region note this occurrence.

## Stock Ownership



In 2006, boards around the world continued to test the value and outcomes of stock ownership, and questioned whether ownership should be a duty or a reward. Reports of mandated stock ownership are twice as prevalent in the Americas (78 percent) as in Europe (36 percent). Only 26 percent of surveyed directors in the Asia Pacific region say they are required to have an equity position. Fewer directors in Europe (21 percent) and in Asia (39 percent) support making stock the major component of director compensation.

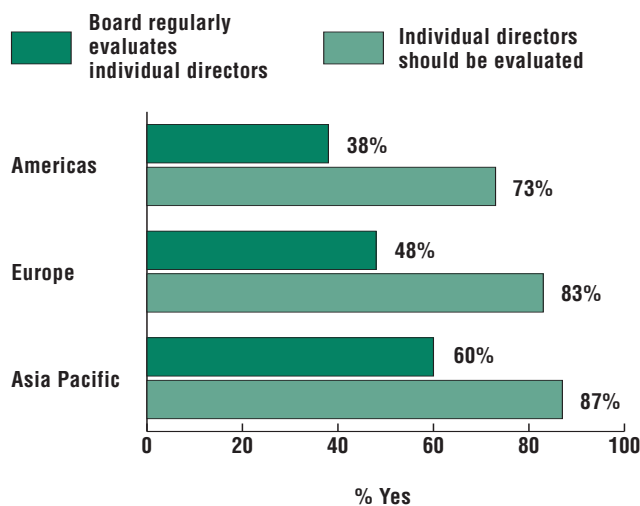
## Director Compensation



Participating directors diverge on the actual incorporation of stock in compensation plans. The majority (51 percent) in the Americas report that restricted stock was added to their compensation package. Few directors in Europe (18 percent) and in Asia Pacific (11 percent) reported experiencing this modification. Eighteen percent of participants in the Americas state stock options were reduced or were no longer included in their compensation, a possible attempt to avoid controversy. Fifty-two percent of those surveyed in Asia Pacific and 44 percent in Europe state they received a larger sum of cash.

## Director Evaluations

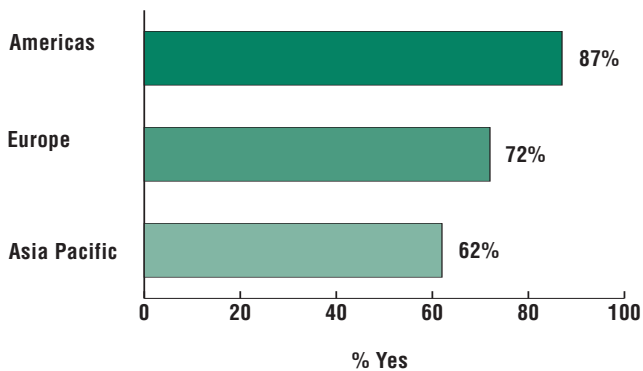
Diversity in culture and business, members new to service and evolving governance structures are catalysts in the integration of individual director reviews into board operations. Sixty percent of respondents in the Asia Pacific region receive a performance review. Almost half (48 percent) of European board members are provided with constructive guidance about their participation.



Fostering individual improvement is essential to creating a cohesive, effective board. Directors worldwide believe individuals should receive reviews. Support for the practice is strongest in Asia Pacific, with 87 percent of respondents holding this opinion, followed by Europe, where 83 percent of peers think evaluations should be routinely conducted.

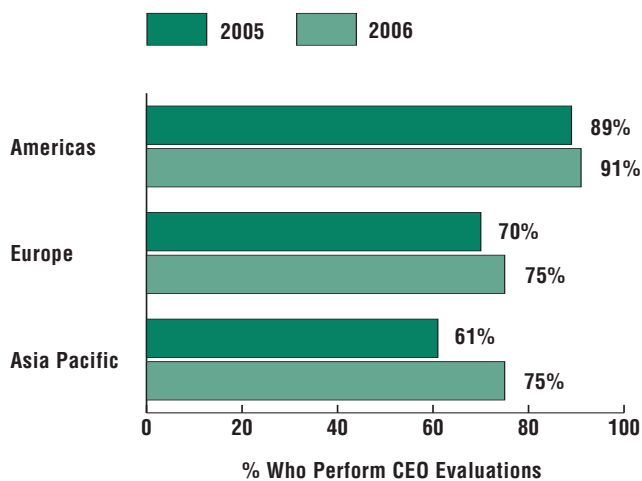
Ironically, this practice seems to meet with the greatest resistance in the Americas, where much of the revolution in governance originates. Only 38 percent of directors in the Americas receive performance reviews and 73 percent believe individual reviews have merit.

## Full Board Evaluations



More boards worldwide believe that merely assembling qualified directors in the boardroom is a disservice to the members and stockholders. To completely capitalise on the expertise of all in the boardroom, directors are utilising full board reviews to work more effectively together. Full board reviews are standard practice for 87 percent of participants in the Americas, 72 percent in Europe and 62 percent in Asia Pacific.

## CEO Evaluations



Progressive chief executives welcome the counsel of directors regarding the course of their leadership. CEOs know that to meet the challenges of a highly competitive environment they need to test vision and strategy with trusted fiduciaries. A formal performance review is the vehicle used to provide this guidance, which the vast majority of boards worldwide conduct.

## BOARD PRACTICES IN ASIA PACIFIC — SURVEY RESPONSES

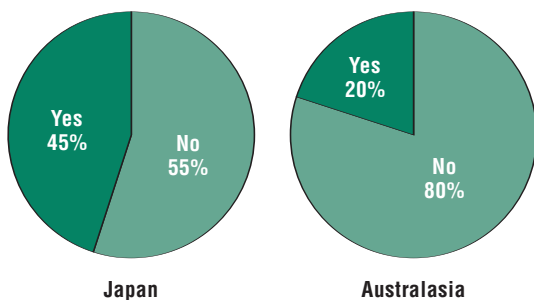
Governance evolves as businesses mature. Directors sitting on boards in the Asia Pacific region have the complex task of providing guidance and oversight to organisations catapulted to the forefront of a well-established investment community, which is anxious to achieve significant returns in a fast-emerging market. Further complicating matters are unforgiving and demanding global investors who often ignore the differences that make traditional Asian companies attractive, hoping to manage risk by foisting the Anglo-Saxon system of corporate governance on them.

Directors sitting on the boards of leading companies in Asia, many of which are family-controlled or have a state interest, must protect the interests of all shareholders. Therefore, they judiciously resist the impulse to accommodate demands for instantaneous change. Instead, they incorporate those changes most needed to maximize returns while assuring stable growth. This year, more respondents indicate that CEO performance reviews are becoming commonplace and that greater attention is now paid to management succession. As capital markets in the region strengthen and the reliance on bank financing lessens, directors will likely embrace practices that will create a governance model compatible with specific situations.

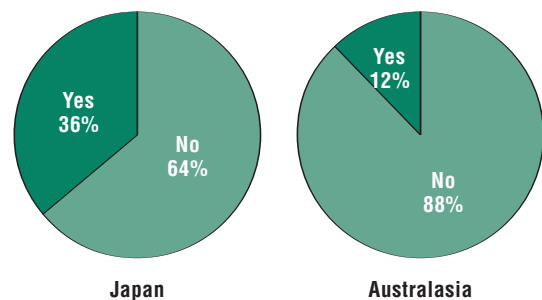
These changes are presented in aggregate and by sub-regional breakdowns: Australasia (Australia and New Zealand), Non-Japan Asia (China – including Hong Kong – Malaysia, Singapore and Thailand) and Japan.

### Board Composition

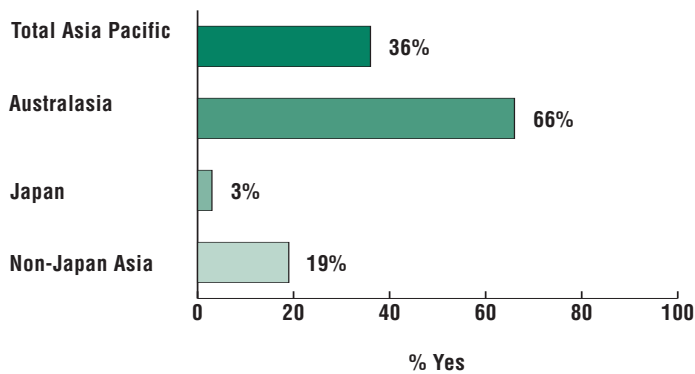
Does the former CEO sit on the board?



Should the former CEO sit on the board?



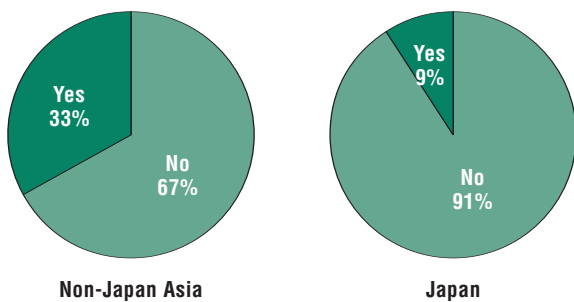
Reflecting the differences in governance policies and cultural business practices, 55 percent of participants in Japan state they serve on boards whose composition does not include a former chief executive. Eighty percent of their counterparts in Australasia report this as well. When asked if a former CEO should retain a seat after giving up active leadership of the company, 64 percent of those in Japan said “no,” a significant increase from the 52 percent holding this opinion in 2005.



**Does the board typically hold regular executive sessions without the CEO present?**

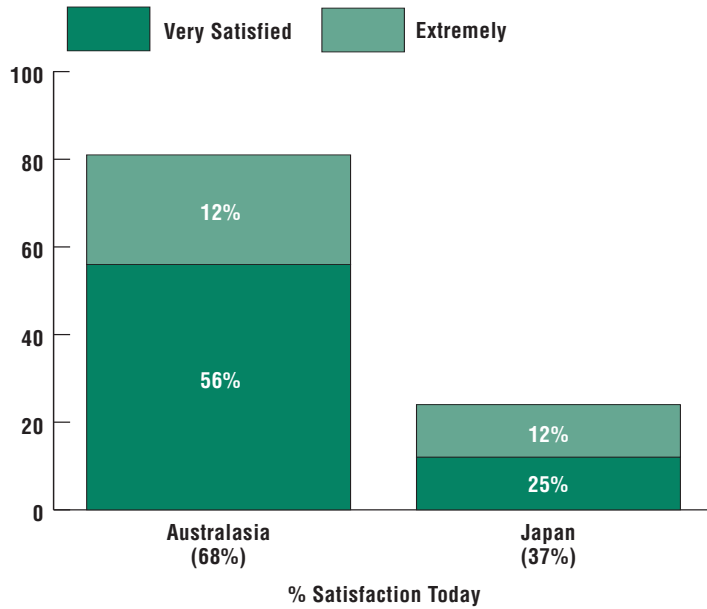
The practice of holding regular executive sessions without the CEO continues to be virtually non-existent in Japan, with only three percent of respondents saying this occurs. Sixty-six percent of participating directors in Australasia state their boards have embraced the practice of regular directors-only meetings, which is up slightly from 62 percent reporting this in 2005.

**Is there a limit to the number of other boards on which the CEO may serve?**



A finite talent pool, diverse cultures and sheer distance are among the recruitment challenges facing boards in Asia Pacific. These factors may contribute to a more liberal view of a CEO's external board memberships. The number of directors in Non-Japan Asia reporting that their boards do not impose restrictions on the CEO has increased since 2005, rising from 56 percent to 67 percent in 2006. Ninety percent of participants in Japan state there is no limit placed on the number of directorships a CEO may hold. This is relatively unchanged from the 87 percent who noted this in 2005.

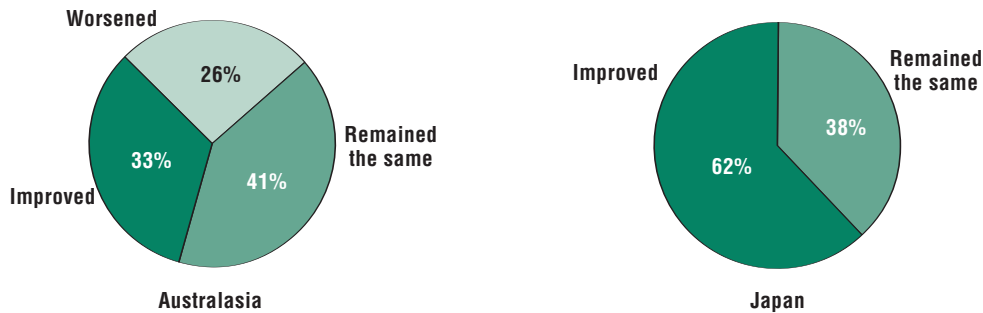
## Board Service



### How satisfied are you today as a director?

Global competition, economic and political change, and regulation can all influence a director's satisfaction with board service. Sixty-eight percent of participating directors in Australasia state they are "extremely" or "very" satisfied. Only 37 percent of their peers in Japan are "extremely" or "very" satisfied.

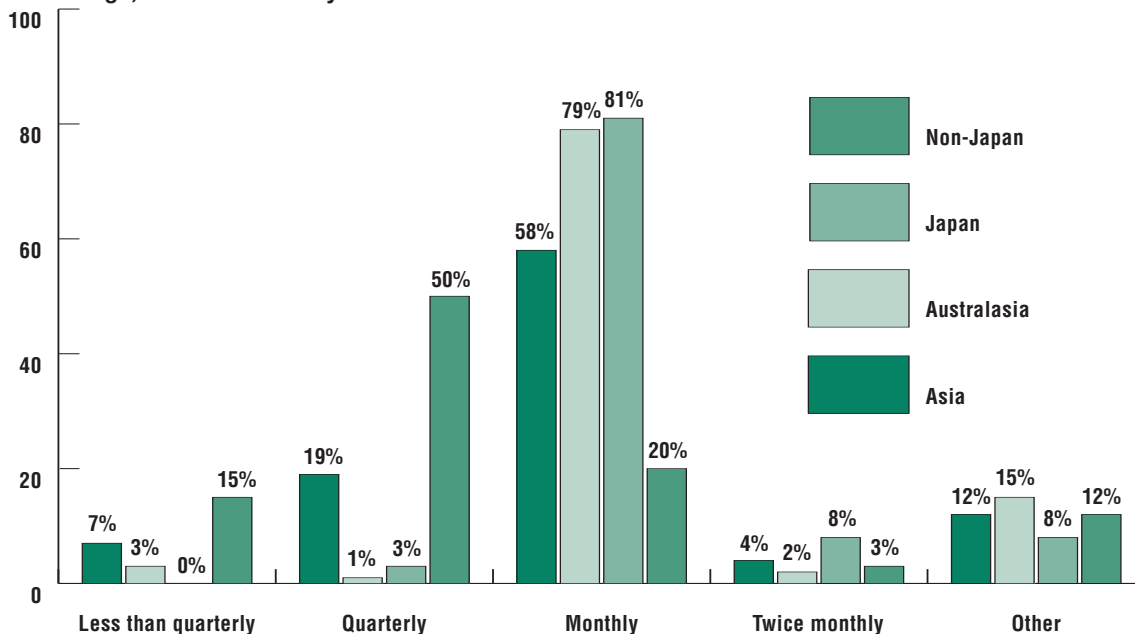
### How does your satisfaction today compare to what it was five years ago?



Although a low number of responding directors in Japan state they are "extremely" or "very satisfied," 62 percent do report that their degree of satisfaction has improved in the past five years. Conversely, 26 percent of respondents in Australasia state their degree of satisfaction has actually decreased.

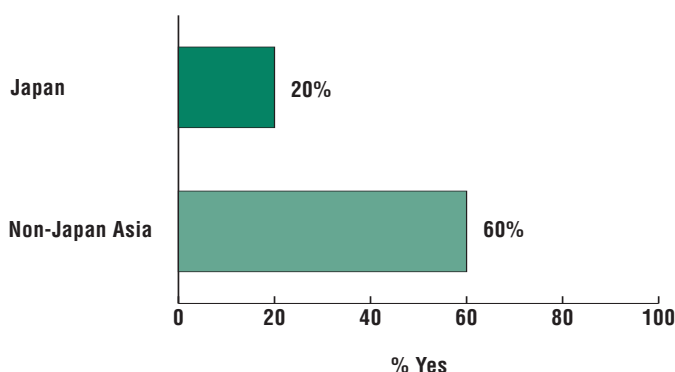
## Board Meetings and Preparation

On average, how often does your full board meet?



Throughout Australasia and Japan, the optimum frequency with which boards meet appears to be monthly. The number of participants in Japan who meet monthly has increased from 71 percent in 2005 to 81 percent in 2006. Only 20 percent of responding directors in Non-Japan Asia state their boards convene this often, while 50 percent state they meet quarterly.

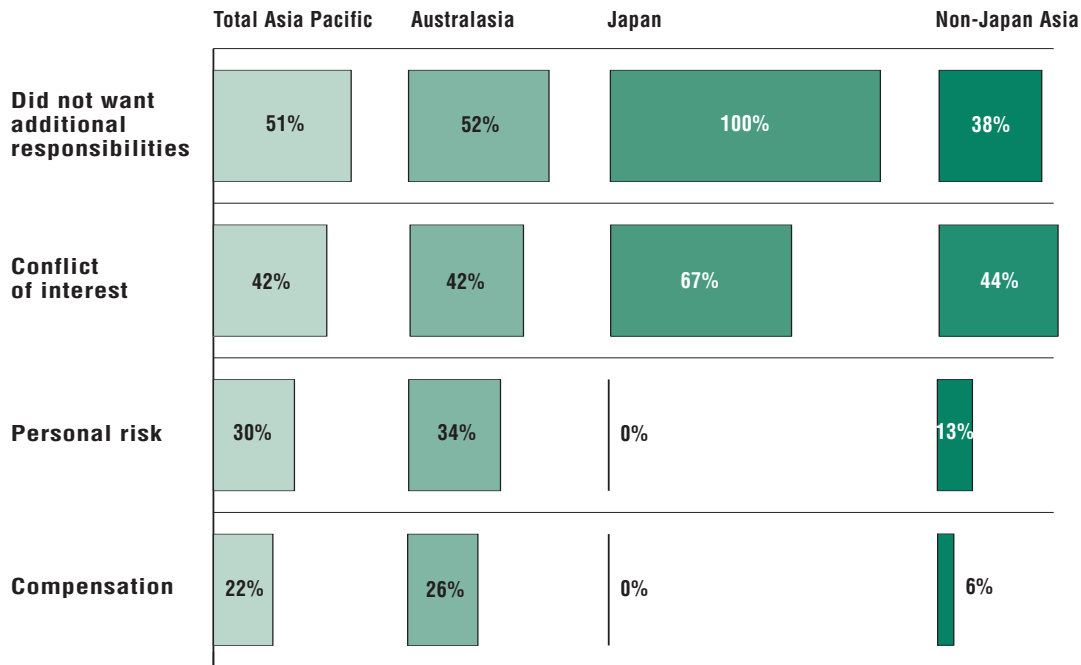
## Director Risk



### Have you ever turned down a board position because you felt your risk was too great?

Risk weighs heavily in evaluating new directorship opportunities among our respondents in Non-Japan Asia. Sixty percent state they have declined invitations because they perceived the risk as being too great. Only 20 percent of respondents in Japan say they have turned down offers because of the associated risk.

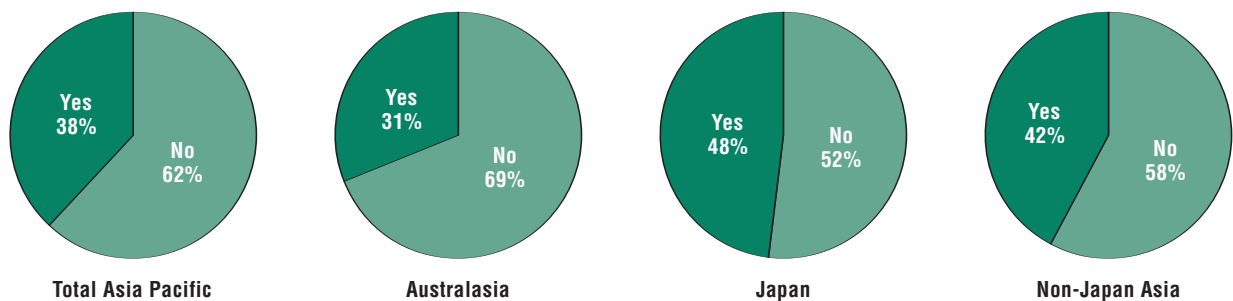
Which of the following factors have made you turn down a board position?



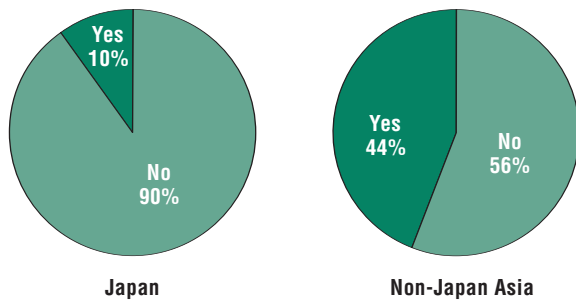
All of the participating directors in Japan report they have declined a directorship because they did not want the additional responsibilities compared with 52 percent of their peers in Australasia and 38 percent in Non-Japan Asia. Conflict of interest is another reason cited by participants in the Asia Pacific region for declining a board seat. Sixty-seven percent of those surveyed in Japan state this, as compared to 44 percent of directors in Non-Japan Asia and 42 percent in Australasia.

## Director Recruitment

Has your board added a director with no previous board experience in the past three years?

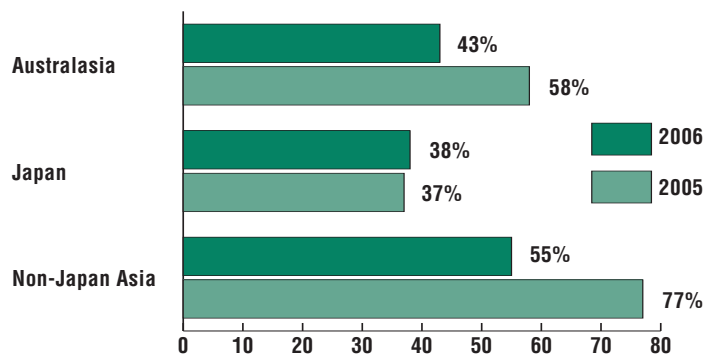


Boards in the region appear to take a more conservative stance when adding members new to board service. Sixty-two percent of those surveyed state that their board has not recruited an individual without previous experience in the past three years. In Australasia, 69 percent of participants state their boards have not issued an invitation to an individual without experience during this time frame and in Japan, 52 percent state they had not.



**Has your company ever asked a director to resign or not stand for re-election?**

Asking a director to leave the board is very uncommon in Japan. Ninety percent of respondents serving on Japanese boards state they have never been in this situation, while 56 percent of participants in Non-Japan Asia say they have not asked a peer to tender his or her resignation.



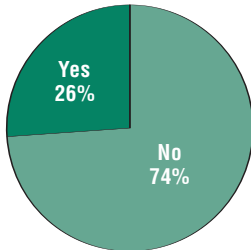
**Are you finding it more difficult to recruit high quality directors?**

In this global economy, companies face a host of new issues including activist shareholders, vocal investors accustomed to exercising influence, and regulations imposed by foreign governments. Throughout the region, boards actively pursue directors to strengthen governance and meet requirements of external constituencies. We are seeing some significant decreases this year in those noting their difficulty in finding high-quality directors. Perhaps this may be explained by deadlines for compliance having been already met.

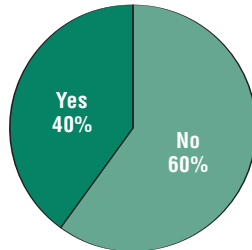
According to those surveyed in Non-Japan Asia, 55 percent find it challenging to secure qualified directors, a marked drop from the 77 percent indicating this in 2005. Forty-three percent of peers in Australasia state increased challenges in director recruitment, compared with the 58 percent who experienced this in 2005. The number of those responding directors in Japan whose boards find recruitment a greater challenge was virtually unchanged at 38 percent, compared with 37 percent the previous year.

## Director Compensation

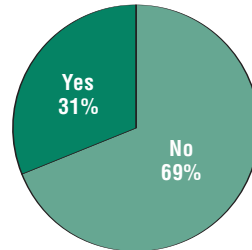
Is there a requirement that directors own shares of company stock?



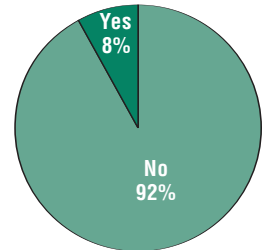
Total Asia Pacific



Australasia



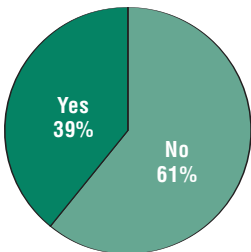
Japan



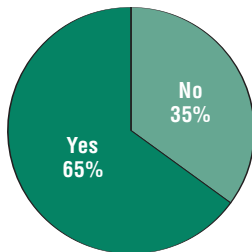
Non-Japan Asia

Unlike their counterparts in the Americas, stock ownership is rarely a requirement of director service for board members of Asia Pacific organisations. Only 26 percent of directors in the Asia Pacific region reported they must have an equity stake in the organisation, compared to the 78 percent of their peers in the Americas for which this is a requirement. Directors in Non-Japan Asia seem to find almost no value in stipulating stock ownership as only eight percent reported having this policy.

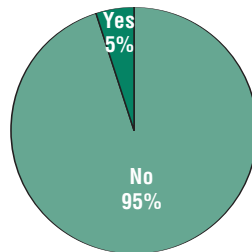
Do you think the majority of a director's compensation should be in stock?



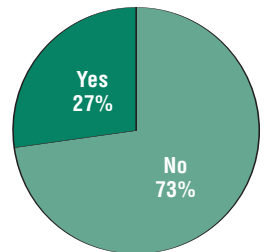
Total Asia Pacific



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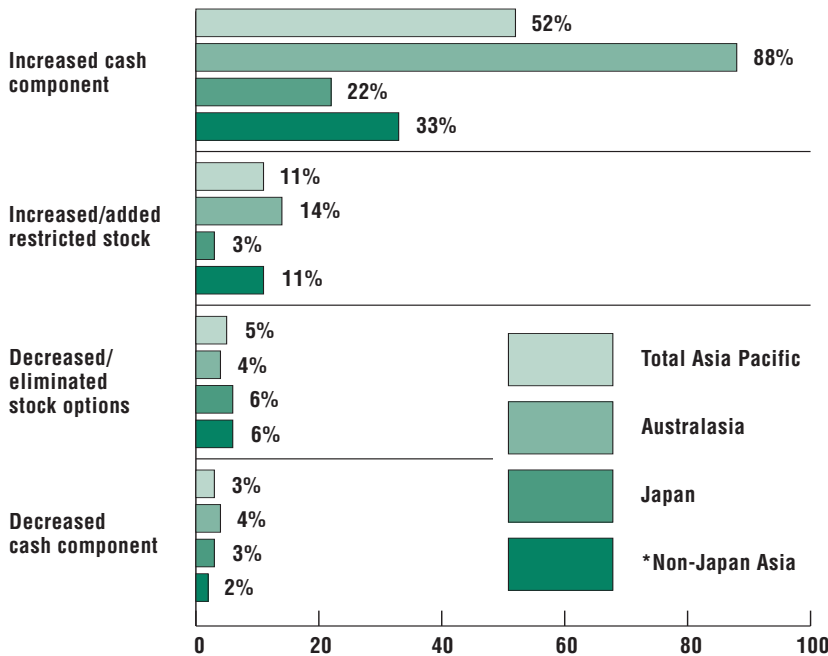
Japan



Non-Japan Asia

Although the majority of responding directors across Asia Pacific do not report that stock is the major component of their director compensation packages, the belief that such a practice has merit appears to be on the upswing. In 2006, 39 percent voiced support for having the majority of their compensation paid in stock, nearly double the 20 percent who did so in 2005. Two-thirds (65 percent) of responding board members in Australasia reported they are in favour of this type of compensation.

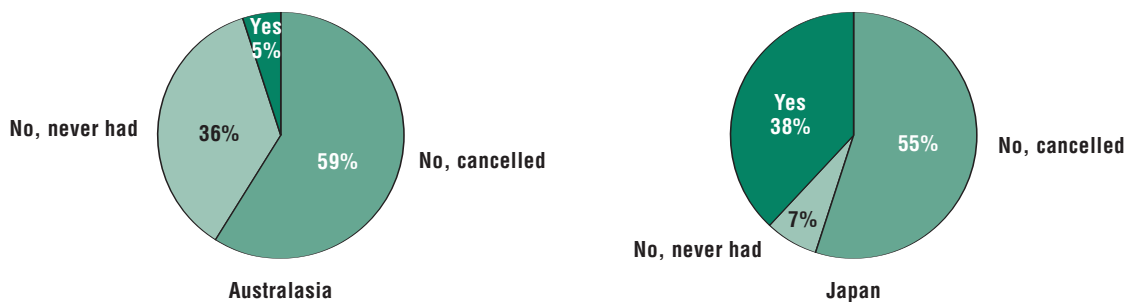
If your director compensation plan has changed in the past 12 months, please indicate the nature of that change below:



Mounting performance expectations combined with growing caution have resulted in increases in director compensation worldwide. Boards continue to struggle with rewarding directors while ensuring shareholder interests. Perhaps taking a cue from stock options scandals, directors in the Asia Pacific region, seem to shy away from stock. Fifty-two percent of respondents in the region state they received more cash for director service in 2006. Eighty-eight percent of participants in Australasia stated an increase in the amount of cash awarded.

Only 11 percent of respondents in Asia Pacific report they will see an increase in their award of restricted stock. Conversely, 51 percent of their peers in the Americas report the addition of restricted stock or an increase in the number shares.

Does your company have a director's pension or retirement plan?

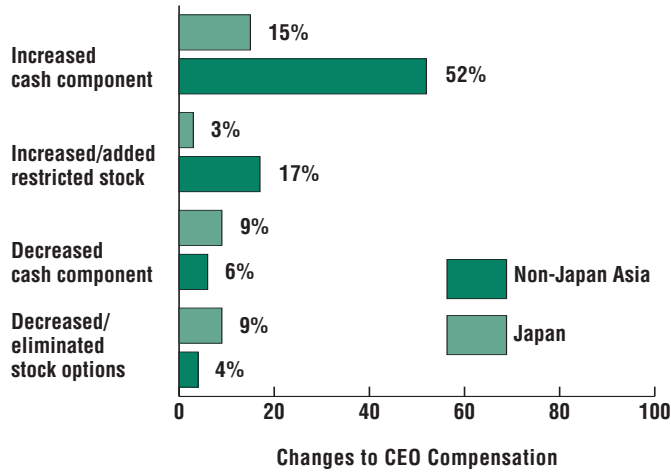


Mounting concern over director pensions and retirement plans have resulted in the cancellation of such benefits around the world. Fifty-nine percent of those surveyed in Australasia and 55 percent in Japan state their board has eliminated director retirement and pension plans.

\* Statistically different from past years, possibly due to the inclusion of Korea and India.

## CEO Compensation

If your CEO compensation plan has changed in the past 12 months, please indicate the nature of that change.

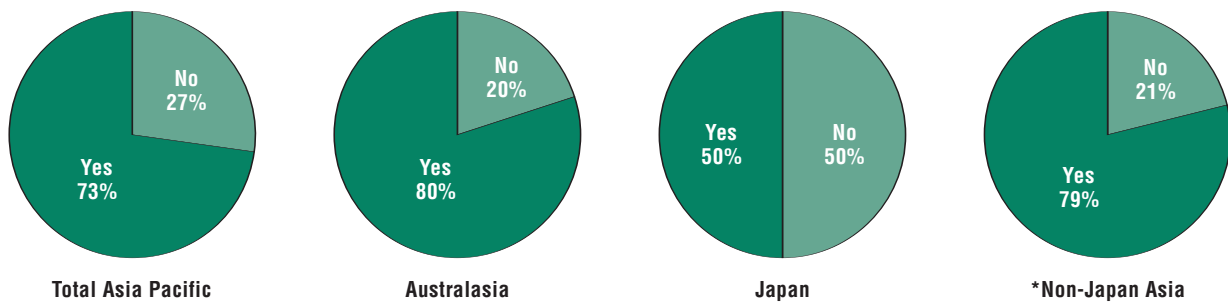


Unlike the practice embraced by their peers in the Americas, participants in Japan and Non-Japan Asia state they do not rely on restricted stock to improve CEO performance. Only three percent of respondents in Japan and 17 percent in Non-Japan Asia report there has been an increase in or addition of restricted stock to the CEO's compensation package. The majority (55 percent) of survey participants in the Americas state this refinement in CEO compensation.

In the region, cash is the preferred reward. Fifty-two percent of participating directors in Non-Japan Asia state their boards increased the amount of cash the CEO will receive, as did 15 percent of their peers in Japan.

## Management Succession

Does the board have a management succession committee or process?

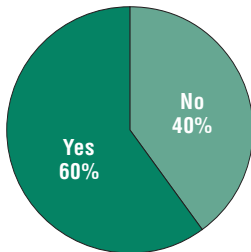


Global investors continue to exert influence on governance practices in Asia Pacific, clearly communicating concerns about quality and continuity of leadership. Throughout the region, directors have responded by gradually implementing policies concerning management succession to protect shareholder interest and better fit the needs of the company. Almost three-quarters (73 percent) of participants report they have a management succession committee or process in place. The percentage of respondents in Japan stating their boards have incorporated this as a formal aspect of governance continues to increase, rising from 40 percent in 2005 to 50 percent in 2006.

\* Statistically different from past years, possibly due to the inclusion of Korea and India.

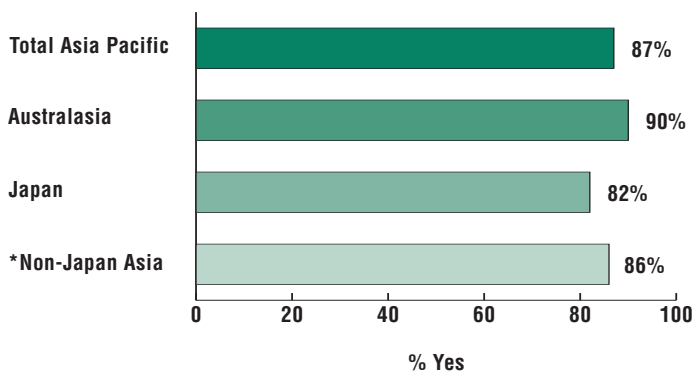
## Director Evaluations

### Does the board evaluate individual directors on a regular basis?



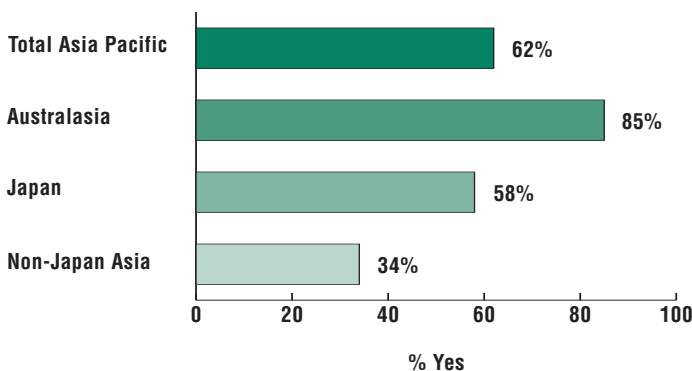
Total Asia Pacific

More respondents in the Asia Pacific region report they conduct regular reviews for individual directors than their peers in the Americas and in Europe. A majority (60 percent) state they have incorporated these evaluations compared with 48 percent in Europe and 38 percent in the Americas who say they have.



### Should the board evaluate individual directors on a regular basis?

When asked if individuals should be subjected to performance reviews, 87 percent of those surveyed in the Asia Pacific region felt they should be. Similarly 84 percent and 73 percent of respondents in Europe and the Americas believe they should.



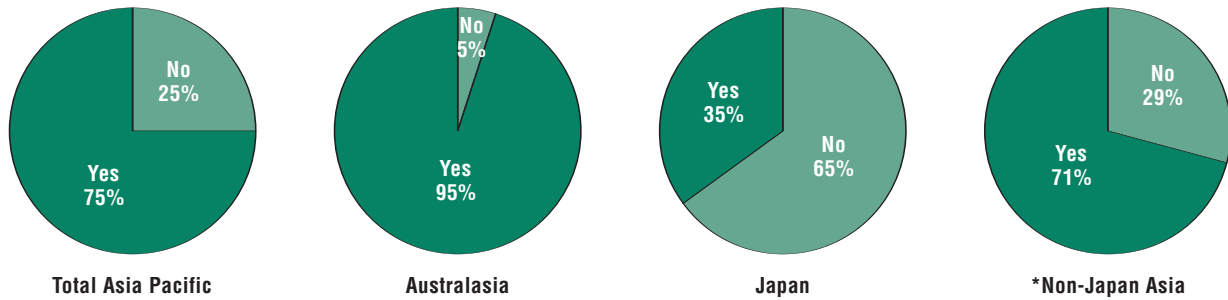
### Is the entire board's performance formally evaluated on a regular basis?

Across the Asia Pacific region, the percentage of participants stating that their boards incorporate full board reviews as a method to improve governance is virtually unchanged from 2005. Sixty-two percent report undergoing this process compared with 63 percent in 2005.

\* Statistically different from past years, possibly due to the inclusion of Korea and India.

## CEO Evaluations

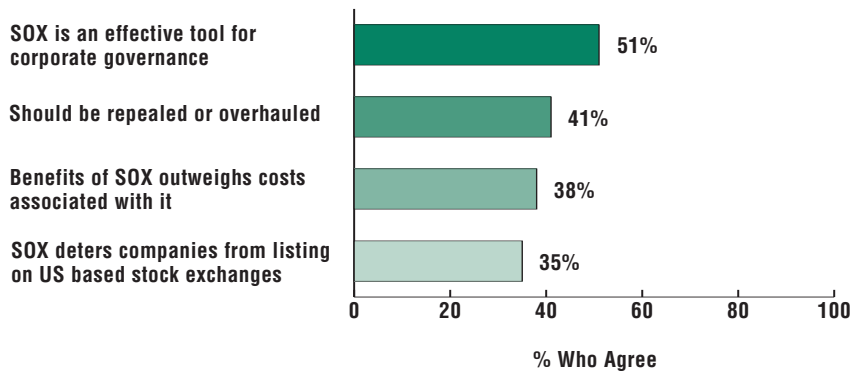
Does the board have a formal process for evaluating CEO performance?



Asia Pacific boards are proactively seeking different means with which to provide constructive counsel to the CEO. Increasing numbers are formalising the delivery structure, using performance evaluations as the vehicle for guidance. Three-quarters (75 percent) of respondents in Asia Pacific state their boards have adopted a formal process to evaluate the CEO. This is a significant increase from the 61 percent who reported this in 2005. In Japan specifically, formal CEO reviews continue to gain acceptance, with 35 percent of participating directors stating they have adopted a review process, an increase from 29 percent in 2005.

## Issues Specific to Japan

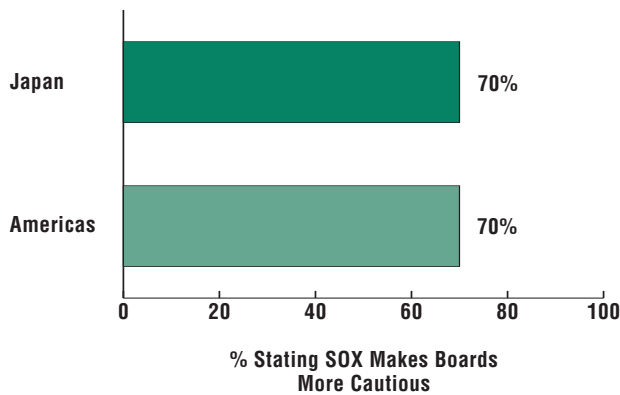
Please rate the level of your agreement with the following statements relative to Sarbanes-Oxley (SOX):



Widely divergent structures of governance, business practices, and cultures may influence worldwide opinion concerning the merits of Sarbanes-Oxley. Contrary to the view held by 78 percent of their peers in the Americas, a majority (51 percent) of respondents in Japan feel Sarbanes-Oxley is an effective tool for corporate governance.

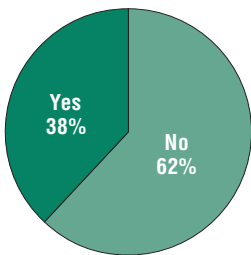
This is a slight increase from the 48 percent who believed so in 2005. Only 38 percent of these same directors, however, believe that the benefits of SOX outweigh its associated costs, compared to the 45 percent who did so in 2005.

\* Statistically different from past years, possibly due to the inclusion of Korea and India.



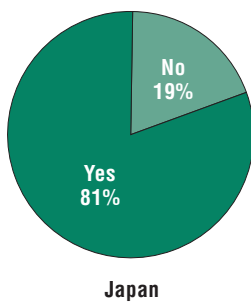
**Do Sarbanes-Oxley (SOX) requirements make your board better or just more cautious?**

Although legislators in the United States fervently laboured to develop regulations to improve governance, 70 percent of those surveyed in Japan believe SOX has only made their boards more cautious. Interestingly, the same number of their counterparts in the Americas concur.



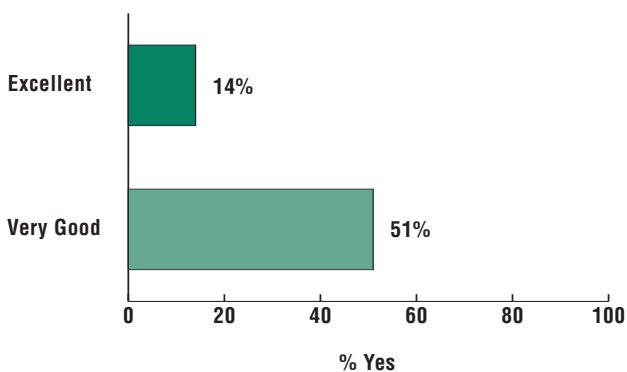
**Do you see a relationship between a company's revenue and the contribution that a board member makes?**

While studies have demonstrated that corporations practicing good governance are stronger performers, 62 percent of those surveyed in Japan do not feel there is a correlation between individual director contribution and revenue generated by the company.



**Does your CEO use your directorship to the fullest extent possible?**

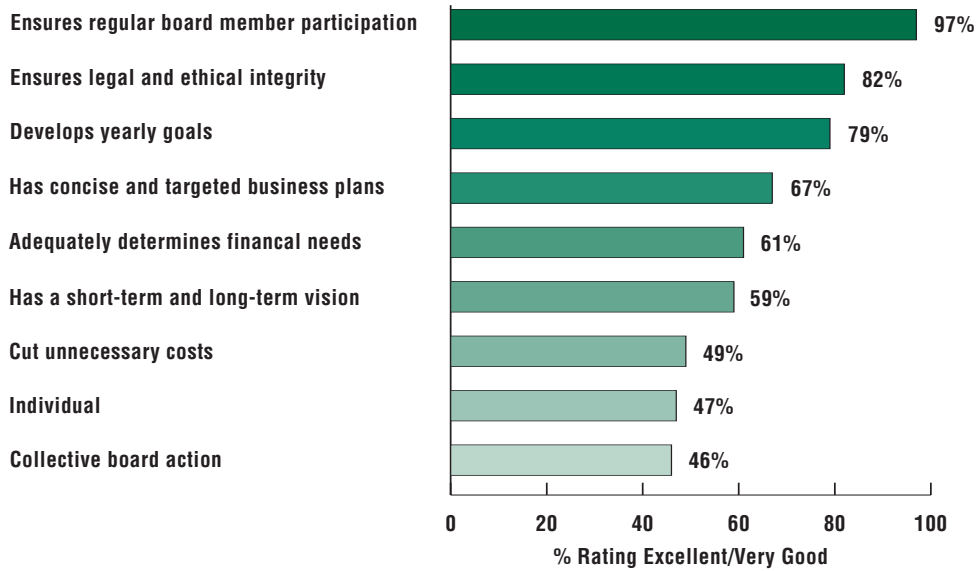
Eighty-one percent of participating directors in Japan feel their time is not wasted and that their knowledge and expertise is fully utilised by the CEO.



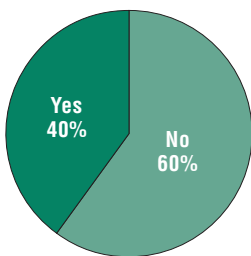
**How would you rate the board that you are currently most actively involved with compared with other boards you currently sit on or have formerly sat on?**

Sixty-five percent of respondents in Japan assign a "very good" or "excellent" rating to the board in which they are currently most active.

Thinking about the board that you are most actively involved in, we'd like you to rate it on the following performance criteria



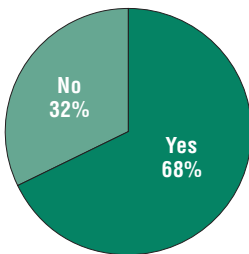
Participants surveyed in Japan clearly desire active contribution and value participation above all else. Almost all (97 percent) of these respondents rate their board as “very good” or “excellent” when assuring regular board member participation. Eighty-two percent assign this rating to their board for ensuring legal and ethical integrity, the defining characteristic in governance.



Does the media accurately reflect what's going on in boardrooms?

In an era of 24-hour news, journalistic integrity can be compromised by poor research and prejudice, which is unfortunately, a global phenomenon. Not surprisingly, 60 percent of those surveyed in Japan do not believe the media portrays governance accurately.

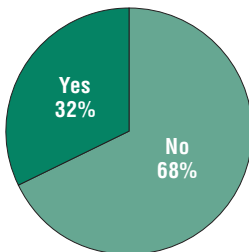
## Issues Specific to Australasia



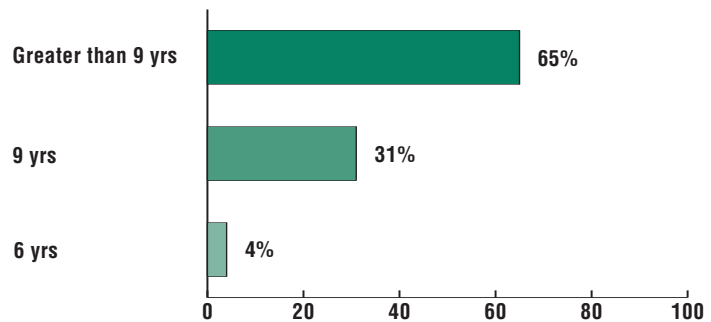
### In principle, is your CEO permitted to take a board role with another company?

In Australasia, serving on other boards is often seen as an opportunity for CEOs to deepen knowledge, gain exposure to new ideas, and interact with peers. In fact, more than two-thirds (68 percent) of participants in the region state that they allow their CEO to accept a board role with another company.

### Does your board require a non-executive director to retire after serving a maximum term?

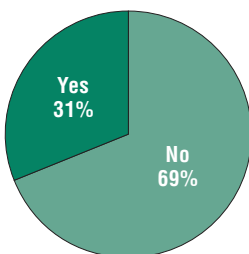


### If yes, what is the maximum term?

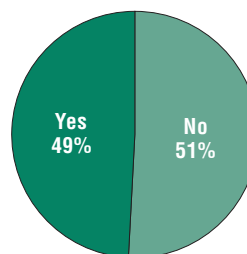


Governance experts often recommend limitations on a director's service to both eliminate the potential for a "rubberstamp" board and to reinvigorate boards. However, term limits have apparently not met with great acceptance in Australasia. Sixty-eight percent of those surveyed say they have no term limits. Of those who state such limits exists, 65 percent report that it is greater than 9 years. This, arguably, may not seem too restrictive.

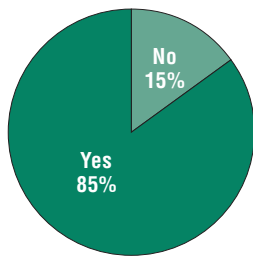
### Does your board have a succession plan for the chair?



### Does your board have a succession plan for the non-executive directors?

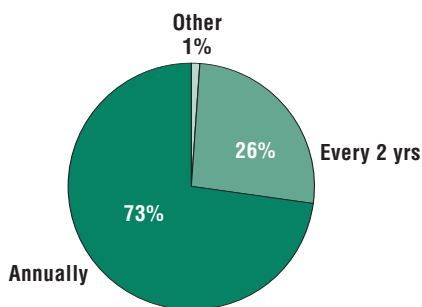


With regard to board succession, only 31 percent of respondents in Australasia have developed a succession plan for the chair, a percentage virtually unchanged from 2005 (30 percent). However, almost half (49 percent) of these participants indicate their board has developed a succession plan for non-executive directors.



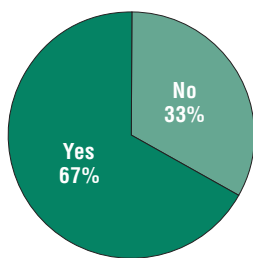
**Does the evaluation of individual directors include a peer review?**

In Australasia, the willingness to submit to a peer review could be seen as a true measure of their dedication to good governance. The vast majority (85 percent) indicate that their individual reviews do include an evaluation by peers.



**If your board's performance is regularly reviewed, how often do these reviews take place?**

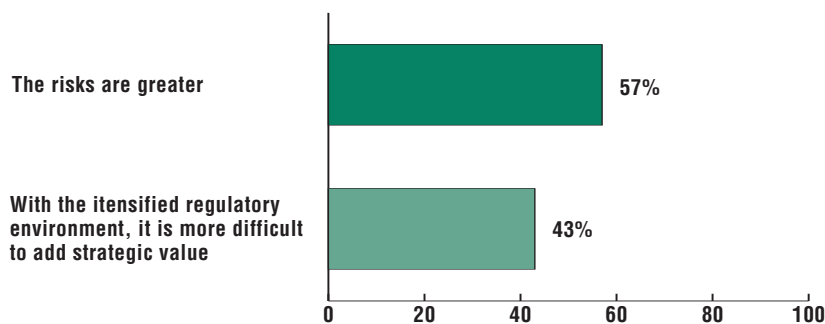
According to 73 percent of respondents, the entire board is reviewed on an annual basis. Twenty-six percent state that these performance reviews take place every other year.



**Do you consider a public company directorship a less attractive proposition than it was, say, three years ago?**

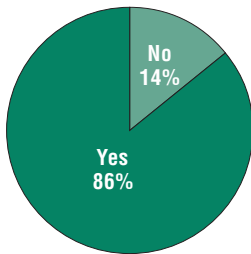
Once regarded as the supreme compliment, directorships appear to be less coveted than in the past. Sixty-seven percent of those surveyed in Australasia have a less favourable view of sitting on a public company than they did three years ago.

**If yes, the most compelling reason is:**



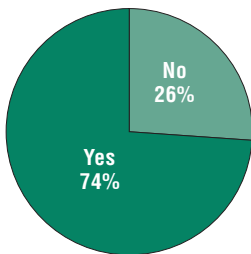
When asked why, 57 percent of these respondents cited the high risk associated with board service as reason for their waning enthusiasm. Their level of frustration also appears to be increasing, as 43 percent feel it is far more difficult to add strategic value in this regulatory climate, which is up from 32 percent last year.

## Issues Specific to Non-Japan Asia



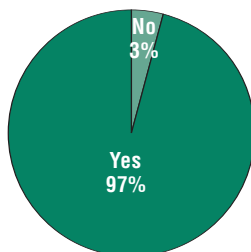
**Do you feel your board is working more efficiently this year as compared with past years?**

Most of the responding directors in Non-Japan Asia seem to be quite optimistic about the manner in which their boards function. Eighty-six percent state that their board is working more effectively this year than in the past three.

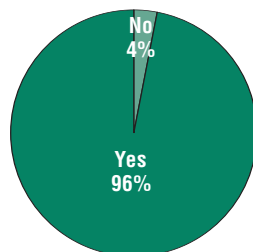


**Does your CEO use you as director to the fullest extent possible?**

Seventy-four percent of participating directors in Non-Japan Asia feel their time is not wasted and that their knowledge and expertise is fully utilised by the CEO.



**Is an International Background Important?**

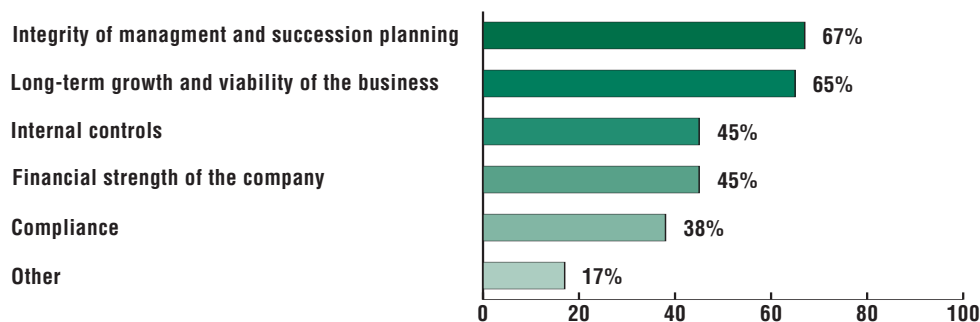


**Is Special Market Knowledge Important?**

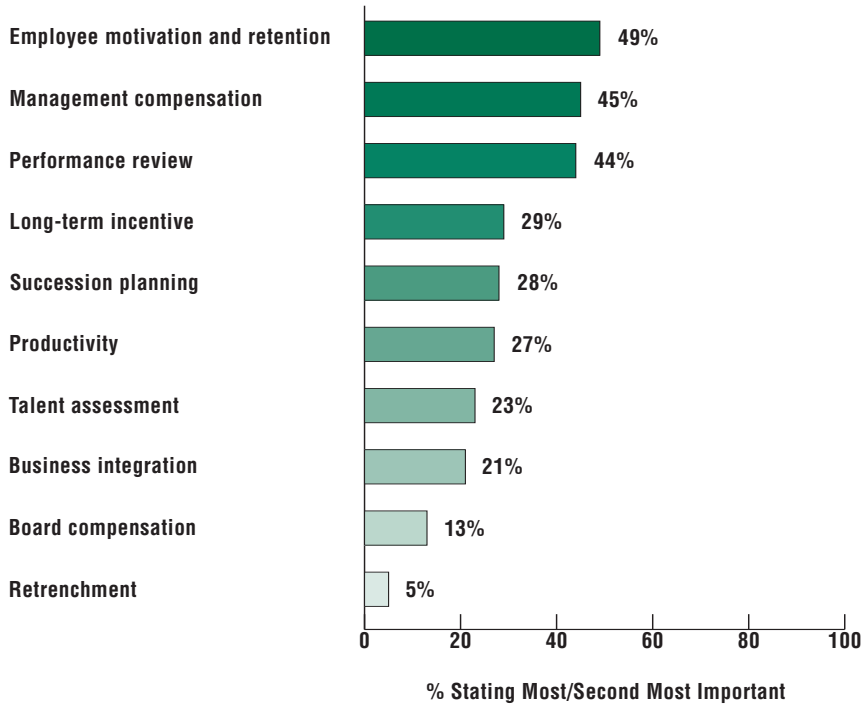
**In general, do directors with international backgrounds and special market knowledge add value to boards?**

In Non-Japan Asia, great attention is paid to the unique qualifications brought by directors to their boards. The majority of respondents assert that directors with international backgrounds and those with special market knowledge are advantageous to boards

**Please rank, in order of importance, what concerns you most in your position as an independent director.**



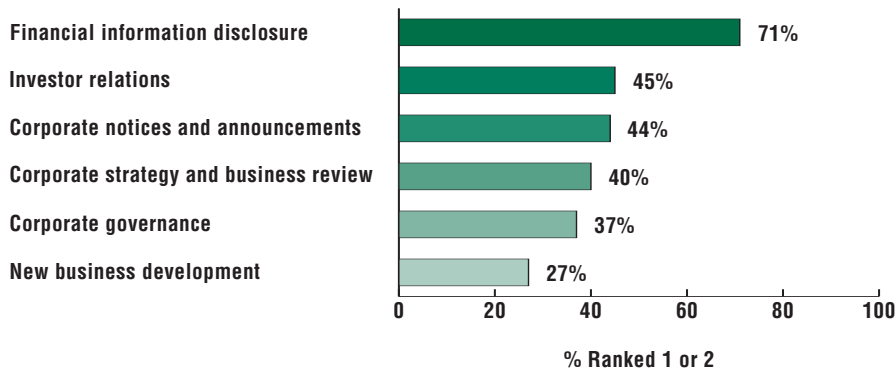
Maintaining the integrity of management succession planning and a company's long-term growth and viability is of the utmost concern to independent directors surveyed in Non-Japan Asia this year.



**Please rank, in order of importance, the board's focus on compensation/HR issues.**

With regard to compensation and human resources issues, 49 percent of participants in Non-Japan Asia state that employee motivation and retention is their board's priority. Compensation for management (45 percent) and performance reviews (44 percent) follow in importance.

**Please rank, in order of importance, the performance of your corporate website on the following items:**



Seventy-one percent of those surveyed in Non-Japan Asia believe their organisation's website is most effective at sharing financial information with key constituents.

## PROXY INFORMATION

Statistics in this year's Proxy Information section were compiled from detailed analysis of information reported in the proxies of 896 FORTUNE 1000 companies issued during the period from July 1, 2005 through June 30, 2006. With the additional detail mandated by regulation comes broader insight into the workings of today's corporate board.

## Size of Board

For the first time since 1994, the average number of board members of FORTUNE 1000 organisations has declined from 11 to 10. An activist environment might be thought to have an influence on meeting frequency. However, the number of full board meetings reported in 2006 remains unchanged since 1992. Directors convene an average of eight times a year. Boards of "Other Financial Institutions" meet an average of ten times annually, up from nine reported in 2005.

**Table A-Number of Board Members, Meetings**

Size of Company	Average Number Insiders	Average Number Outsiders	Average Number Members	Average Number Board Mtgs.
Under \$3 billion	2	7	9	8
\$3 billion - \$4,999 billion	2	7	10	8
\$5 billion - \$9,999 billion	2	8	11	8
\$10 billion - \$19,999 billion	2	9	11	9
\$20 billion and over	2	10	12	9
<b>Type of Company</b>				
Industrial	2	8	10	7
Banks	3	11	14	8
Other Financial Institutions	2	8	10	10
Insurance Companies	3	9	12	7
Consumer Products	3	8	11	8
Retailers	2	7	10	7
Advanced Technology	2	7	10	9
Aerospace	1	9	10	9
Energy	2	8	10	9
Healthcare Providers	2	7	10	10
Pharmaceuticals	2	9	11	9
Entertainment / Hospitality	4	7	11	9
Other Services	2	7	10	8
Miscellaneous	3	7	10	7
All Companies	2	8	11	8
<b>Average All Companies by Type</b>	<b>2</b>	<b>8</b>	<b>10</b>	<b>8</b>

*Banks continue to have the largest number of directors on their boards. Average number of members may not add up to the total of average number of insiders plus average number of outsiders due to fractional amounts not illustrated on this table.*

## Inside Directors vs. Outside Directors

Most FORTUNE 1000 organisations appear to find that eight outside directors and two inside directors provide the optimum balance between governance and management. In “Other Financial Institutions,” the average number of insiders declined from three reported in 2005 to two this year.

## Board Composition and Demographics

Evidence of the hard-fought battle to achieve independence from management and the elimination of interlocking boards is found in the composition of FORTUNE 1000 boardrooms.

The presence of CEOs and COOs from other companies in these boardrooms decreased, from 82 percent in 1995 to 79 percent in 2006. This is a continuation of a trend reflecting the difficulty facing CEOs and COOs to take on that additional commitment. However, the percentage of retired executives sitting on boards grew to 95 percent from 75 percent reported 11 years ago.

**Table B-Boards with One or More of the Following Individuals**

Proxy Data From	2006	2005	2004	2003	2002	2001	1995
Retired executive (other companies)	95%	95%	95%	94%	94%	93%	75%
Investor	94%	94%	91%	91%	89%	91%	73%
CEO/COO (other companies)	79%	80%	82%	83%	83%	82%	82%
Woman	85%	84%	82%	80%	79%	78%	69%
Former government official	53%	55%	58%	59%	59%	56%	54%
Ethnic minority member	76%	76%	76%	75%	71%	68%	47%
African-American	46%	47%	47%	47%	44%	42%	34%
Latino	19%	19%	18%	19%	17%	16%	9%
Asian	10%	10%	11%	10%	10%	10%	14%
Academician	55%	56%	58%	60%	59%	59%	53%
Commercial banker	27%	27%	29%	30%	31%	30%	28%
Non-U.S. citizen	14%	14%	15%	15%	16%	15%	17%

*The make-up of boards has stabilised with the exception of the number of companies having at least one woman on the board. The drop in African-American representation on boards is minimal at .4 percent.*

## Committees by Function

Boards continue to evolve committees to meet changing governance needs. Eighty-four percent of the FORTUNE 1000 proxies report the existence of a Stock Options committee.

This year, director compensation made headlines, fuelling controversy. For the first time in the history of this study, a majority (52 percent) of FORTUNE 1000 organisations report the existence of a Director Compensation committee to better address the complexities of the issue.

One committee that boards have been slow to adopt is Succession Planning. In 1996, 31 percent of FORTUNE 1000 organisations reported having this committee. In 2001, during the fall-out from Enron and similar debacles precipitating the creation of Sarbanes-Oxley, the percentage remained static at 30 percent. However, data from 2006 proxies reveals an increase to 39 percent of FORTUNE 1000 companies with those committees.

While CEOs head Executive committees, the number of boards having this committee also continues to fall, declining to 43 percent in 2006.

**Table C- Board Committees**

Committee Function	2006	2005	2004	2003	2002	2001	1995
Audit	100%	100%	100%	100%	100%	100%	100%
Compensation	99%	100%	100%	99%	99%	99%	99%
Stock Options	84%	81%	80%	84%	86%	86%	56%
Nominating	97%	97%	96%	87%	75%	72%	73%
Executive	43%	46%	49%	52%	55%	56%	65%
Corporate Governance	94%	94%	90%	72%	54%	48%	35%
Finance	30%	30%	30%	30%	33%	35%	32%
Succession Planning	39%	36%	35%	32%	30%	30%	31%
Investment	15%	15%	15%	16%	18%	19%	21%
Corporate Responsibility	17%	17%	17%	19%	20%	21%	19%
Director Compensation	52%	48%	41%	31%	29%	30%	n/a

*These are responsibilities of boards specifically identified in the proxies and assigned to a particular committee. For example, while there are actual "Stock Option" committees, this function is most regularly performed by a Compensation committee. While 52% of the boards analysed in the study had a committee that handled the function of "Director Compensation," that committee was most likely to be the "Compensation" or "Corporate Governance" committee, rather than a separate "Directors Compensation" committee. Six of the companies this year did not have a standing Compensation committee, either because they were a "controlled" company or were a limited partnership.*

## Committee Composition

Boards of FORTUNE 1000 organisations seem to have found the ideal size to maximize committee functionality. Composition and the average number of directors are unchanged from last year's data.

**Table D-Committee Composition**

Committee Function/Name	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Compensation	0	3	3
Stock Options	0	3	3
Nominating	0	3	3
Executive	2	2	4
Corporate Governance	0	3	3
Finance	1	4	4
Succession Planning	0	4	4
Investment	1	4	4
Corporate Responsibility	0	4	4
Director Compensation	0	4	4

*Fractional percentages account for numerical discrepancies in the average number of directors.*

## Committee Meeting Frequency

In 2006, all committees met an average of four or more times, with the exception of the Executive committee, which met only three times.

While the Audit committee met an average of four times in 2001, the rate of frequency has more than doubled in 2006. Members of this committee now convene an average of nine times a year. Directors serving on Compensation and Stock Options committees also assemble more frequently. Their average number of meetings increased from five to six in 2006.

**Table E-Meeting Frequency**

Committee Function/Name	2006 Number of Meetings	2005 Number of Meetings	2004 Number of Meetings	2003 Number of Meetings
Audit	9	9	8	7
Compensation	6	5	5	5
Stock Options	6	5	5	5
Nominating	4	4	4	3
Executive	3	4	4	4
Corporate Governance	4	4	4	3
Finance	5	5	5	5
Succession Planning	5	5	5	5
Investment	4	5	4	4
Corporate Responsibility	4	4	3	3
Director Compensation	5	5	5	4

## Full Board Compensation

Performance standards, personal risk and greater time devoted to committee service create the need for new and meaningful approaches to compensation. The past decade has seen steady erosion of the practice of providing outside directors an annual retainer plus a per-meeting fee for board service. Since 1995, the percentage of FORTUNE 1000 organisations providing directors with this type of compensation has fallen from 84 percent to 63 percent this year.

**Table F-Full Board Compensation**

Percentage of companies paying	2006	2005	2004	2003	2002	2001	1995
Annual plus per-meeting fee	63%	67%	70%	71%	70%	72%	84%
Annual fee only	33%	30%	27%	23%	21%	20%	14%
Per-meeting fee only	2%	2%	3%	4%	5%	5%	2%
No cash compensation (stock only)	2%	1%	0%	2%	4%	3%	N/A
	100%	100%	100%	100%	100%	100%	100%

*There has been a consistent trend to compensate directors with a single, larger annual retainer, rather than in a mixture of retainers and meeting fees. Equity-based compensation has risen greatly in the past years, and more companies are paying their outside directors exclusively in stock grants, options or restricted stock.*

## Annual Retainer Plus Per-Meeting Fee

The annual retainer plus per-meeting fee often comprises cash and stock. To provide a more accurate picture of current practices, the proxy analysis details the breakdown of these two components.

Directors serving on FORTUNE 1000 company boards who receive an annual retainer plus per-meeting fee were given an average of \$58,217 in cash in 2006, 24 percent less than the cash reported in 2005. However, the average dollar value assigned to the stock awarded in 2006 was \$75,499.

Directors of Entertainment/Hospitality companies received the greatest amount of cash, \$73,985. Board members of Other Financial Institutions were awarded \$132,500 in equity to complement an average cash fee of \$62,850. Directors of Pharmaceutical companies also received an average six-figure stock award, \$100,000, along with \$59,350 in cash.

**Table G-Annual Retainer Plus Per-Meeting Fee**

Size	Average Compensation					
	2006 Cash	2006 Equity	2005 (see note)	2004 cash only	2003 cash only	2002 cash only
Under \$3 billion	\$47,306	\$59,805	\$55,178	\$44,866	\$38,609	\$34,336
\$3 billion - \$4,999 billion	\$54,856	\$65,817	\$65,866	\$56,923	\$48,374	\$38,378
\$5 billion - \$9,999 billion	\$58,469	\$68,497	\$78,262	\$60,559	\$50,045	\$46,348
\$10 billion - \$19,999 billion	\$63,319	\$76,927	\$83,539	\$65,690	\$55,234	\$48,667
\$20 billion and over	\$74,360	\$103,371	\$115,375	\$80,955	\$65,239	\$61,307
<b>Type of Company</b>						
Industrial	\$56,314	\$40,000	\$72,038	\$56,551	\$48,824	\$42,550
Banks	\$54,150	\$92,500	\$77,527	\$55,623	\$45,654	\$40,934
Other Financial Institutions	\$62,850	\$132,500	\$109,249	\$61,476	\$49,175	\$48,643
Insurance Companies	\$54,867	\$57,493	\$73,749	\$57,175	\$43,615	\$43,788
Consumer Products	\$58,739	\$55,000	\$73,568	\$58,119	\$49,945	\$45,709
Retailers	\$49,655	72,500	\$59,483	\$46,142	\$37,619	\$34,206
Advanced Technology	\$58,281	\$75,000	\$68,495	\$58,303	\$50,045	\$41,183
Aerospace	\$65,267	\$70,000	\$107,200	\$69,033	\$58,167	\$56,818
Energy	\$55,631	\$71,250	\$69,044	\$55,704	\$48,694	\$41,216
Healthcare Providers	\$57,078	\$87,500	\$70,161	\$52,717	\$39,923	\$39,881
Pharmaceuticals	\$59,350	\$100,000	\$72,913	\$61,039	\$44,075	\$47,750
Entertainment / Hospitality	\$73,985	\$67,500	\$79,250	\$59,559	\$48,450	\$45,724
Other Services	\$50,648	\$60,240	\$64,509	\$49,172	\$42,140	\$34,570
<b>Average</b>	<b>\$58,217</b>	<b>\$75,499</b>	<b>\$76,707</b>	<b>\$56,970</b>	<b>\$46,640</b>	<b>\$43,306</b>

*In 2005, we combined cash and equity compensation for companies who reported equity compensation in dollar amounts (i.e. \$50,000 in stock). In 2006, we have done the same, but have separated the two components and reported each in a separate column. Because nearly twice as many companies reported their equity compensation in dollar terms in 2006, this year's figures are more representative of actual total compensation than in 2005, when fewer companies reported in this manner. On average, cash compensation has declined moderately since 2004, and equity awards have increased.*

## Committee Compensation

Mandated change commands a high price. Since Sarbanes-Oxley was enacted in 2002, Audit Committee Chair compensation has skyrocketed 143 percent, from \$5,779 to \$14,023 in 2006. During the same time period, compensation for Compensation Committee Chairs saw a 67 percent increase, rising from \$5,500 to \$9,175. Peers heading Corporate Governance committees realised a 68 percent increase during the four-year span, with the average amount awarded rising from \$5,136 in 2002 to \$8,609 in 2006.

Similarly, members of these committees received significant increases in their retainer fees. Audit committee members saw a 76 percent increase in average retainers paid, from \$5,102 in 2002 to \$8,976 in 2006. Members of Compensation committees were given \$6,948 as an average retainer, a 44 percent increase from the \$4,820 reported in 2002. An average retainer of \$7,094 was awarded to directors serving on Corporate Governance committees, 47 percent more than the \$4,815 paid in 2002.

Since 2002, Nominating Chairs' retainers grew 71 percent, from \$4,978 to \$8,490, while members' retainers increased 48 percent, from \$4,496 to \$6,641.

Perhaps correlating with the declining prevalence of the Executive committee is a decrease in retainer fees paid members of this committee. The average for 2006, \$7,184, represents a nine percent decrease from the \$7,899 reported in 2002.

Insurance company committee members saw a 40 percent increase in retainer compensation since 2005, growing from \$6,276 to \$8,817. Those chairing committees for Insurance company boards received 27 percent more in retainer fees during the same period, \$12,065 compared to \$9,507.

Cash retainer fees dropped for those serving on board committees for "Other Financial Institutions." The average amount awarded to Chairs in 2006 was \$10,889, a decrease of 14 percent from the \$12,708 reported in 2005. Similarly, members' retainers declined 18 percent last year, from \$8,550 to \$6,176.

**Table H-Average Cash Retainer for Committee Chairs**

	2006	2005	2004	2003	2002	2001	2000
Audit Chair Retainer	\$14,023	\$12,817	\$10,317	\$8,110	\$5,779	\$5,331	\$4,987
Compensation Chair Retainer	\$9,175	\$8,392	\$7,282	\$6,278	\$5,500	\$5,055	\$4,946
Corporate Governance Chair Retainer	\$8,609	\$8,135	\$6,863	\$5,979	\$5,136	\$5,200	\$4,902

*Chair retainers continued to rise, but the growth has slowed to a single digit rate rather than the double digit increases of previous years. The Audit Chair retainer increased only 9 percent, down from last year's 25 percent. Compensation Committee Chair retainers also increased at 9 percent, down from last year's 15 percent. Finally, the Governance Committee Chair retainer rose only 5 percent, down from last year's 18 percent.*

**Table I-Average Cash Compensation by Function of Committee**

Committee Function	All Companies			
	Chair Retainer	Chair Meeting Fee	Member Retainer	Member Meeting Fee
Audit	\$14,023	\$1,728	\$8,976	\$1,559
Compensation	\$9,175	\$1,579	\$6,948	\$1,449
Corporate Governance	\$8,609	\$1,568	\$7,094	\$1,452
Corporate Responsibility	\$8,457	\$1,605	\$5,324	\$1,502
Director Compensation	\$9,025	\$1,564	\$7,499	\$1,452
Executive	\$8,134	\$1,642	\$7,184	\$1,483
Finance	\$8,774	\$1,627	\$7,292	\$1,409
Investment	\$8,312	\$1,651	\$6,052	\$1,478
Nominating	\$8,490	\$1,568	\$6,641	\$1,447
Stock Options	\$9,190	\$1,591	\$6,793	\$1,457
Succession Planning	\$9,081	\$1,612	\$6,170	\$1,460

**Table J-Average Committee Fees by Size and Type of Company**

Size	Committee Member Meeting Fee	Committee Chair Meeting Fee	Committee Chair Retainer	Committee Member Retainer
Under \$3 billion	\$1,422	\$1,605	\$9,421	\$8,537
\$3 billion - \$4,999 billion	\$1,511	\$1,660	\$8,838	\$6,328
\$5 billion - \$9,999 billion	\$1,462	\$1,570	\$9,940	\$6,863
\$10 billion - \$19,999 billion	\$1,607	\$1,685	\$10,787	\$8,532
\$20 billion and over	\$1,477	\$1,629	\$12,824	\$8,604
<b>Type of Company</b>				
Industrial	\$1,460	\$1,684	\$9,005	\$6,823
Banks	\$1,465	\$1,620	\$11,232	\$9,353
Other Financial Institutions	\$1,488	\$1,554	\$10,889	\$6,176
Insurance Companies	\$1,618	\$1,716	\$12,065	\$8,817
Consumer Products	\$1,550	\$1,714	\$9,889	\$5,141
Retailers	\$1,355	\$1,504	\$10,298	\$8,671
Advanced Technology	\$1,521	\$1,630	\$11,332	\$9,207
Aerospace	\$1,432	\$1,378	\$9,518	\$9,318
Energy	\$1,550	\$1,588	\$8,634	\$6,265
Healthcare Providers	\$1,487	\$1,541	\$10,432	\$6,623
Pharmaceuticals	\$1,316	\$1,556	\$13,492	\$9,926
Entertainment / Hospitality	\$1,489	\$1,685	\$14,550	\$9,594
Other Services	\$1,474	\$1,630	\$9,678	\$9,031
Miscellaneous	\$1,378	\$2,058	\$11,286	\$7,361
<b>All Companies 2006</b>	<b>\$1,470</b>	<b>\$1,633</b>	<b>\$10,879</b>	<b>\$8,022</b>
All Companies 2005	\$1,427	\$1,598	\$9,961	\$7,690

Retainers and meeting fees for committee members and chairs continued to grow, though less than last year. Meeting fees for committee members and chairs and retainers for committee members increased by 3 percent, 2 percent and 4 percent respectively. Committee chair retainers saw the most growth, at 9 percent. As noted in Table G, the primary method of increasing director compensation was through stock grants or options. In some cases, companies are paying a portion of committee fees in equity grants which are not reflected here. Monies shown here are cash payments only.

## Stock as Director Compensation

The vast majority (94 percent) of FORTUNE 1000 companies use equity as a portion of director compensation. Restricted stock grants continue to be the favoured type of equity awarded. Sixty-four percent of boards compensate their directors exclusively with restricted stock grants, compared with 55 percent in 2005. This practice has quickly gained widespread acceptance as only 28 percent provided directors with this type of compensation in 2002.

Stock options have quickly fallen out of favour. In 2002, almost half (47 percent) of FORTUNE 1000 organisations used stock options as the equity portion of the director compensation package. In 2006, only 23 percent reported this as the sole equity component.

**Table K-Summary of Stock Options & Grants  
(Companies that Pay Directors with Some Form of Equity Compensation)**

	<b>Stock Opt. Only</b>	<b>Common Stock Grants Only</b>	<b>Restricted Stock Grants Only</b>	<b>Options &amp; Grants</b>	<b>Total</b>
All Companies	190	69	544	44	847
2006 Averages	23%	8%	64%	5%	100%
	<b>Stock Opt. Only</b>	<b>Common Stock Grants Only</b>	<b>Restricted Stock Grants Only</b>	<b>Options &amp; Grants</b>	<b>Total</b>
All Companies	247	76	472	57	852
2005 Averages	29%	9%	55%	7%	100%

*In a continuing trend, restricted stock grants remain the preferred form of equity compensation.*

## Profile of Proxy Companies

This year's proxy statistics are drawn from 896 FORTUNE 1000 companies. Of the 104 companies whom we were unable to include, 56 were either private or mutual insurance companies, 24 were companies in the process of merger/acquisition, 13 companies were in Chapter 11, three were undergoing SEC investigations, and eight did not issue proxies during the dates of our proxy year (July 1, 2005 through June 30, 2006).

**Table L-Proxy Companies**

Size	2006		2005		2004	
	Number of Companies	Percent of Companies	Number of Companies	Percent of Companies	Number of Companies	Percent of Companies
Under \$3 billion	344	38%	388	43%	424	47%
\$3 billion - \$4,999 billion	166	19%	162	18%	160	18%
\$5 billion - \$9,999 billion	172	19%	148	16%	144	16%
\$10 billion - \$19,999 billion	114	13%	111	12%	89	10%
\$20 billion and over	100	11%	95	11%	87	10%
<b>Total</b>	<b>896</b>	<b>100%</b>	<b>904</b>	<b>100%</b>	<b>904</b>	<b>100%</b>
<b>Type</b>						
Advanced Technology	104	12%	113	13%	114	13%
Aerospace	15	2%	14	2%	15	2%
Banks	32	4%	38	4%	38	4%
Consumer Products	61	7%	61	7%	60	7%
Energy	113	13%	120	13%	109	12%
Entertainment / Hospitality	17	2%	15	2%	17	2%
Healthcare Providers	32	4%	34	4%	34	4%
Industrial	204	23%	205	23%	203	22%
Insurance Companies	42	5%	46	5%	44	5%
Miscellaneous	16	2%	14	2%	16	2%
Other Financial Institutions	34	4%	22	2%	31	3%
Other Services	51	6%	9	5%	46	5%
Pharmaceuticals	18	2%	20	2%	18	2%
Retailers	157	18%	153	17%	59	18%
<b>Total</b>	<b>896</b>	<b>100%</b>	<b>904</b>	<b>100%</b>	<b>904</b>	<b>100%</b>

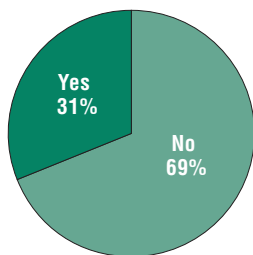
## BOARD PRACTICES IN THE AMERICAS — SURVEY RESPONSES

Events occurring in 2006 introduced several terms into the vernacular of corporate governance, stock options backdating and pretexting among them. Directors responding in the Americas were undeterred by the ensuing shock waves and remained focused on their fiduciary duties. This year's findings suggest that CEO evaluations are now the norm rather than the exception and that management succession and the organisation's bench strength are respondents' primary concerns. CEO and director compensation continue to evolve, with restricted stock replacing stock options as an equity incentive. For the majority, protecting shareholders brought about an established policy requiring a peer to resign from the board if he or she were fired from his/her primary employment.

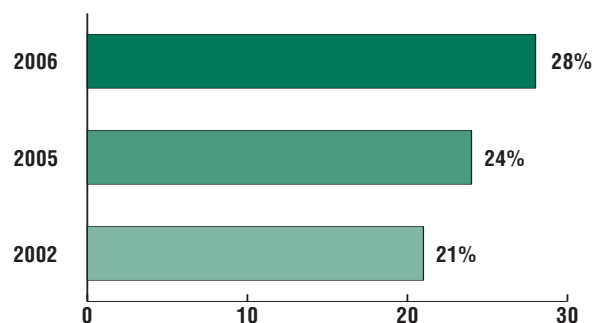
These and the following findings are based on responses received from board members of leading organisations based in Canada, Latin America, and the United States.

### Board Composition

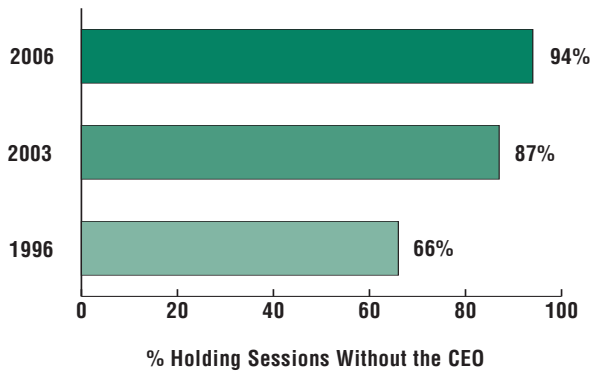
Does the former CEO sit on the board?



Should the former CEO sit on the board?

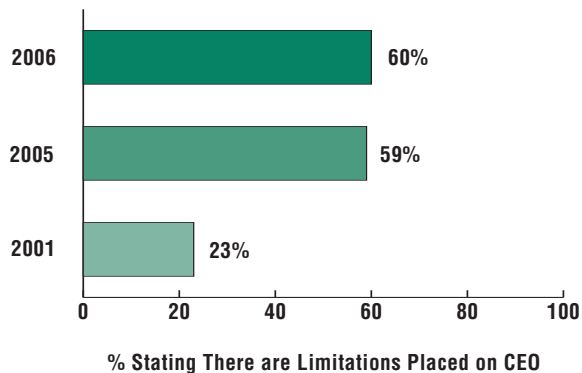


Responding directors in the Americas have concluded that the value of unique contributions a former CEO can bring do not outweigh the potential conflicts. Sixty-nine percent of participants reported the former CEO has not been asked to make the transition to outside director. Questions of independence and possible interference from a new CEO could have led to 72 percent of respondents reporting they do not believe the former CEO should remain on the board. However, the percentage of directors who believe this individual should continue as a board member has gradually increased since the enactment of Sarbanes-Oxley, rising from 21 percent in 2002 to 28 percent in 2006.



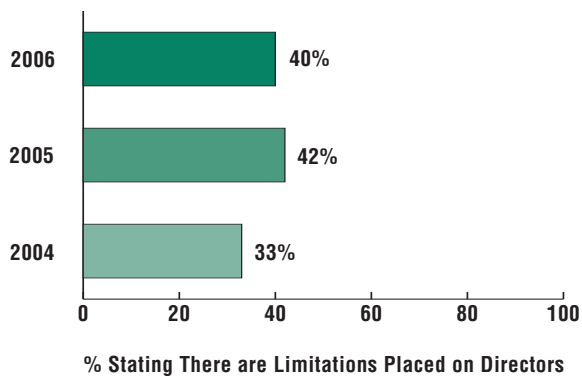
**Does the board typically hold regular executive sessions without the CEO present during the meetings?**

Holding regular executive sessions in which outside members are the sole participants provides a forum for frank discussion, resulting in better guidance for management and more effective governance. In 1996, 62 percent of respondents indicated their FORTUNE 1000 boards met without the chief executive. Today, 94 percent of responding directors in the Americas embrace this practice.



**Is there a limit to the number of other boards on which the CEO and board members may serve as outside directors?**

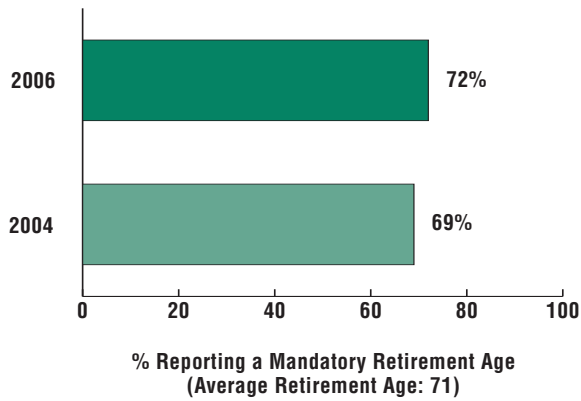
While ever-increasing demands and exposure to risk may have influenced personal choices to restrict board memberships, boards are formalising limitations for members and the organisation's CEO.



The percentage of respondents who state their boards limit the CEO's external board memberships seems to have reached a plateau, 59 percent in 2005 compared with 60 percent in 2006. However, the rapid integration of this practice since 2001, pre-SOX, is striking. That year, only 23 percent of respondents reported that their CEO had to restrict outside board memberships.

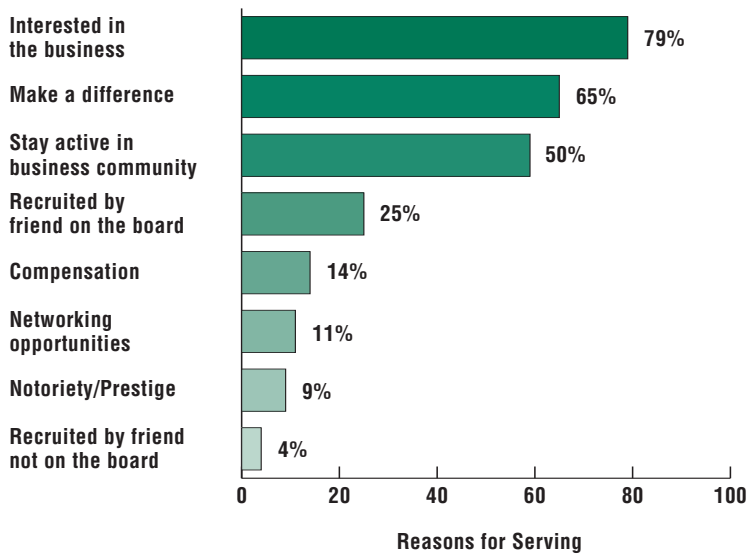
Forty percent of directors state their boards now limit the number of board seats outside members may hold as opposed to the 33 percent that reported this in 2004.

## Board Service



### Does your board have a mandatory retirement age?

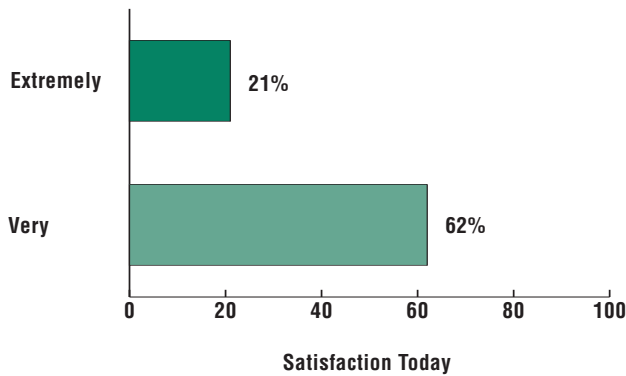
Although the first of the Baby Boom generation turned 60 in 2006, boards were not intimidated by the prospect of a greying talent pool. Seventy-two percent of those responding said their boards held fast to the practice of having a mandatory retirement age for directors rather than revoke a policy that ensured fresh perspectives would be present in the boardroom.



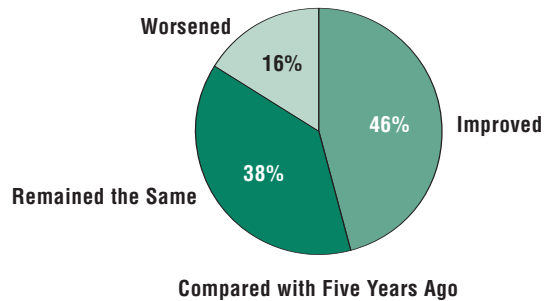
### What are the main reasons for which you serve in your current role?

Individuals intent on fulfilling the duties of a fiduciary have common criteria when considering board service: the desire to contribute to an organisation's betterment, the opportunity to grow professionally, and avenues to challenge their intellectual curiosity. When asked why they continue to serve, 79 percent of respondents point to their interest in the business, while 65 percent wish to make a difference.

How satisfied are you today as a director?

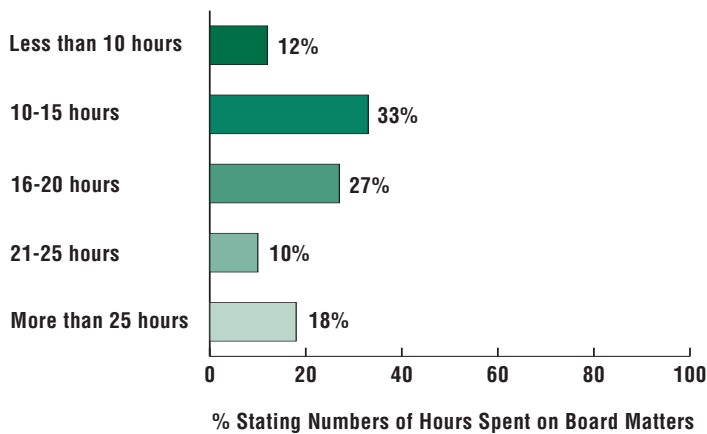


How does your satisfaction today compare to what it was five years ago?



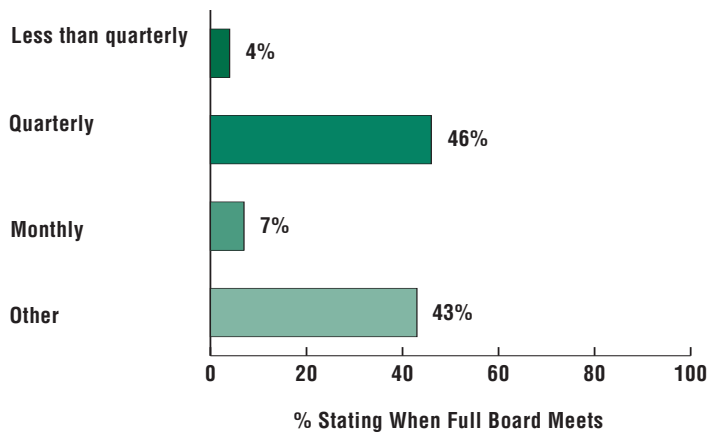
Eighty-three percent of respondents are “extremely” or “very” satisfied with their current directorships. Compared with five years ago, when directors found themselves confronting challenges of a business environment reeling from the fallout of corporate scandals, 46 percent state their satisfaction has improved.

## Board Meetings and Preparation



How many hours per month do you estimate that you spend on board matters for this company – including review and preparation time, meeting attendance and travel?

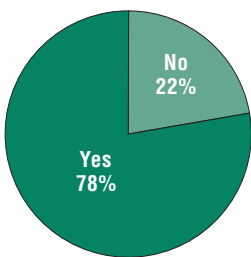
Fallout from corporate scandals and complying with strict regulation has likely caused the rapid escalation in the amount of time respondents spent on board service. In 2006, responding directors report they spend an average of 17 hours per month on board matters.



**How often does your full board meet?**

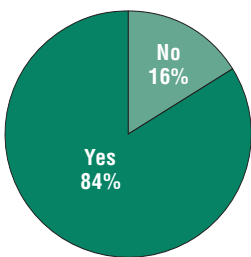
Forty-six percent of those surveyed in the Americas report once again this year that they meet quarterly. A substantial portion of those surveyed marked “other” to describe their meeting frequency – meaning they meet more than quarterly but less than monthly.

**Board Independence**



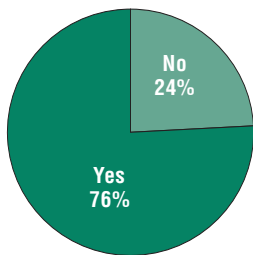
**If your chairman is also the CEO, do you have an elected or appointed lead director among the outside directors who will preside at executive sessions and evaluate the CEO?**

This year, 78 percent of those surveyed state they have a lead director presiding at their sessions. Ten years ago, our study showed that only 24 percent reported having lead directors seated at the table in FORTUNE 1000 boardrooms.



**Should a board that has an inside director as a chairman elect or appoint an outside director as the lead director?**

Eighty-four percent feel strongly that an outside lead director should be appointed when an inside director serves as chairman. This number has grown from 72 percent reported three years ago.

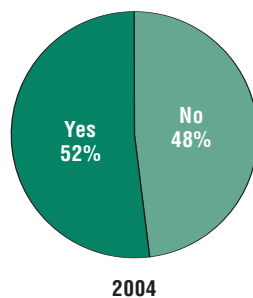
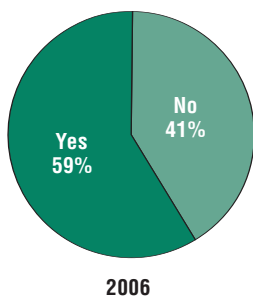


**Do you feel your board is working more independently this year, as compared with past years?**

While fostering a productive working relationship with management and maintaining independence is a challenge, the majority (76 percent) of participants feel their boards are indeed working more independently than in the past.

## Director Risk

**Have you ever turned down a board position because you felt your risk was too great?**

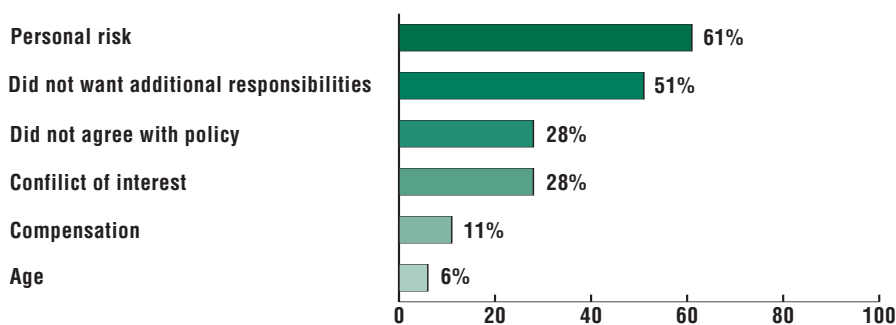


Having no illusions concerning their exposure in today's volatile and litigious environment, 59 percent of respondents in the Americas have declined an invitation due to perceived risk.

Sensitivity to risk was a concern preceding the enactment of Sarbanes-Oxley. In 2002, 38 percent of peers serving on FORTUNE 1000 boards indicated risk as the reason they had refused to accept a board seat prior to 2001.

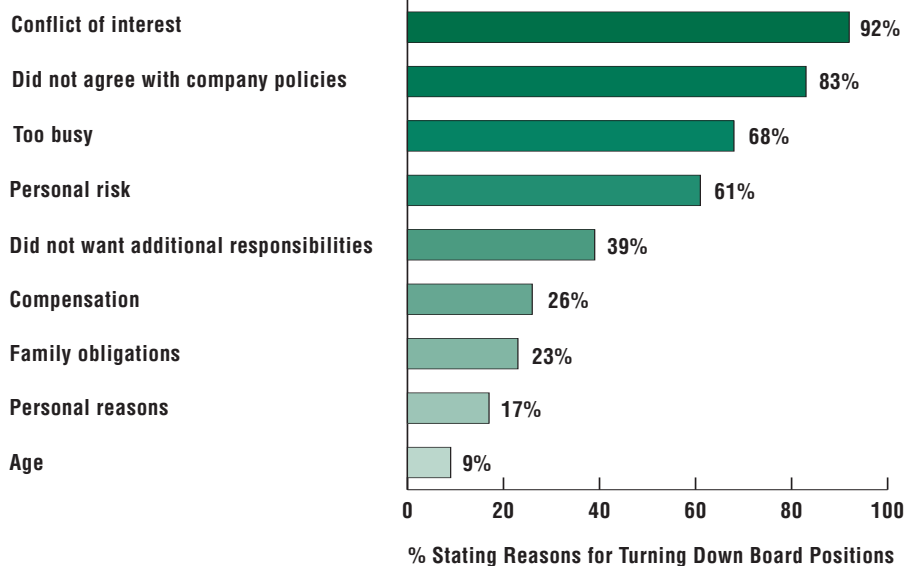
Risk is inherent in director service. In 1976, 47 percent of participating directors reported that their legal liability as a director would likely increase in the coming year.

**Which of the following factors have made you turn down a board position?**

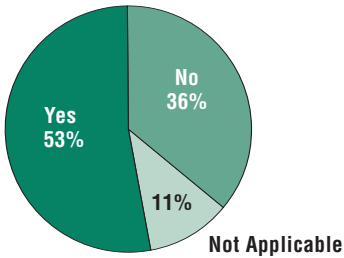


The ruling allowing directors to be sued personally introduced a different dynamic into the boardroom. While willing to stake their professional reputations on their abilities to fulfil fiduciary responsibilities, few directors are willing to subject themselves to personal risk. Sixty-one percent of the respondents in the Americas have declined to serve on a board due to the perceived personal risk. Fifty-one percent, reported that they did not wish to take on additional responsibilities.

Even if you've never turned down a position, what types of circumstances would make you turn down a position on a board?



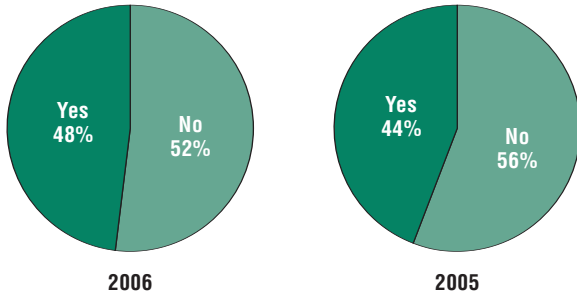
Integrity appears to govern the evaluation of potential directorships: 92 percent cite conflict of interest as a reason for declining, and 83 percent reported they did not agree with company policies.



Does the company insist that a board member resign if fired from their regular job?

Fifty-three percent of respondents state their board demands the resignation of a terminated employee, which is up from 48 percent in 2005. This practice is undoubtedly an attempt to protect boards from potential fallout such as stock price swings or poor leadership from a preoccupied director.

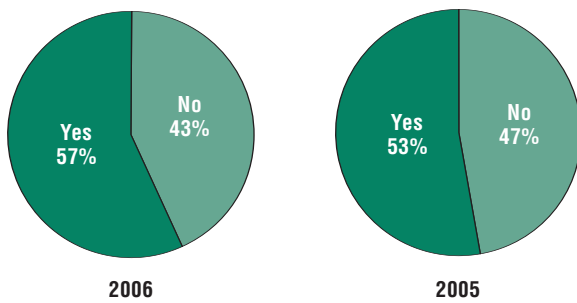
## Director Recruitment



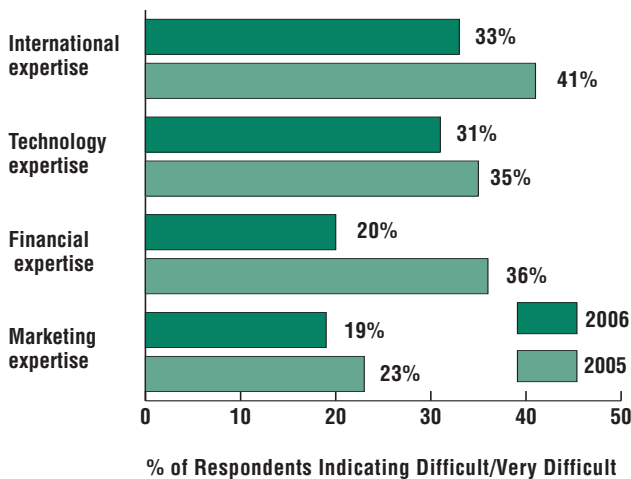
### Has your board added a director with no previous board experience in the past three years?

While previous corporate governance experience is preferred, boards are more open to newcomers who demonstrate the potential to become outstanding directors. The integration of these newly installed members has reinvigorate boards with diverse perspectives and energy. Almost half (48 percent) of Americas respondents' boards have recruited such a member in the past three years.

### Are you finding it more difficult to recruit high quality directors?



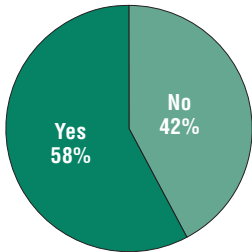
Our study demonstrates that boards in the Americas continue to experience difficulty in recruiting qualified directors possessing the requisite interpersonal and professional abilities. Fifty-seven percent of respondents state recruitment is more challenging, a slight increase from the 53 percent who found it so in 2005.



### How difficult has it been for your board to add directors with the following skill sets?

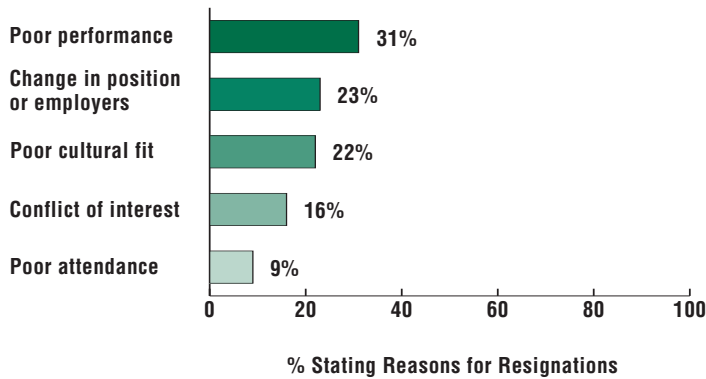
While the need will continue, the urgency to recruit members with financial experience seems to have abated. The number of respondents indicating their board had difficulty in recruiting individuals with this expertise dropped from 36 percent in 2005 to 20 percent in 2006.

## Director Resignations



### Has your company ever asked a director to resign or not stand for re-election?

The message is clear: a poorly performing director is a liability to the organisation and will not be tolerated. The majority (58 percent) of respondents in the Americas state that their board has asked a director to resign.

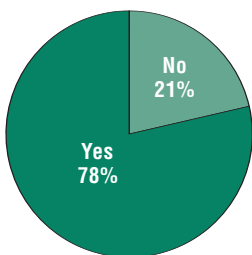


### What was the primary reason?

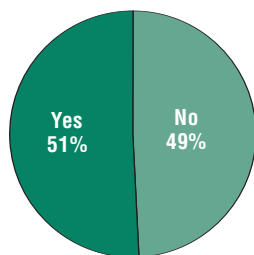
Thirty-one percent point to poor performance as the catalyst for issuing the request, while 22 percent cite the inability to work effectively in the board culture. In 1996, 51 percent of responding directors serving on FORTUNE 1000 boards reported their boards had severed relationships with directors in this manner, with 21 percent giving poor performance as the reason.

## Director Compensation

### Is there a requirement that directors own shares of company stock?



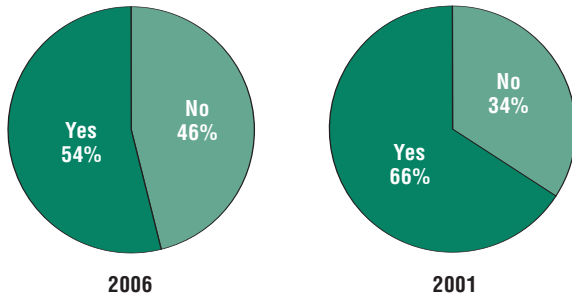
2006



2002

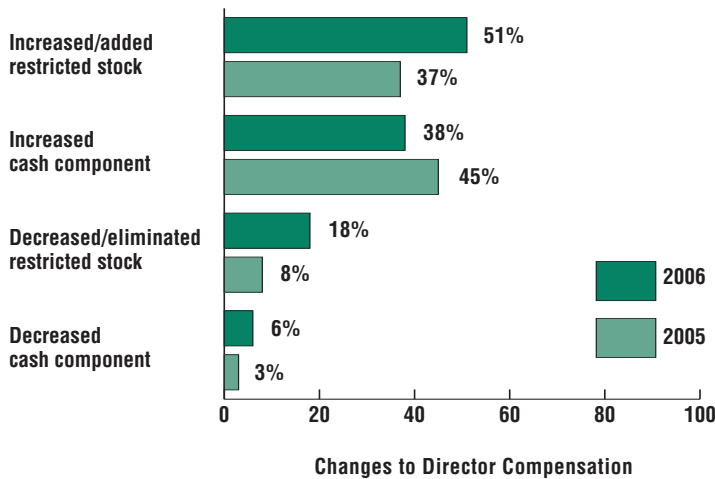
In 2006, boards are clearly communicating expectations of stock ownership. More than 78 percent of participating directors reported that their boards require members to have an equity position in the company, a significant increase from the 51 percent who stated this in 2002.

**Do you think the majority of a director's compensation should be in stock?**



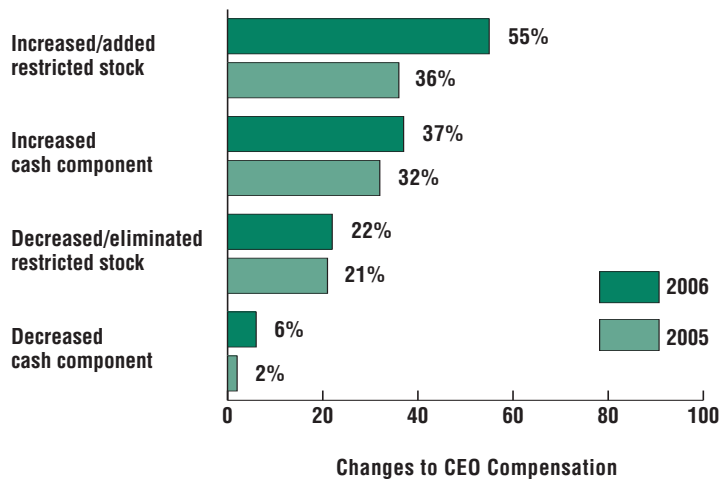
Recent accounting improprieties and market manipulations have expectedly influenced opinions concerning stock as compensation. In 2001, 66 percent of Americas respondents thought the majority of a director's compensation should be in stock. Currently, 54 percent endorse a director compensation package in which stock is the predominant component.

**If your director compensation plan has changed in the past 12 months, please indicate the nature of that change below.**



Restricted stock continued to be the component of the director compensation package most frequently changed in 2006. Fifty-one percent report their boards have added restricted stock to the overall package or increased the number of shares received. This is a significant increase over the 37 percent reporting this change in 2005. Interestingly, 18 percent of participants in the Americas indicate that their boards decreased the number of shares of restricted stock provided to directors or eliminated it from the compensation package.

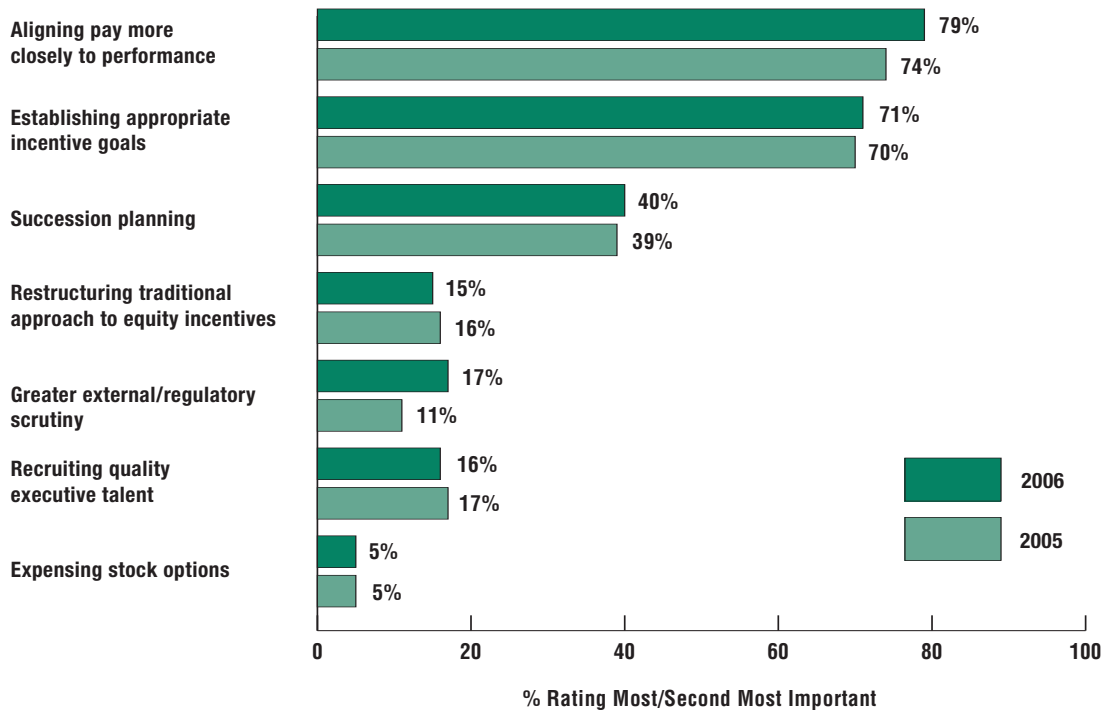
**CEO Compensation**



**If your CEO compensation plan has changed in the past 12 months, please indicate the nature of that change below.**

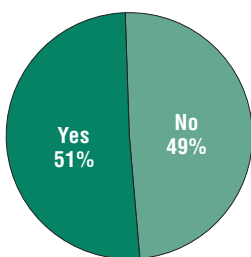
Changes in CEO compensation mirror those occurring in director compensation. The majority (55 percent) of surveyed directors reported that their boards refined the CEO compensation package by increasing or adding restricted stock to the overall compensation awarded, a striking increase from the 36 percent who did so in 2005. Twenty-two percent eliminated or decreased the amount of restricted stock awarded to the CEO.

Please rank in order of importance the main concerns of your Compensation Committee.



According to 79 percent of respondents, the main concern of their Compensation Committee is aligning pay more closely to performance. Seventy-one percent cite establishing appropriate incentive goals as the priority.

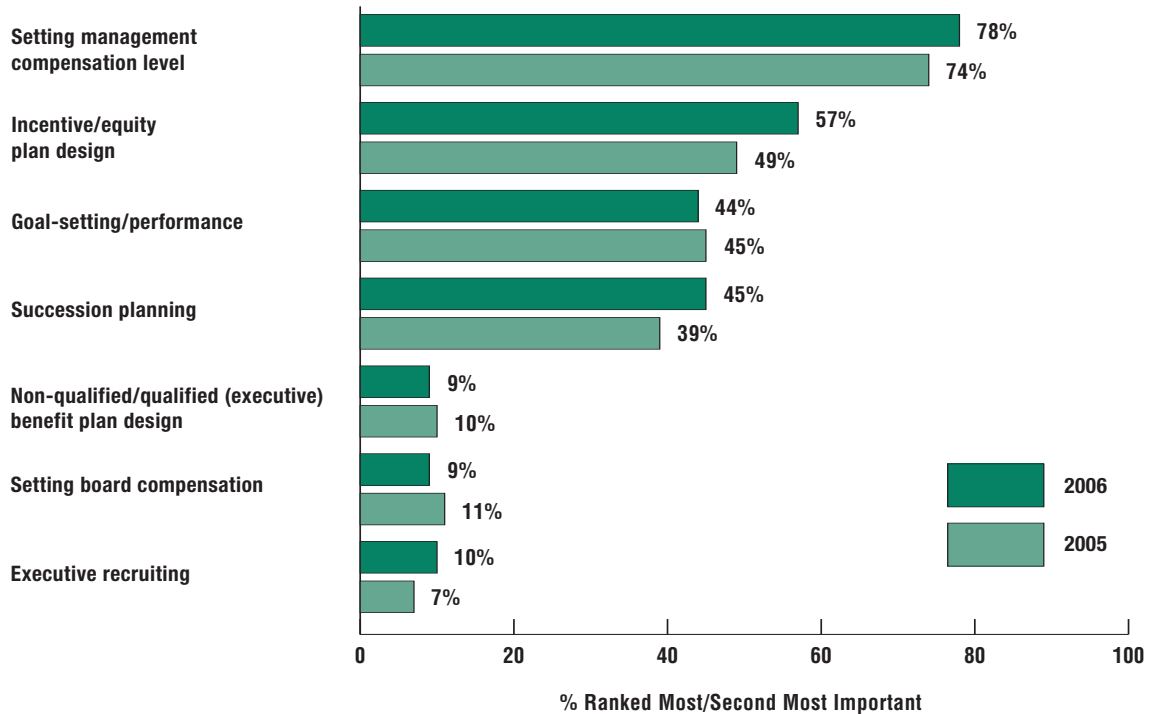
## Compensation Committee



### Has the frequency of your Compensation Committee meetings increased in the last year?

To meet regulatory deadlines, participating directors found it essential to devote additional time to establishing controls mandated by regulation. Now that processes and structures are in place, meeting frequency seems to be stabilising. Almost half (49 percent) of respondents in the Americas report that their Compensation Committee did not augment its meeting schedule in 2006.

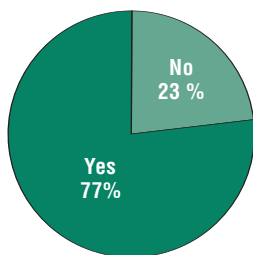
Please rank in order of importance the focus of your Compensation Committee.



Unsurprisingly, the majority (78 percent) of respondents believe the primary focus of their Compensation Committee is to set management compensation levels. Issues such as stock options backdating scandals may have led to 57 percent of respondents choosing incentive/equity plan design as the Committee's priority, a marked increase from the 49 percent who did so in 2005. It is also interesting to note this year's increase, from 39 percent to 45 percent, of respondents who point to succession planning as the most important duty of this Committee. This is likely related to the high rate of CEO turnover.

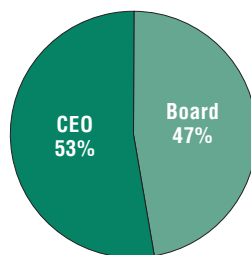
## Management Succession

Does the board have a Management Succession Committee or process?



% With Formal Process

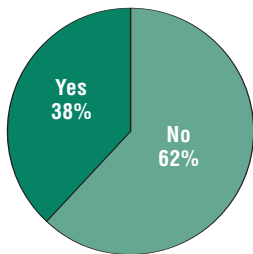
Who leads this process?



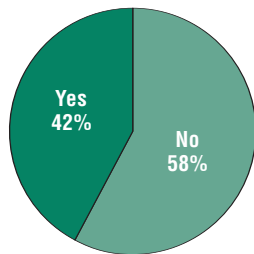
% Who Lead the Process

While management succession plans have yet to be universally adopted, 77 percent of the responding directors in the Americas do report that they have a formal process in place. Fifty-three percent say this is led by the CEO.

## Director Evaluations



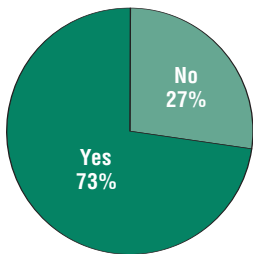
2006



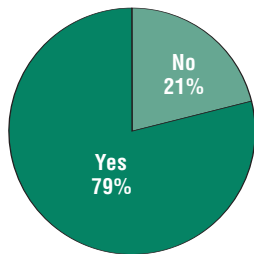
2005

### Does the board evaluate individual directors on a regular basis?

Only 38 percent of responding directors in the Americas reported their board reviews individuals' performance on a regular basis compared to with 42 percent in 2005.



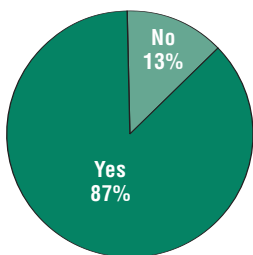
2006



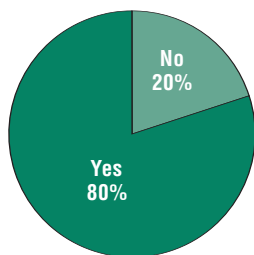
2005

### Should individual directors be evaluated regularly as to their performance?

Defying governance watchdogs and best practice pundits advocating individual performance reviews, support for the practice seems to be declining among directors in the Americas. In 2006, 73 percent thought individual directors should receive regular performance evaluations compared to 79 percent holding this opinion in 2005.



2006



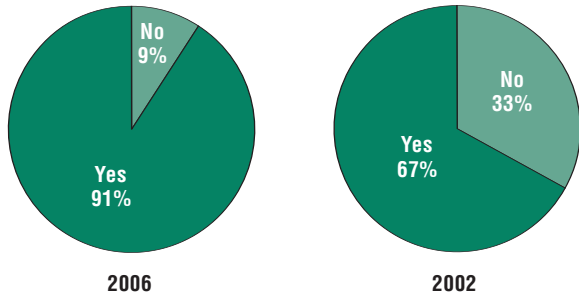
2005

### Is the entire board's performance formally evaluated on a regular basis?

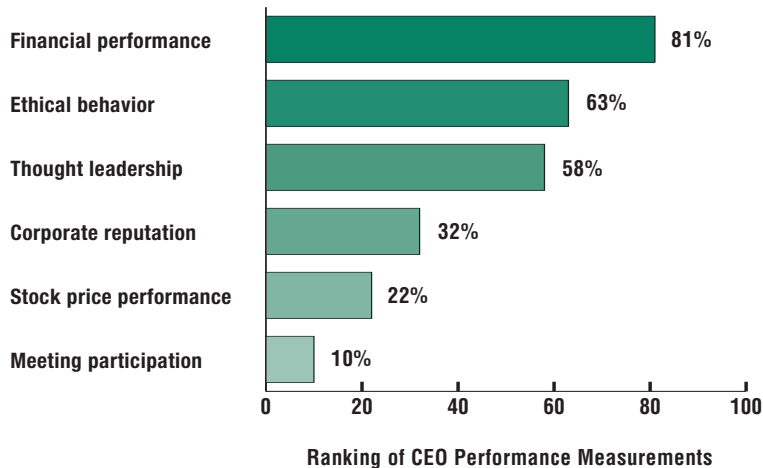
To improve board performance, 87 percent of Americas respondents report that their board undergoes a performance evaluation regularly, which is up from 80 percent in 2005.

## CEO Evaluations

Does the board have a formal process for evaluating CEO performance?



Understanding the vital importance of providing focused guidance to the chief executive, more respondents from the Americas state their boards are using evaluations as a method to offer constructive counsel. The vast majority (91 percent) review the CEO's performance using a formalised process. Prior to SOX, adoption of this practice had plateaued. In 2002, 67 percent of FORTUNE 1000 boards evaluated the CEO, a slight decrease from the 69 percent reported in 1996.

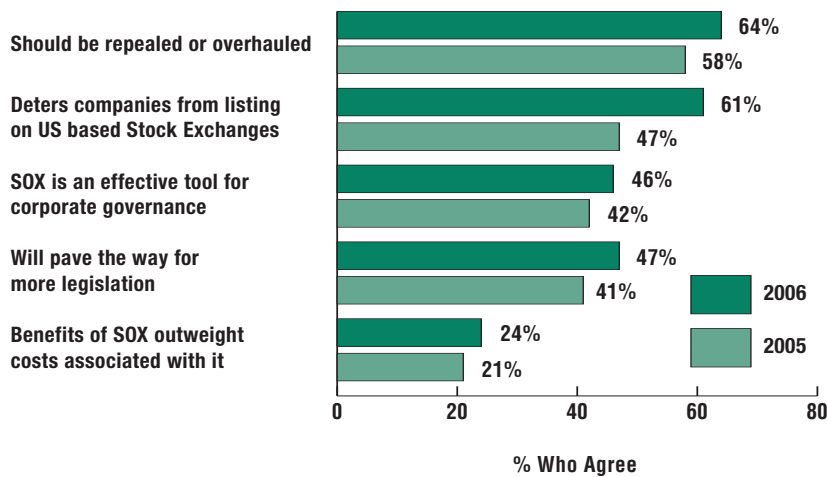


**Please rank order the CEO performance measurement criteria in terms of the weight in the evaluation process:**

Directors clearly prioritise CEO performance measurements according to shareholders' interests, valuing criteria related to the long-term. Eighty-one percent of directors surveyed in the Americas believe financial performance of the company is the most significant measure of the chief executive's leadership ability.

Of course, astute board members know that outstanding financial performance is unsustainable without vision and integrity. Ethical behaviour and thought leadership are viewed as the next most important criteria in assessing a CEO's effectiveness, with 63 percent and 58 percent, respectively, holding this opinion. In 2006, only directors (22 percent) of surveyed directors believed a stock's performance presents an accurate picture of a chief executive's performance.

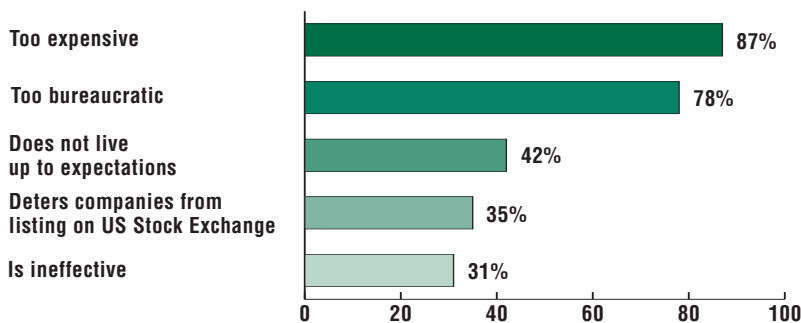
## Sarbanes-Oxley (SOX)



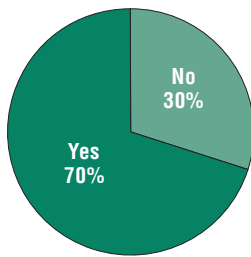
### Please rate the level of your agreement with these statements relative to Sarbanes-Oxley?

Negative perceptions relating to the value of SOX appear to be growing. Almost two-thirds (64 percent) of Americas respondents believe SOX should be repealed or overhauled, up from the 58 percent who held this view in 2005. More striking is the increase in the percentage of board members reporting that the regulation deters companies from listing on US stock exchanges, a jump from 47 percent in 2005 to 61 percent in 2006.

### If you feel Sarbanes-Oxley should be repealed or overhauled, why?



Criticism of SOX has intensified as experience has provided respondents with concrete reasons for advocating repeal or revision. Eighty-seven percent of respondents in the Americas think it has proven to be too expensive, and 78 percent find it too bureaucratic. Disappointment in the post-SOX outcome is the reason 42 percent of respondents call for radical change.

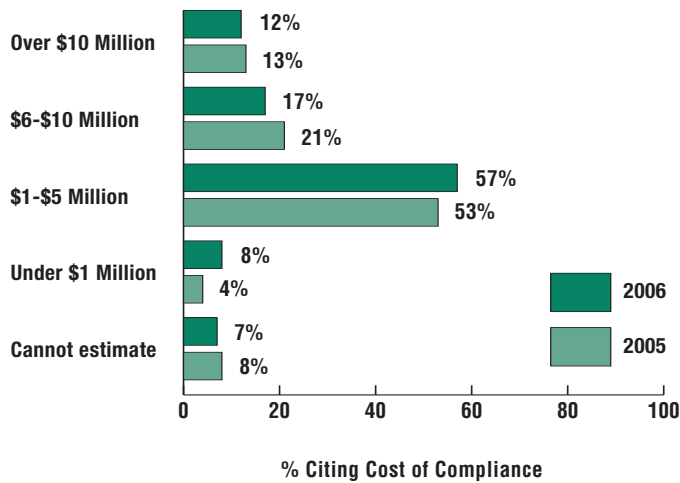


% More Cautious

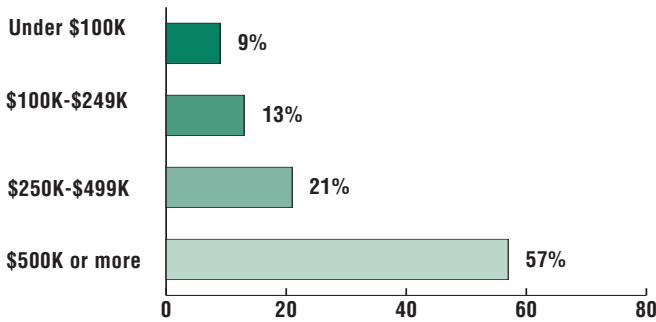
**Do Sarbanes-Oxley requirements make your board better or just more cautious?**

The majority (70 percent) of responding directors in the Americas believe SOX has made their boards more cautious – a potentially detrimental mindset when relied upon to provide guidance and counsel regarding calculated risk taking.

**What is the annual cost to your company of ongoing compliance?**



The majority (57 percent) of respondents peg the annual cost of SOX compliance to fall in the \$1-5 million range, which is similar to the average in 2005.

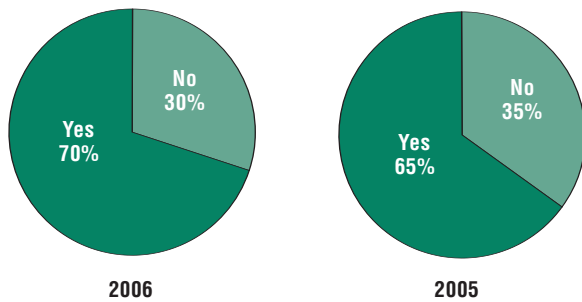


**How much has your company spent on software to help cope with the financial reporting requirements of Sarbanes-Oxley?**

The sophisticated tools required to structure and administer SOX mandates command a high price. Of those surveyed in the Americas, 75 percent believe their company has spent \$500,000 or more solely on software needed to produce the requisite financial reports, a significant expenditure.

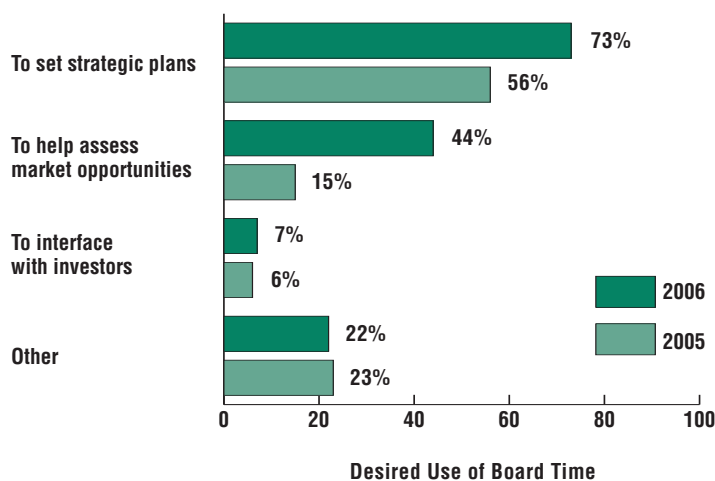
## Being a Director

Does your CEO use you as director to the fullest extent possible?

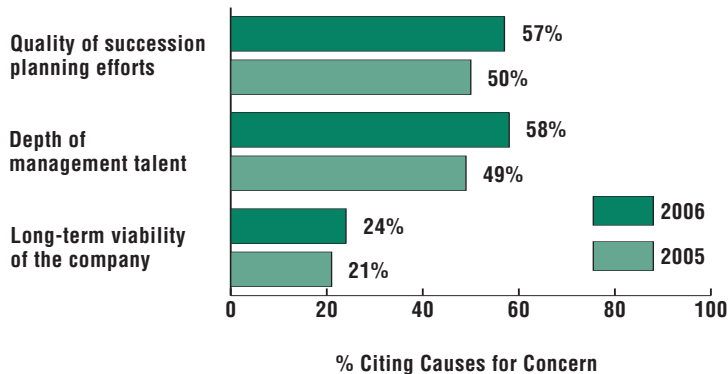


Chief executives in the Americas seem to be creating better relationships with their directors by utilising their expertise and skills more productively. Seventy percent of participating directors in the Americas believe the CEO is leveraging their talents to their full capacity, an increase over the 65 percent who held this opinion in 2005.

In what other ways would you like the CEO to make use of your services?

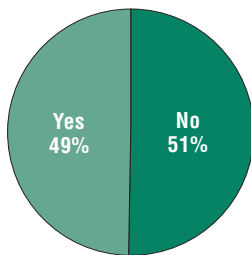


Not content with being relegated to an oversight role mandated by regulation, participating directors express their willingness to partner more closely with top management in setting the course of the organisation. Seventy-three percent of respondents would like to be more involved in developing strategic plans, which is a significant increase over the 56 percent indicating this in 2005. Relative to strategic development, 44 percent cited they wish to assist the CEO in assessing market opportunities. Only 15 percent reported wanting to pursue this in 2005.



**Please select the items that cause you the most worry in your position as a director:**

Radical changes at the top of the world's major corporations during 2006 made directors carefully assess the organisation's bench strength and how it impacts management succession. A majority of respondents point to these two responsibilities as their greatest worries.



### Do you see a relationship between the revenue of a company and the contribution that a board member can make?

Whether due to realism born of experience or conservative humbleness, 51 percent of participating directors in the Americas do not see a relationship between the revenue of a company and an individual member's contribution.

## Drivers to Board Success

This year we have augmented the Board Study by including a detailed analysis of the elements that are necessary to generate board success. Given the core goal of this research - to understand global board governance practices and the differing trends across the regions - it is critical to our learning that we gain a perspective on what makes a board work well. We are able to do this by understanding not only how directors rate their current boards on specific performance criteria, but also how those perceptions link into their general evaluation of the board on which they sit. They may feel that their board is excellent at developing yearly goals, but is this criterion really important to driving a board's performance?

Using the performance criteria and the directors' overall evaluation of their board, we developed a hierarchy of the impact that these elements have on board success. With this information, we round out our understanding of how and why boards differ across regions. It also provides insight into what directors need to do to improve their board's functionality and efficacy.

**Primary Drivers:** These criteria have the highest impact on board success. They are considered essential to contributing to the overall success of a board.

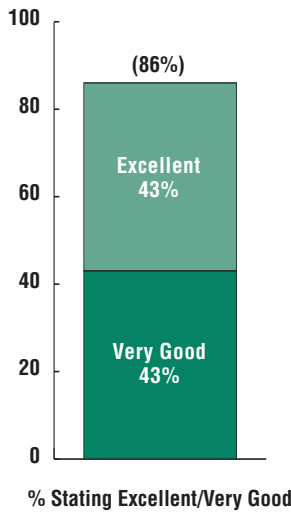
- Has a short-term and long-term vision
- Ensures legal and ethical integrity
- Individual and collective board action
- Develops yearly goals

**Secondary Drivers:** These criteria have a relatively high impact on board success. They are considered value added and would contribute to the overall success of a board.

- Determines financing needs
- Ensures regular board member participation

**Expected Drivers:** These criteria are elements expected of any board.

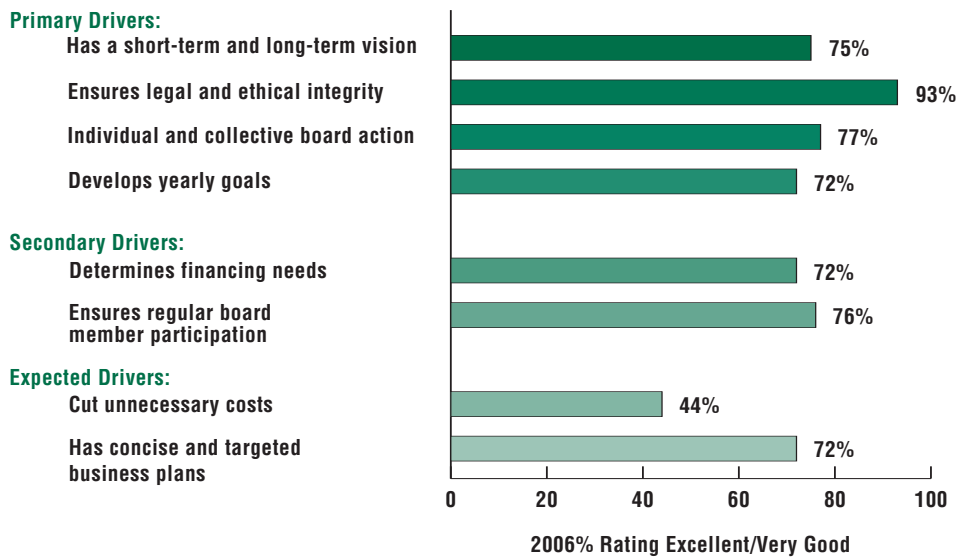
- Cut unnecessary costs
- Has concise and targeted business plans



**Compared with other boards on which you currently sit or have formerly sat on, how would you rate the board that you are now most actively involved with?**

Overall, the vast majority view their boards very highly. Forty-three percent say that the board they currently sit on is “excellent” compared to other boards on which they have sat. The same amount (43 percent) awarded their board a “very good.”

**Thinking about the board that you are most actively involved with, please rate it on the following performance criteria:**



Knowing what drives board success enables us to look at how directors feel about their boards with regard to performance criteria. Almost all (93 percent) believe their board is “excellent” or “very good” at ensuring legal and ethical integrity. Continuing assaults on the integrity of directors by constituencies and the public at large may have influenced directors’ identification of this as a primary driver.

Directors in the Americas believe providing oversight for strategy and goals is essential to board success. Three-quarters of respondents assign an “excellent” or “very good” rating to their boards’ execution of these duties.

## Cluster Analysis

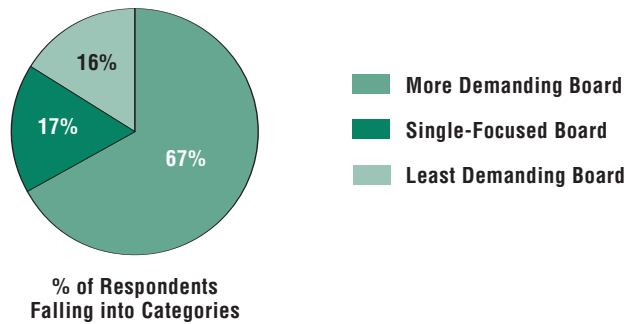
This year, participating directors throughout the Americas and Europe were categorised and analysed according to common attitudes. The manner in which they were categorised was based on their responses, hence the different classifications used for respondents in the Americas and in Europe. Due to some subtle differences in the questionnaires, we are unable to provide a cluster analysis for Asia Pacific.

### The Americas

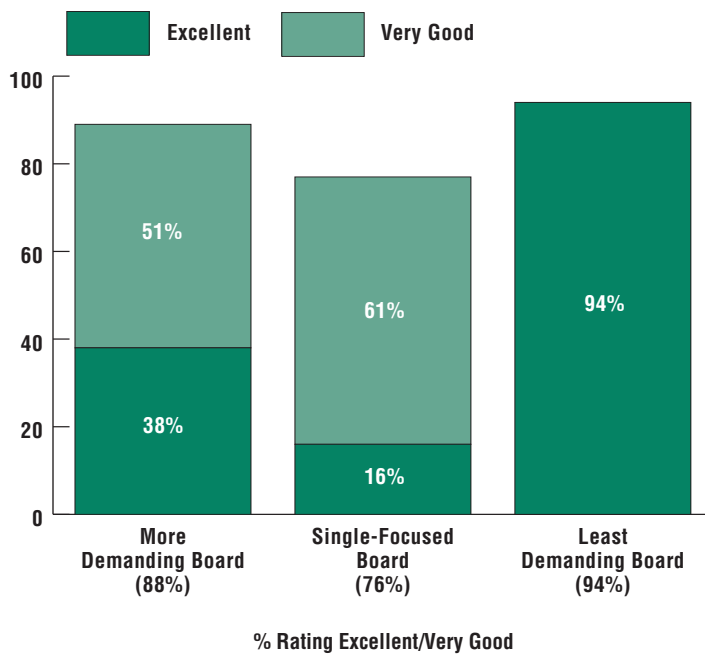
**More Demanding Board** – characterised by its strong association to the primary drivers to board success: having a short-and long-term vision, individual and collective board action and developing yearly goals.

**Single-Focused Board** – attributes the success of a board solely to legal and ethical integrity.

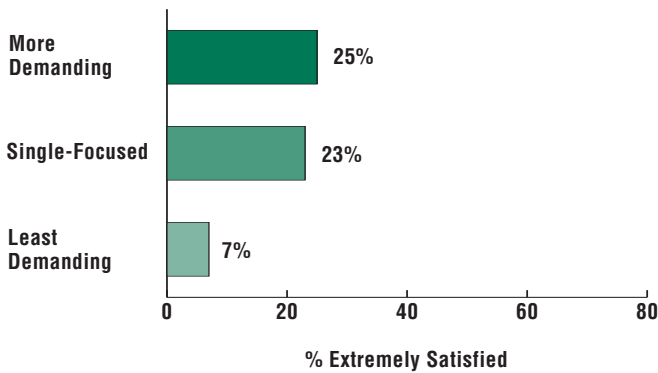
**Least Demanding Board** – a board concerned mainly with board participation.



Compared with other boards that you currently sit on or have formerly sat on, how would you rate the board in which you are most actively involved currently?

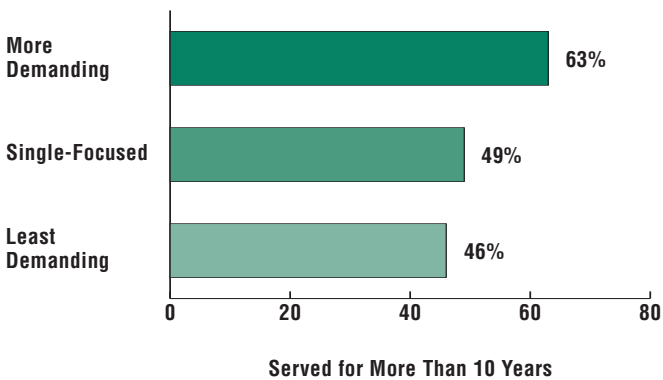


A significant amount of directors in each identified cluster awards their individual board a rating of either “very good” or “excellent.” The “Single-Focused Boards,” a group motivated by integrity, does not praise their board as strongly as their counterparts. Only 77 percent gave this high rating compared to the 89 percent of “More Demanding Boards” and 94 percent of “Least Demanding Boards.”



**How satisfied are you today as a director?**

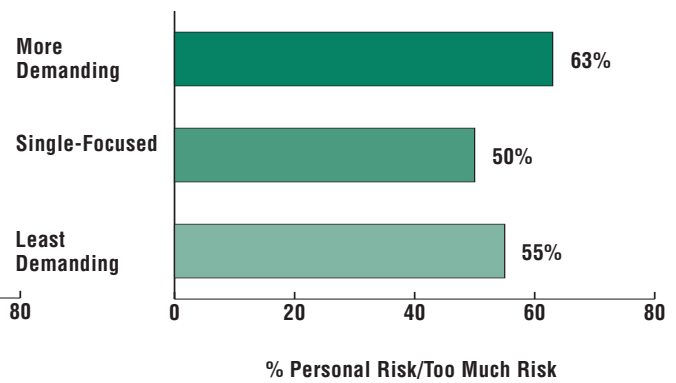
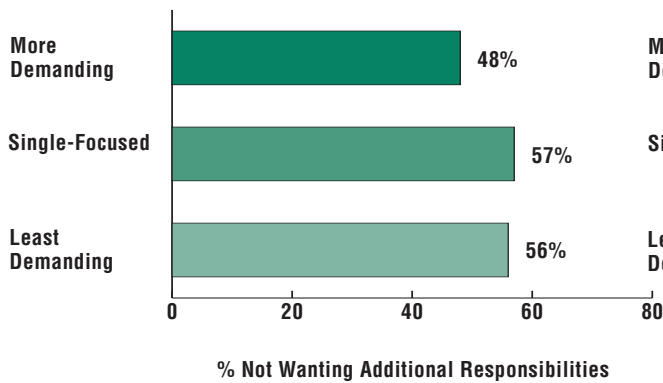
Levels of participation seem to correlate with the degree of satisfaction for respondents in the Americas. Only seven percent of “Least Demanding Board” directors state they are extremely satisfied compared with the 25 percent on “More Demanding Boards” who state this.



**How long have you served on any board?**

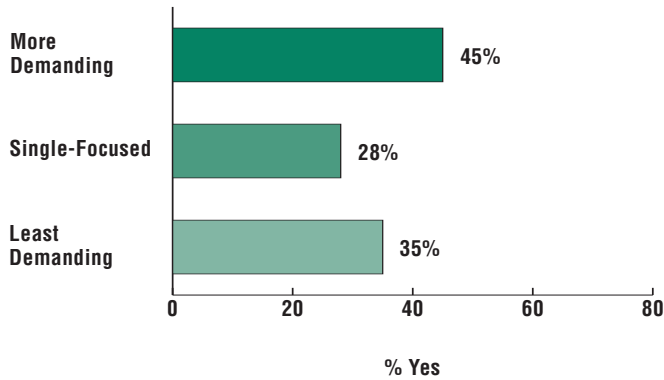
Sixty-three percent of participants sitting on “More Demanding Boards” have devoted more than a decade to board service compared with 49 percent of their “Single-Focused Board” peers.

**Which of the following factors have made you turn down a board position?**



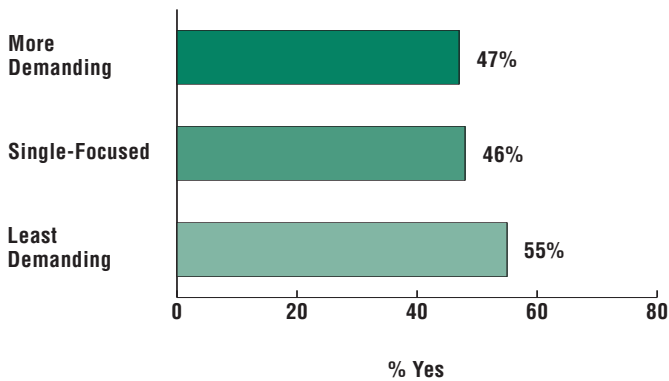
When turning down a board position, directors sitting on “More Demanding Boards” are more likely to have refused board positions feeling the personal risk may be too great. However, they are less likely than their counterparts to have refused board positions because of the additional responsibilities. Only 48 percent refused a seat for this reason, compared with 56 percent of those sitting on “Least Demanding Boards” and 57 percent sitting on “Single-Focused Boards” stating this.

**Is there a limit to the number of other boards on which the board members may serve as outside directors?**



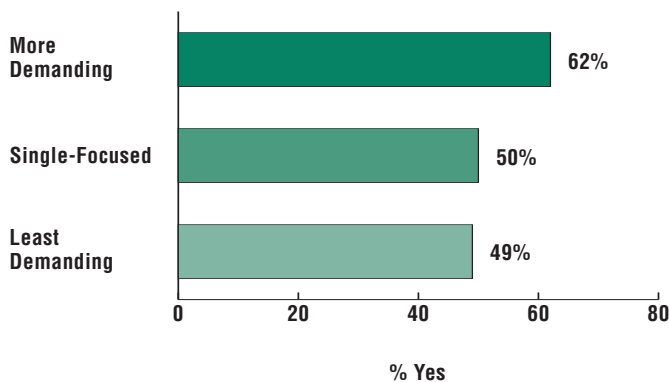
Boards focusing solely on legal and ethical integrity are the least likely to limit the number of other boards on which board members may serve. Only 28 percent of “Single-Focused Boards” state they insist upon limitations.

**Has your board added a director with no previous experience in the past 3 years?**

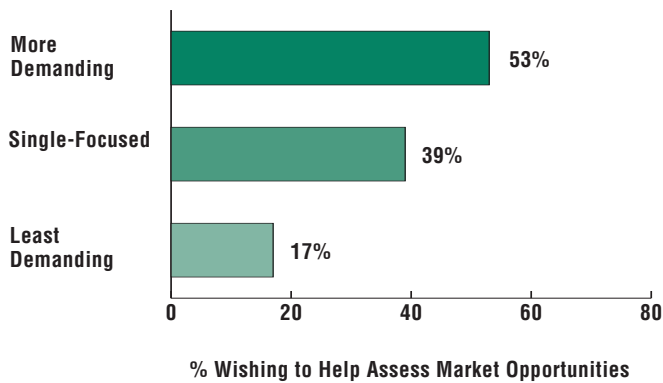


First-time directors appear to be most likely to find their first board roles within “Least Demanding Boards.” Fifty-five percent report that individuals new to board service joined their board within the past three years. Only 46 percent of those on “Single-Focused Boards” reported adding directors with no previous experience.

**Has your company ever asked a director to resign or not stand for re-election?**

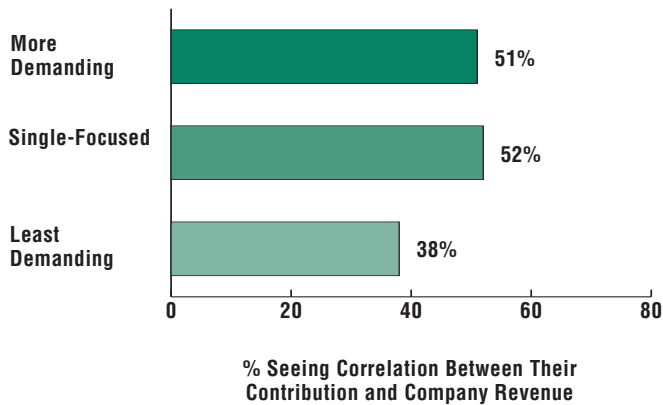


Sixty-two percent of those sitting on “More Demanding Boards” report having asked a member to leave the board. While only 50 percent sitting on “Single-Focused Boards” and 49 percent on “Least Demanding Boards” have done so.



**In what other ways would you like the CEO to make use of your services?**

Fifty-three percent of “More Demanding Board” members stand ready to provide guidance to the chief executive about market opportunities. Only 17 percent of their peers sitting on “Least Demanding Boards” wish to do so.



**Do you see a relationship between the revenue of a company and the contribution that a board member can make?**

Only 38 percent of those on “Least Demanding Boards” with a focus on participation, see a correlation between their participation and corporate revenue. The majority of respondents belonging to “More Demanding Boards” (51 percent) and “Single-Focused Boards” (52 percent) believe there is a direct relationship.

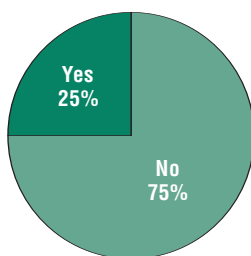
## BOARD PRACTICES IN EUROPE — SURVEY RESPONSES

Responding directors in Europe seem dedicated to substantive change that will enhance the execution of their responsibilities. Most understand that evolution requires an environment that promotes both respectful dissent and constructive consensus, and that such change begins with the individual director. Today, director evaluations are more commonplace and full-board and CEO performance reviews are the norm.

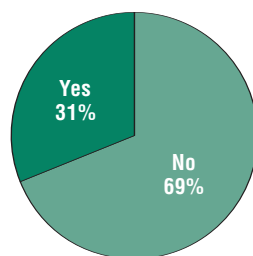
Diverse board structures continue to be a prime influence in the adoption of certain practices and the speed at which they are integrated. Most boards in Europe employ a unitary structure, such as Public Limited Companies in the United Kingdom and the Societies Anonymes in France. These types of boards are comprised of company executives and outside, or non-executive, directors. While some German companies have adopted this system, many prefer the traditional two-tiered structure, which is composed of the Vorstand, an executive board, and the Aufsichtsrat, whose membership includes elected outside directors and labour representatives.

The following findings are based on the responses of directors serving on boards of the FTSE 350 and leading private companies in the United Kingdom, CAC 40-listed organisations and significant private companies based in France, and supervisory boards of pre-eminent German organisations. The survey population also includes board members at leading Swiss, Swedish, Danish and Austrian public and private enterprises.

### Board Composition



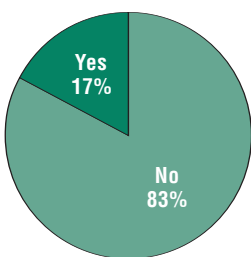
Europe



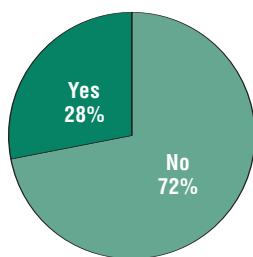
Americas

#### Does the former CEO sit on the Board?

Regardless of the specific governance structure, the majority (75 percent) of those surveyed in Europe state their boards do not include the former CEO as a member after he/she hands the reins to a successor. This is slightly more than the 69 percent of their counterparts that report this in the Americas.



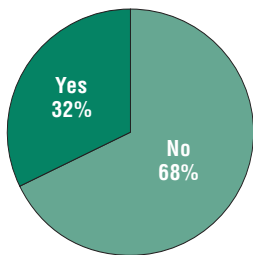
Europe



Americas

#### Should the former CEO sit on the Board?

Eighty-three percent of these directors are opposed to the practice and feel the former CEO should resign from the board when no longer leading the management team. This opinion is shared by 72 percent of peers in the Americas.

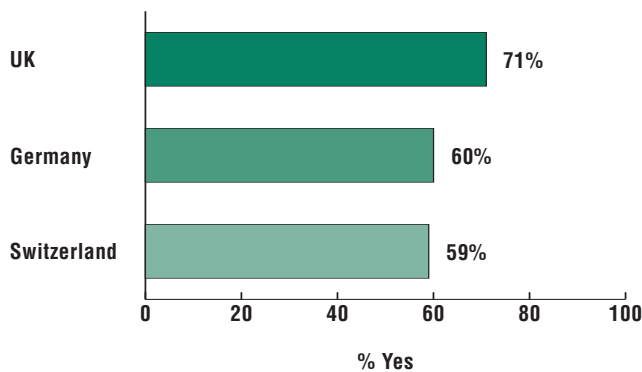


Europe

**Does the board typically hold regular executive sessions without the CEO present during the meeting?**

Conservative assimilation would best describe the manner in which responding directors in Europe embrace the practice of holding regular sessions without the CEO, with only 32 percent report holding them. Participating directors in Switzerland seem most willing to embrace this practice, with 57 percent convening without the CEO. Thirty-nine percent of their peers in Sweden reportedly hold these sessions.

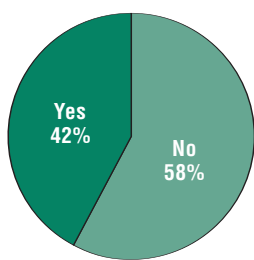
**Board Service**



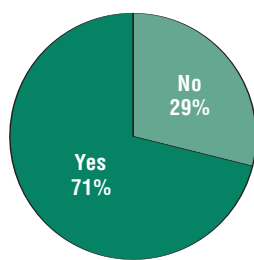
**Is there a limit to the number of other boards on which the CEO may serve as a board member?**

Seventy-one percent of respondents in the United Kingdom report that their board restricts the number of external board memberships the CEO may have. Only 60 percent of German board members and 59 percent of Swiss directors indicate this policy.

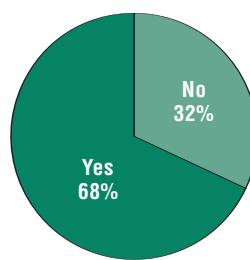
**Does your board have a mandatory retirement age?**



Europe

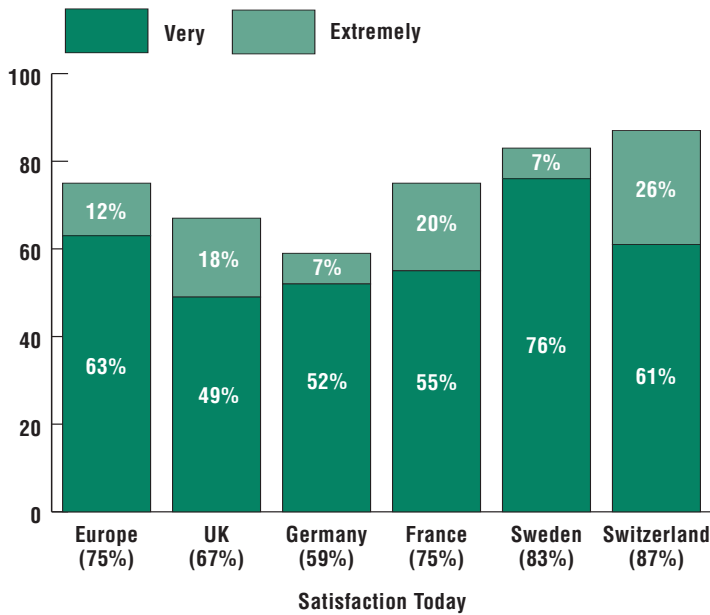


Germany



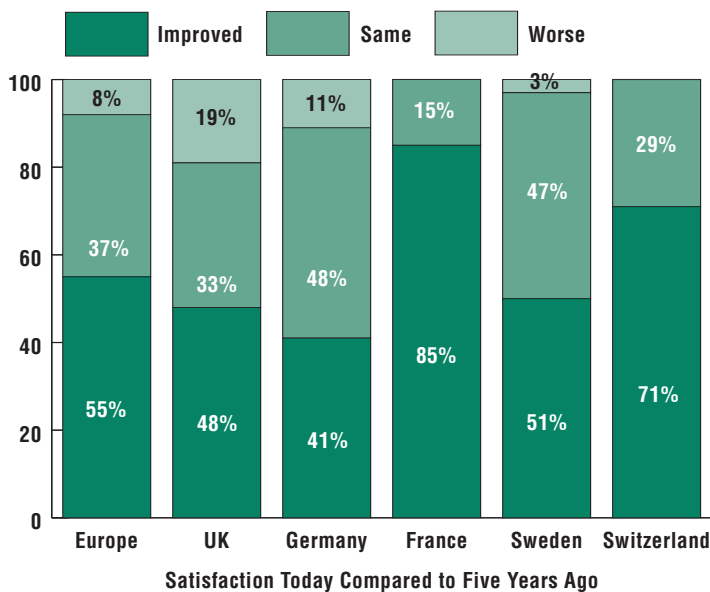
Switzerland

Although the majority (58 percent) of participants in Europe state they do not have a mandatory retirement age, 71 percent of respondents in Germany and 68 percent in Switzerland do report having one.



**How satisfied are you today as a director?**

Seventy-five percent of participants in Europe state they are either “very” or “extremely” satisfied in their role as a director. This ranking is the highest in Switzerland at 87 percent and the lowest in Germany at 59 percent. Eighty-six percent of those surveyed in the Americas assign this rating to their level of satisfaction.

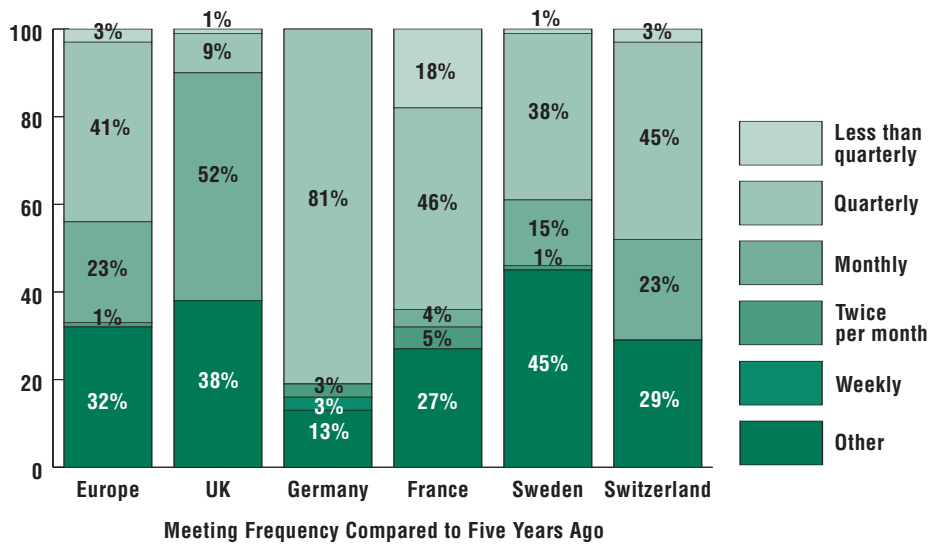


**How does your satisfaction today compare to what it was five years ago?**

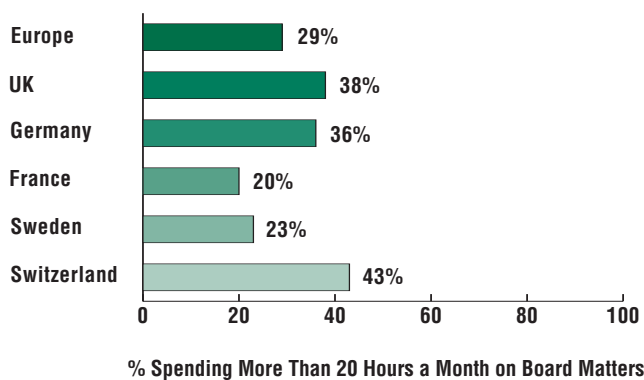
The majority (55 percent) of respondents in Europe also report that their level of satisfaction is greater than it was five years ago.

## Board Meeting and Preparation

On average, how often does your full board meet?



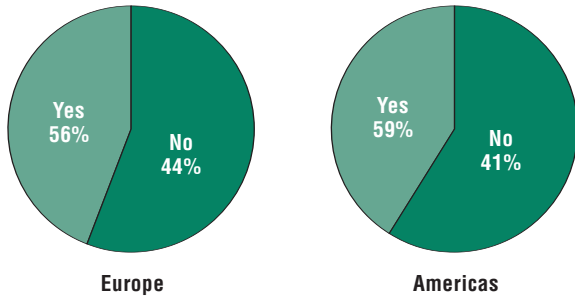
Throughout Europe, meeting frequency appears to vary widely. Forty-one percent of directors surveyed in Europe state that their boards meet quarterly. Eighty-one percent of respondents in Germany report they only convene four times annually. In contrast, monthly meetings are the norm for the majority (52 percent) of participants in the United Kingdom. This schedule is also held by 81 percent of their peers in Japan.



### How many hours per month do you estimate you spend on board matters for this company?

Twenty-nine percent of respondents from Europe as a whole report they spend more than 20 hours a month on board service and related activities. The numbers were highest in Switzerland where 43 percent of participants say they devote more than 20 hours to service.

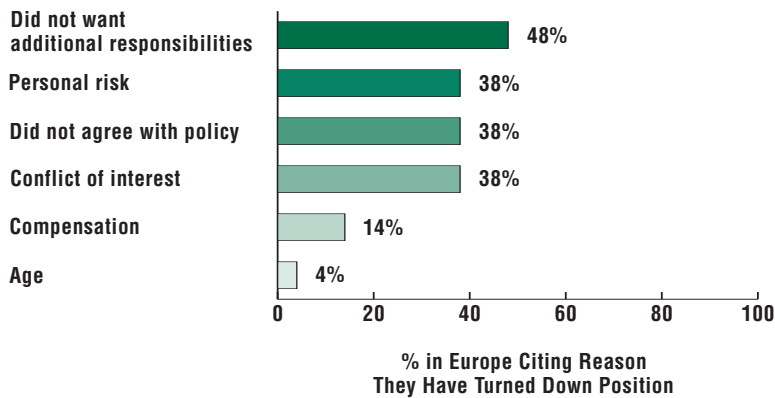
## Director Risk



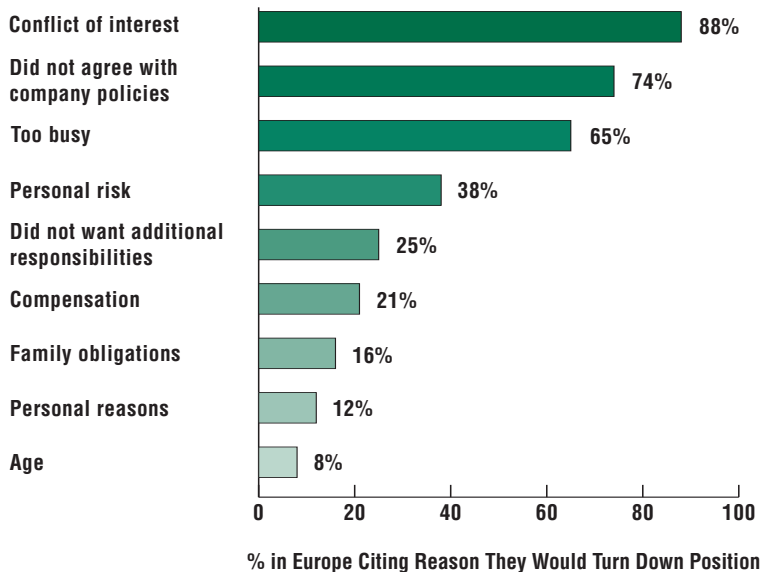
### Have you ever turned down a board position because you felt your risk was too great?

Directors around the world report a heightened sensitivity to the potential risk associated with serving. The majority (56 percent) of participants in Europe state they have actually declined a board seat because of possible risk. A slightly higher number in the Americas (59 percent) reported they too have turned down a seat for this reason.

### Which of the following factors have made you turn down a board position?



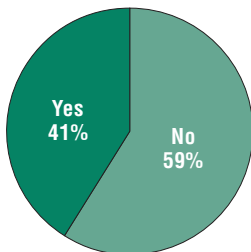
Almost half (48 percent) of those surveyed in Europe have declined to serve on a board because they did not want additional responsibilities. Fifty-one percent of their peers in the Americas also declined for this reason. Personal risk seems to be less of a factor in Europe than in the Americas. Thirty-eight percent of responding directors in Europe have turned down a board position due to perceived personal risk as compared with 61 percent of their peers in the Americas.



### Even if you never have, what types of circumstances would make you turn down a position on a board?

Eighty-eight percent of responding directors in Europe cite that having a conflict of interest would deter them from taking a seat. Seventy-four percent state they would turn a seat down if they disagree with a company's policies.

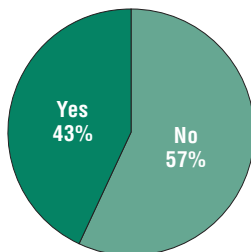
## Director Recruitment



Europe

**Has your board added a director with no prior board experience in the past three years?**

Forty-one percent of participants in Europe state their board has added an individual without previous governance experience within the past three years. Only 28 percent of those participating serving in Sweden state their boards added such a member.



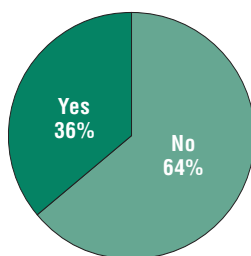
Europe

**Are you finding it more difficult to recruit high-quality directors?**

In Europe, only 43 percent of respondents indicate their board had difficulty in attracting qualified individuals for board service, a significant decrease from the 54 percent who reported this in 2005.

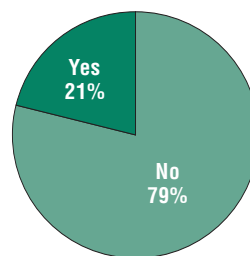
## Board Compensation

**Is there a requirement that directors own shares of company stock?**



Europe

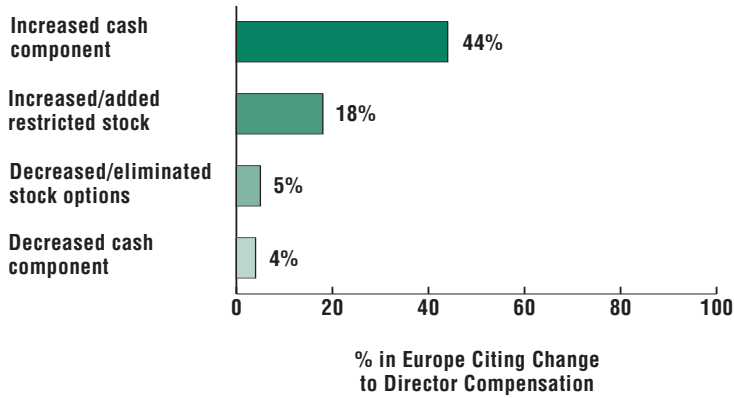
**Do you think the majority of a director's compensation should be in stock?**



Europe

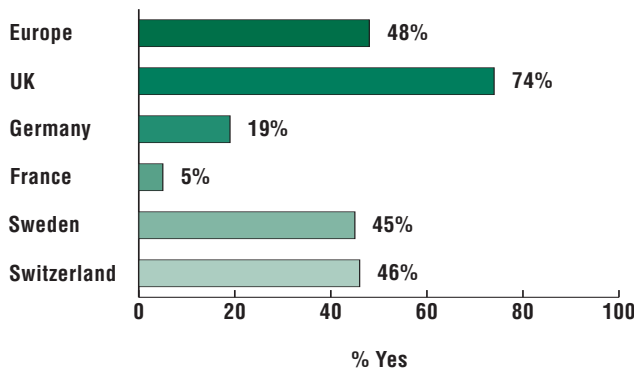
The debate concerning whether or not stock is an appropriate reward or incentive for directors continues, with the majority of respondents in Europe opposing the practice. Although experts tout equity as a means to align directors more closely with stockholder interests, only 36 percent of respondents serving on boards in Europe state they are required to own stock. Seventy-nine percent do not feel the majority of a director's compensation should be in stock.

If your director compensation plan has changed in the past 12 months, please indicate the nature of that change:



As was the case with their CEO compensation plans, 44 percent of directors reported an increase in cash in their compensation packages. Only four percent noted a decrease. Eighteen percent cited that there had been an increase or addition of restricted stock.

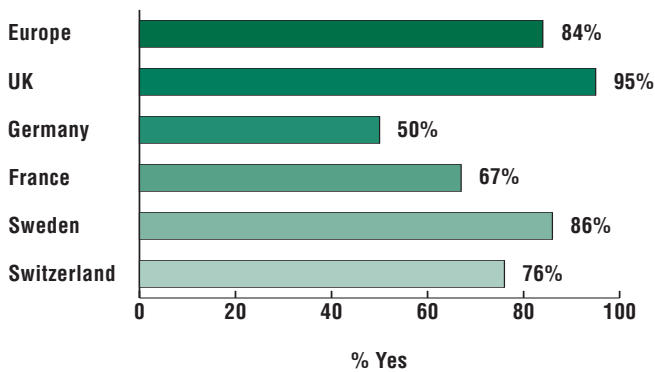
## Board Evaluations



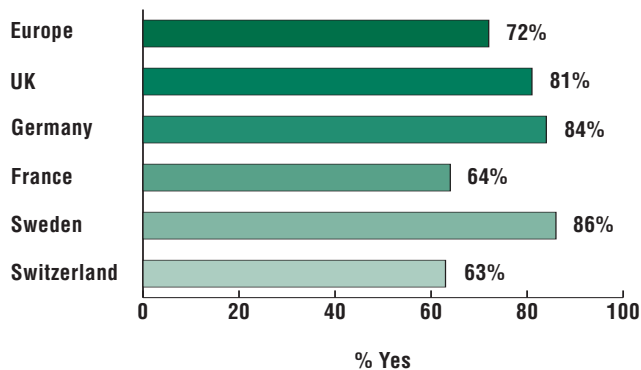
**Does your board evaluate individual directors on a regular basis?**

Participants sitting on boards in Europe are more readily incorporating individual director reviews than their peers in the Americas. Almost half of these directors (48 percent) state that their board conducts individual reviews of members regularly. In the Americas, only 38 percent of participants report this occurring. This practice is the most widespread in the United Kingdom with 74 percent of respondents indicating such evaluations are the norm.

**Should individual directors be evaluated regularly as to their performance?**



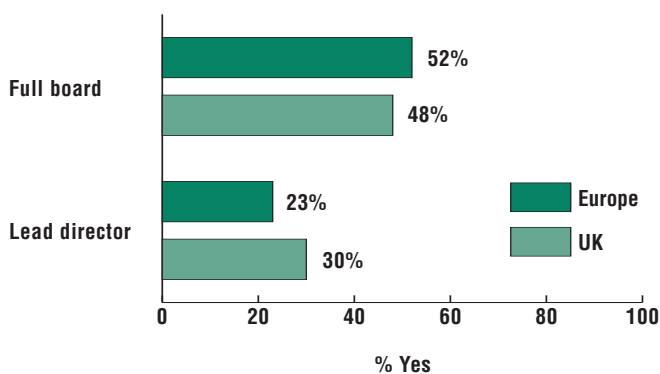
The majority (84 percent) of responding directors in Europe believe the practice has merit and should be implemented. Ninety-five percent of respondents in the United Kingdom endorse these individual reviews.



**Is the entire board's performance formally evaluated on a regular basis?**

Regular full-board reviews are standard procedure according to 72 percent of the respondents in Europe. Utilisation of these evaluations is highest in Sweden, where 86 percent of respondents report this practice. Boards of Swiss organisations seem the most reticent to conduct full-board reviews, with 63 percent doing so.

**Does the board have a formal process for evaluating CEO performance?**



More boards in Europe have formalised specific aspects of board operations, including performance reviews of the chief executive. Three-quarters (75 percent) of respondents state their boards have created a formal process to conduct CEO evaluations. The number reporting this structured approach (78 percent) is slightly higher in the United Kingdom.

Fifty-two percent of European respondents report their full board delivers the assessment.

However, using a one-on-one approach via the lead director seems to be gaining ground. Twenty-three percent of those surveyed report that their CEO receives feedback and guidance in a session with the board's lead director.

**Drivers to Board Success**

This year we have augmented the Board Study by including a detailed analysis of the elements that are necessary to generate board success. Given the core goal of this research - to understand global board governance practices and the differing trends across the regions - it is critical to our learning that we gain a perspective on what makes a board work well. We are able to do this by understanding not only how directors rate their current boards on specific performance criteria, but also how those perceptions link into their general evaluation of the board on which they sit. They may feel that their board is excellent at developing yearly goals, but is this criterion really important to driving a board's performance?

Using the performance criteria and the directors' overall evaluation of their board, we developed a hierarchy of the impact that these elements have on board success. With this information, we round out our understanding of how and why boards differ across regions. It also provides insight into what directors need to do to improve their board's functionality and efficacy.

**Primary Drivers:** These criteria have the highest impact and are considered essential to the overall success of a board.

- Individual and collective board action

**Secondary Drivers:** These criteria have a relatively high impact, are considered value added and would contribute to the overall success of a board.

- Develops yearly goals
- Has concise and targeted business plans
- Has a short-term and long-term vision

**Expected Drivers:** These criteria are elements expected of any board.

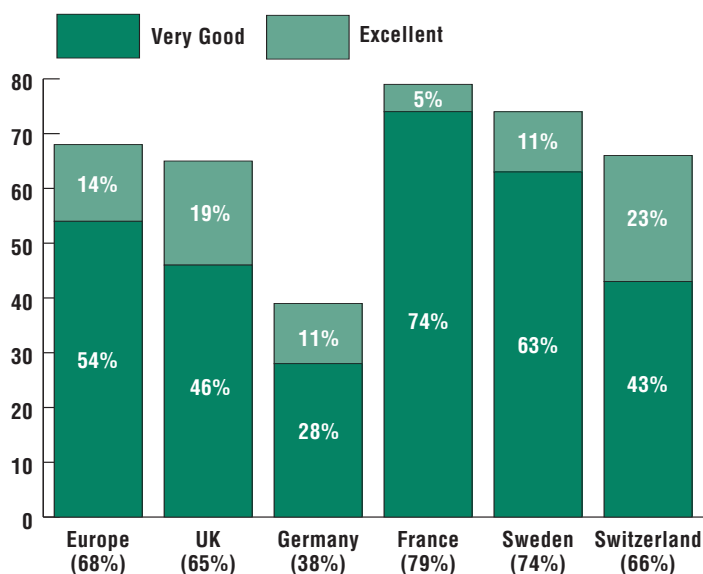
- Determines financing needs
- Ensures regular board member participation
- Cut unnecessary costs
- Ensures legal and ethical integrity

When examining the results of the Drivers analysis, some interesting comparisons can be made between Europe and the Americas. While directors in the Americas cite four criteria as primary drivers, responding directors in Europe list only one criterion: Individual and collective board action.

Perhaps a reaction to scandals and a punitive legal environment, directors in the Americas identify “Ensures legal and ethical integrity” as a primary driver while, interestingly, European board members categorise this as an expected driver.

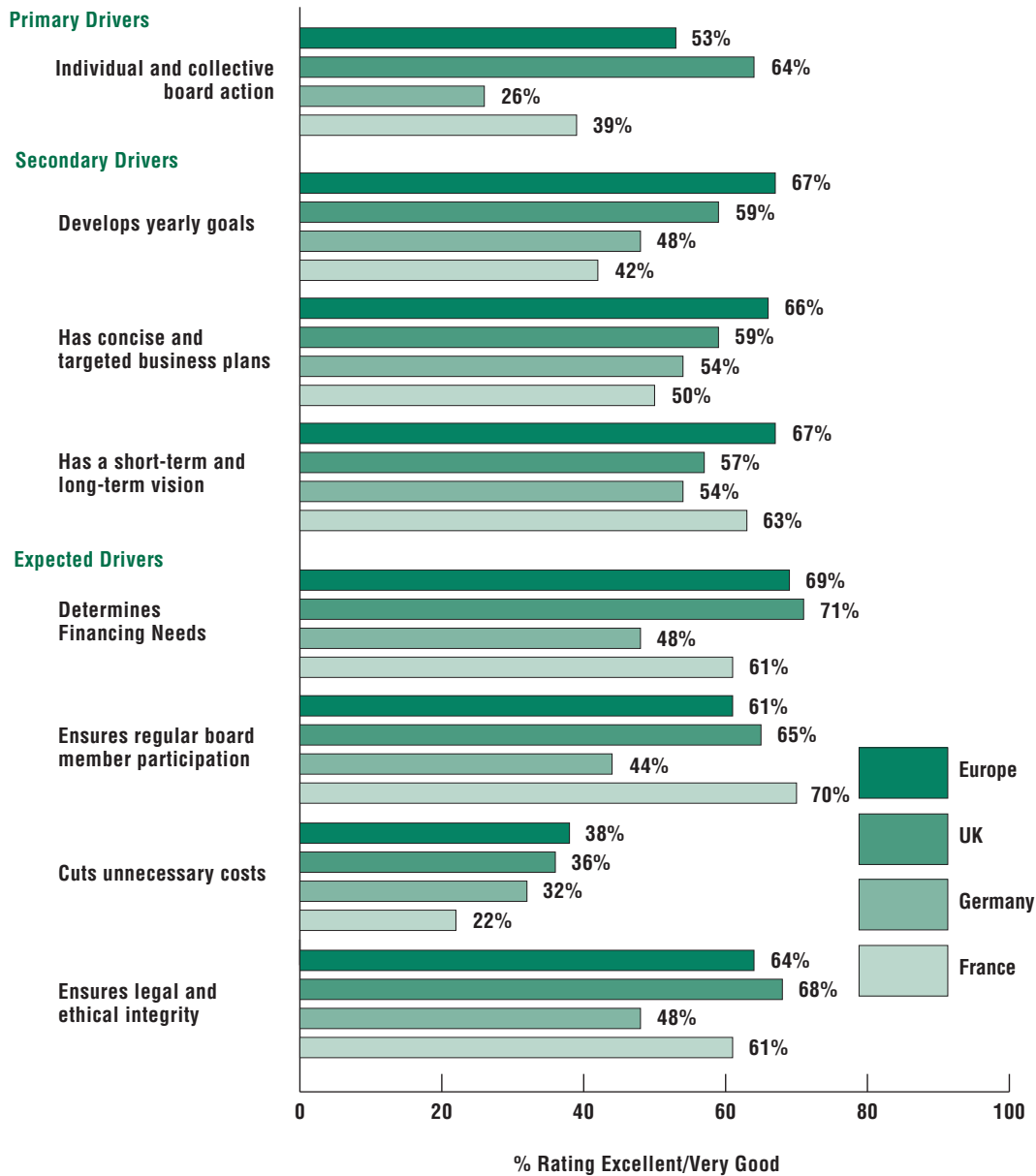
While “Having short- and long-term vision” is a primary driver contributing to the success of respondents sitting on boards in the Americas, this is seen as a value-added secondary driver in Europe.

**Compared with other boards on which you currently sit or have formerly sat on, how would you rate the board that you are now most actively involved with?**



Overall, the majority of responding directors in Europe view the boards on which they currently sit positively compared with their previous board experience. Participants in France and Sweden rate their boards the highest, with 79 percent and 74 percent respectively, giving them “excellent” or “very good” ratings. Only 39 percent of respondents in Germany gave such high marks.

Thinking about the board that you are most actively involved with, please rate it on the following performance criteria:



Knowing what drives board success enables us to look at how directors feel about their boards with regard to performance criteria.

The majority of surveyed directors in Europe rate their boards highly on the primary drivers of board success, with 53 percent believing their board deserves an “excellent” or “very good” ranking when it comes to individual and collective board action. Sixty-four percent ascribe this rating in the United Kingdom.

With regard to cutting unnecessary costs, only 38 percent of participating directors in Europe give this high rating. This, however, is not a criterion critical for board success and does not contribute much to performance perceptions.

## Cluster Analysis

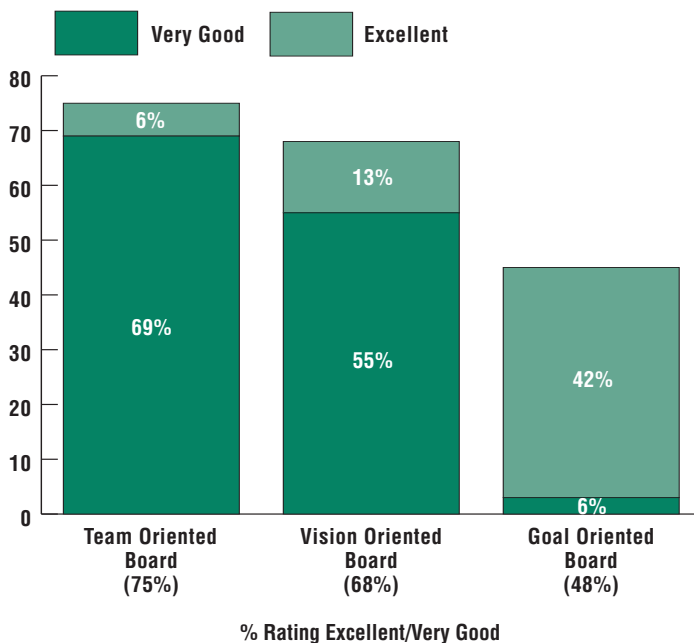
This year, participating directors throughout the Americas and Europe were categorised and analysed according to common attitudes. The manner in which they were categorised was based on their responses, hence the different classifications used for respondents in the Americas and in Europe. Due to some subtle differences in the questionnaires, we are unable to provide a cluster analysis for Asia Pacific.

### Europe

**Team Oriented Board** – characterised by its strong association with the primary driver to board success: individual and collective board action.

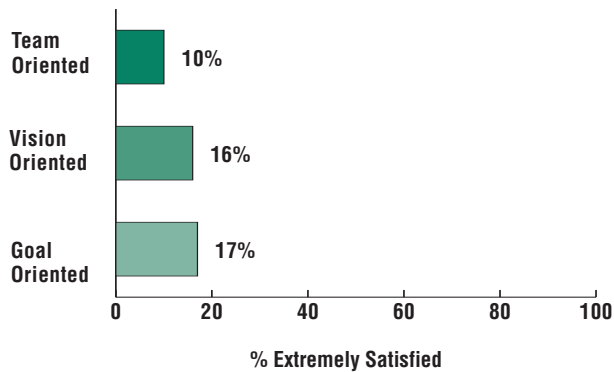
**Vision Oriented Board** – members attribute the success of a board to short-term and long-term vision and individual and collective board action.

**Goal Oriented Board** – board driven by concise and targeted business plans, established yearly goals, and individual and collective board action.



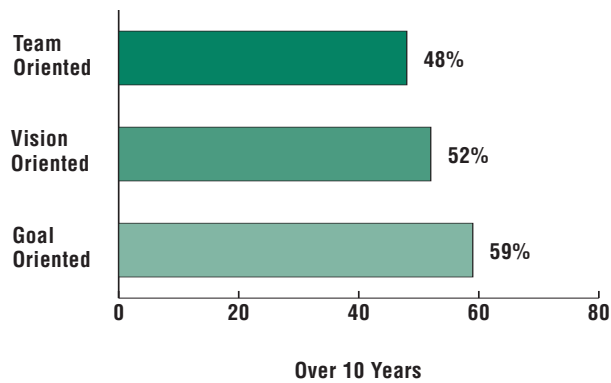
#### Compared with other boards that you currently sit on or have formerly sat on, how would you rate the board in which you are most actively involved currently?

A considerable amount of directors in each identified cluster award their individual board a rating of either “very good” or “excellent.” The most satisfied appear to be the “Team Oriented Board” members, 75 percent of whom rank their board this highly. A significantly lower number (45 percent) of directors sitting on “Goal Oriented Boards,” who focus on targeted plans and yearly goals, bestow this rating on their boards.



**How satisfied are you today as a director?**

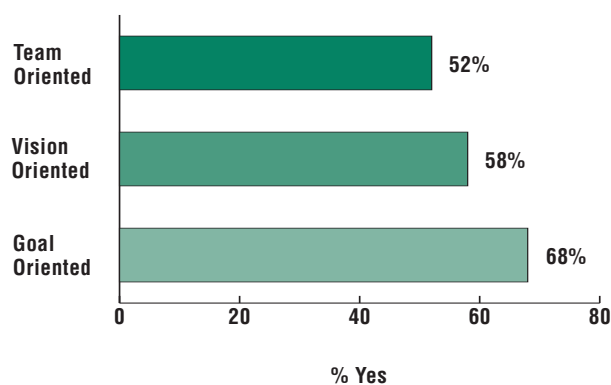
The highest number (17 percent) of directors reporting they are “extremely satisfied” with being a director are those who sit on “Goal Oriented Boards.” Similarly, sixteen percent sitting on “Vision Oriented Boards” say they are extremely satisfied, while only ten percent of those on “Team Oriented Boards” report this.



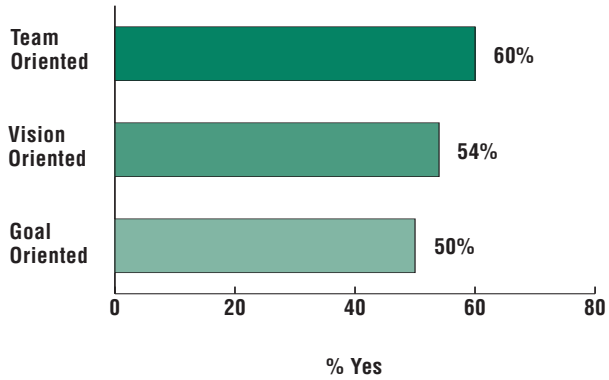
**How long have you served on any board?**

Fifty-nine percent of those sitting on “Goal Oriented Boards” state they have served more than 10 years on one board. Less than half (48 percent) of those on “Team Oriented Boards” report this tenure.

**Have you ever turned down a position because you felt the personal risk was too great?**

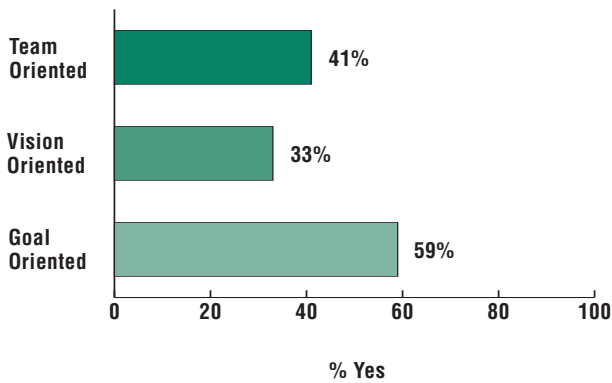


When asked about refusing a board seat, a higher number (68 percent) of directors sitting on “Goal Oriented Boards” report having previously turned down positions because of the associated personal risk. While still a significant number, only 52 percent “Team Oriented Board” members state they have declined for this reason.



**Has your company ever asked a director to resign or not stand for re-election?**

At least half of all respondents state their company has either asked for a director's resignation, not encouraged re-election or have insisted a board member resign if fired from their regular job. The largest number reporting this (60 percent) are directors who sit on "Team Oriented Boards."



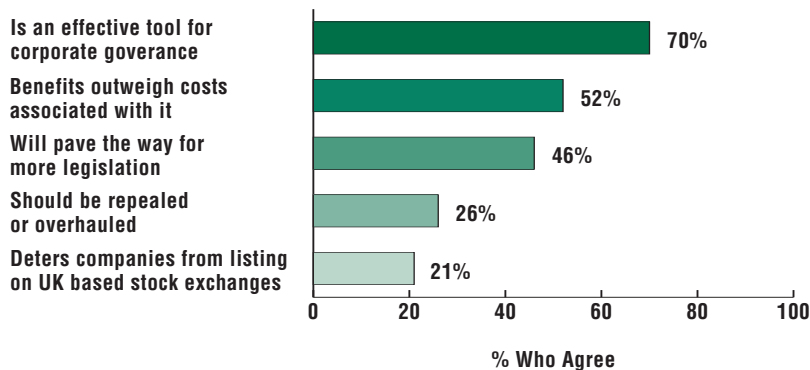
**Are you finding it more difficult to recruit high-quality directors?**

As performance expectations increase, the availability of qualified directors seemingly decreases. Fifty-nine percent of those responding who sit on "Goal Oriented Boards" say they are experiencing difficulties in recruiting qualified members.

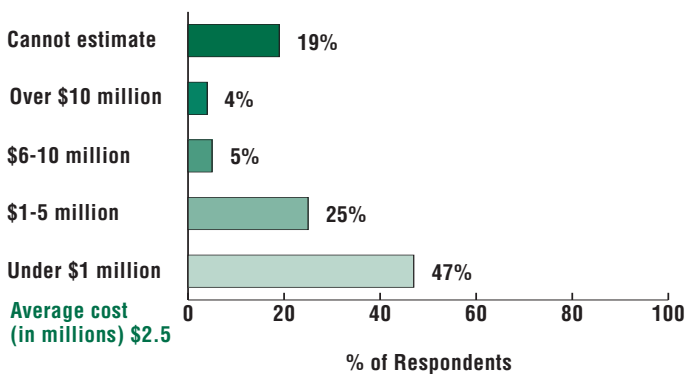
## Issues Specific to the United Kingdom

Revisions to the Combined Code of Conduct place additional responsibilities on non-executive directors, alter board and committee composition, and modify the roles of the CEO and chairman. Expectedly, the legislation did not fully satisfy all constituencies, particularly activist shareholders and governance experts who criticise the “comply or explain” provision. Undeterred, directors in the United Kingdom continue on in the interest of shareholders, accepting the more challenging duties delegated by the Combined Code.

Please rate the level of your agreement with the following statements relative to The Combined Code of Conduct?

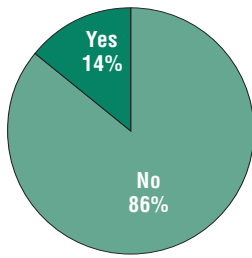


The Combined Code of Conduct is regarded as an effective governance tool by 70 percent of respondents serving on boards in the United Kingdom. Fifty-two percent of these directors strongly endorse it, believing the benefits outweigh the associated costs. However, there is concern over additional government involvement, with 46 percent stating The Combined Code is just the foundation for future legislation.



### What is the annual cost to your company of ongoing compliance requirements mandated?

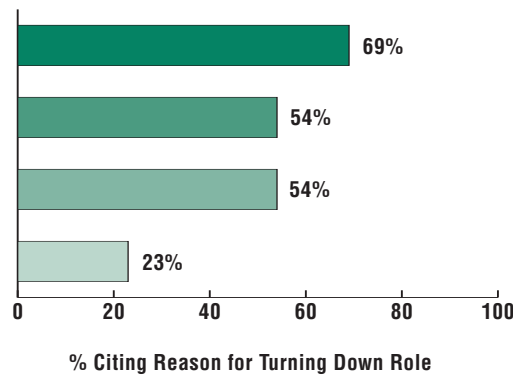
Implementing the mandates of The Combined Code of Conduct commands a significant annual outlay, an average of approximately £1.3 million (\$2.5 million). Almost half (47 percent) of those responding in the United Kingdom believe their organisation will spend up to approximately £520,000 (\$1 million) annually to comply with requirements. Nineteen percent were unable to estimate the total expenditure.



**Have you ever turned down a non-executive director role in a public company in favour of a private equity backed board role?**

Only 14 percent of surveyed directors reported having turned down a board role in a public company in favour of the private sector.

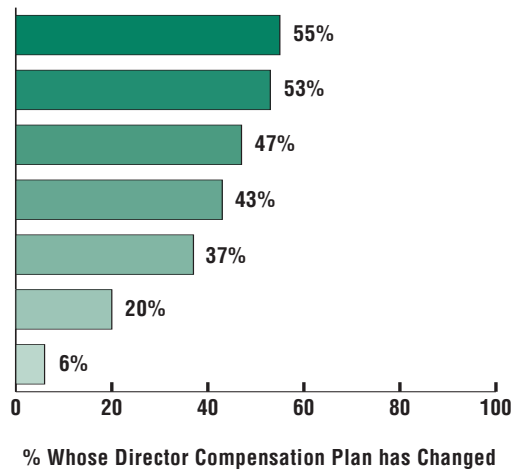
- Potential for higher earnings
- Opportunity for greater involvement
- Less corporate governance administration
- Less public scrutiny



**Which best describes why you turned down the non-executive director role in favour of a private equity backed board role?**

When asked the reasons for turning down a seat, 69 percent of respondents cited the potential for higher earnings. The opportunity to be more involved and the desire for less corporate governance administration were both reasons given by 54 percent of respondents.

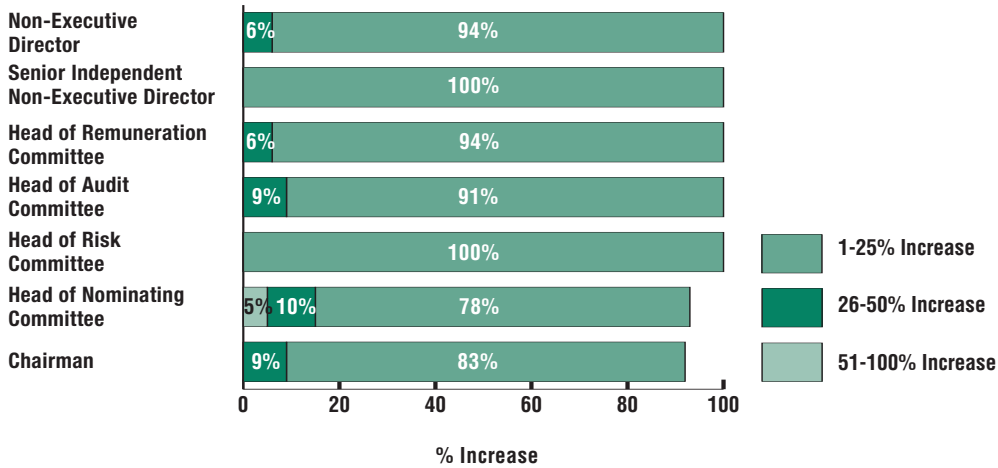
- Chairman
- Non-Executive Director
- Senior Independent Non-Executive Director
- Head of Audit Committee
- Head of Remuneration Committee
- Head of Nominating Committee
- Head of Risk Committee



**Has your director compensation plan changed in the past 12 months for each of the executives listed?**

Chairmen, non-executive directors, senior independent non-executive directors and heads of audit committees were the most likely to experience a change in compensation in the past 12 months.

Was this change an increase or a decrease in compensation, and by what percent?



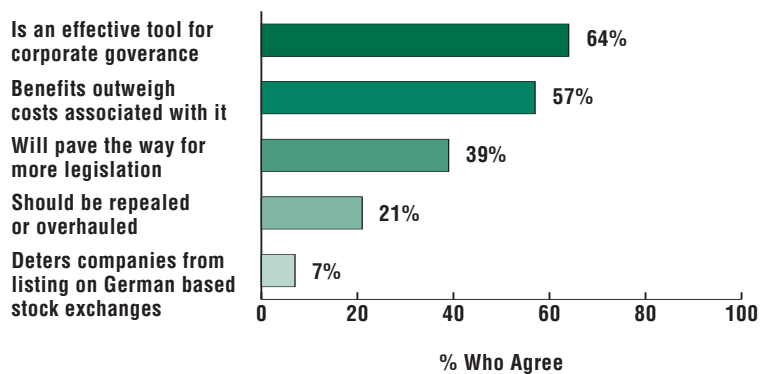
This year, of the respondents noting there had been a change in their directors’ compensation plan, the majority stated it was an increase rather than a decrease. Of the responding Non-Executive Directors, Senior Independent Non-Executive Directors, and the Heads of Remuneration, Audit and Risk Committees noting this change, 100 percent stated they had seen an increase. Of the Heads of Nominating Committees and Chairman who noted a change, 93 percent and 92 percent respectively, state that it was an increase.

For the majority, the percent of increase falls between one and 25 percent. However, a small percentage of the respondents do note the increase to be between 26 percent and 50 percent. Five percent of Heads of Nominating Committees note that they had seen an increase falling between 51 percent and 100 percent.

## Issues Specific to Germany

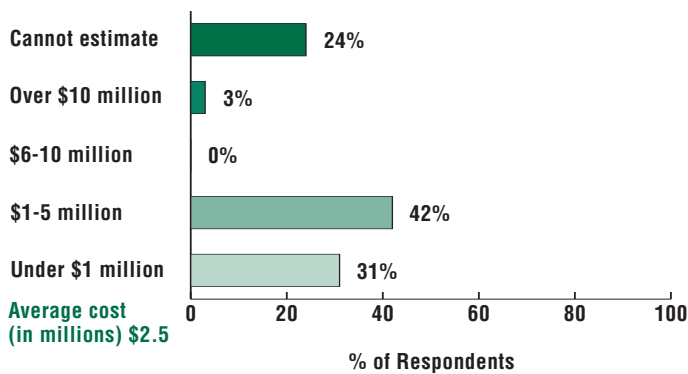
The directors of leading organisations in Germany have a unique set of communications challenges: educating foreign constituencies about the value of business practices specific to German organisations, while evolving governance to be in the best interests of shareholders. Opinions of German respondents regarding the Cromme Commission indicate that transparency and a two-tier system are not necessarily mutually exclusive.

### Please rate the level of your agreement with the following statements relative to the Cromme Commission?

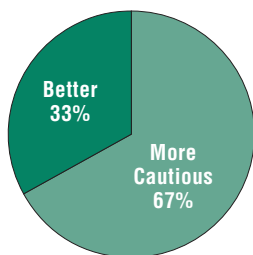


Surveyed directors in Germany support the evolution of long-standing governance practices and welcome recommendations from the Cromme Commission. Sixty-four percent hold the opinion that it is an effective governance tool and 57 percent believe the benefits outweigh the cost. However, 39 percent state they think this lays the groundwork for additional legislation and government mandates.

### What is the annual cost to your company of ongoing mandated compliance requirements?



Instituting the recommendations of the Cromme Commission comes at a significant price for German organisations, an annual average of €1.8 million (\$2.5 million). Forty-two percent of responding German directors estimate the cost falls between €755,000 and €3.8million (\$1-\$5 million). Twenty-four percent were unable to assign a monetary figure.



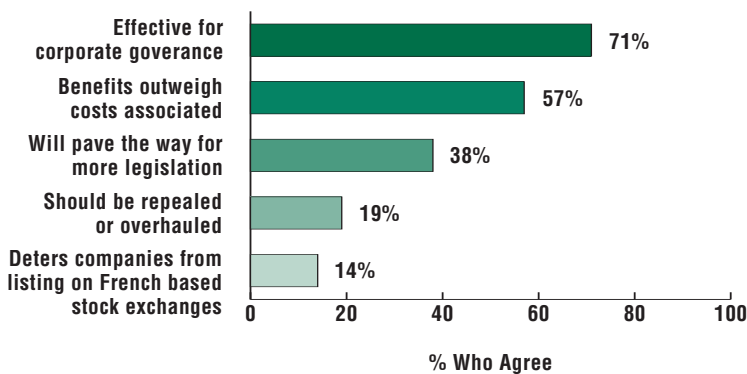
### Do Cromme Commission requirements make your board better or just more cautious?

The majority of respondents in Germany feel the Cromme Commission is an effective tool, yet do not see it as contributing to the improvement of its board. Sixty-seven percent believe that it only serves to make their board more cautious.

## Issues Specific to France

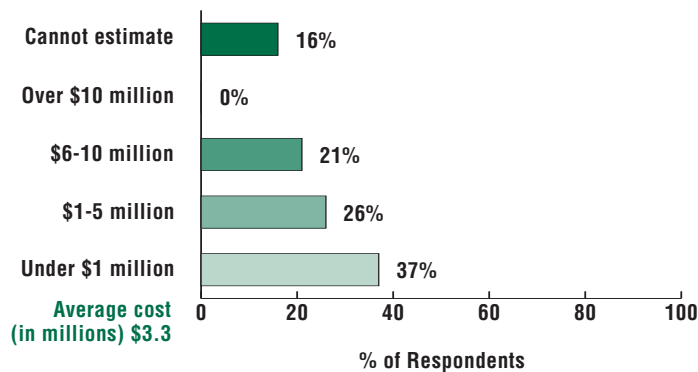
Attitudes toward the best practice guidelines in France demonstrated in this survey paint a progressive picture of governance. Responses from participants in France reveal their openness to evolution of governance and their dedication to improvement. These directors appear willing to incorporate practices that not only enable them to more effectively protect shareholder interests, but also compete in a global economy.

Please rate the level of your agreement with the following statements relative to the best practice guidelines?

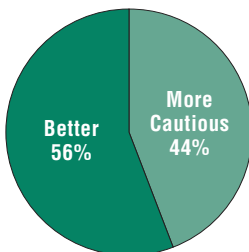


Surveyed directors in France exhibit a positive view of the guidelines set forth. Seventy-one percent regard them as effective for corporate governance and 57 percent think the benefits are worth the investment. Nevertheless, 38 percent of respondents feel they may have established a precedent which encourages government intervention in corporate governance.

What is the annual cost to your company of ongoing compliance requirements mandated?



French organisations must reportedly budget an average of €2.5 million (\$3.3 million) annually to comply with the directives of the best practice guidelines. Twenty-one percent of those surveyed state their company’s costs are double that amount, estimating the expense to be between €4.5- 7.6 million (\$6-10 million). Sixteen percent are unable to provide an estimate of the associated costs.

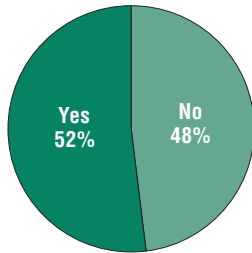


Do the best practice guidelines make your board better or just more cautious?

The majority (56 percent) of those surveyed in France state that their board has indeed improved as a result of implementing the best practice guidelines unlike their counterparts in Germany and Sweden who believe their governance mandates have only made their boards more cautious.

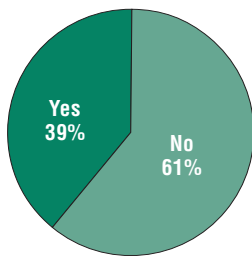
## Issues Specific to Switzerland

With a number of notable trials taking place in Switzerland, corporate governance issues are being broadly debated. As a consequence, we anticipate that the changes to the inner workings of boards will be both substantial and far-reaching.



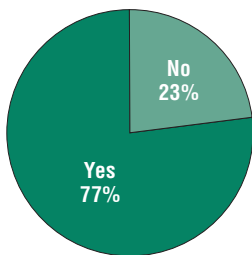
### Do you feel your board is working more independently this year as compared with past years?

As the world of governance continues to grow increasingly difficult, respondents in Switzerland are still divided as to whether their boards are working more independently now than in the past. This year, 52 percent of participants feel their board is indeed working more independently, only a three percent increase over last year.



### If your chairman is also the CEO, do you have an elected or appointed lead director among the outside directors who will preside at executive sessions and evaluate the CEO?

The majority (61 percent) of responding directors in Switzerland state they have not yet followed the Code of Best Practices' recommendation to appoint an outside director as lead director.



### Should a board elect or appoint an outside director as the lead director if it has an inside director as a chairman?

The majority (77 percent) of those surveyed actually believe that their board should indeed elect an outside director to serve as lead director.

## Conclusion

When the Hewlett-Packard's boardroom saga unfolded in September 2006, many dismissed it as another tale of egos colliding and unchecked paranoia. To identify and stop the source of press leaks, the board's chair employed an outside consultant, who obtained the personal phone records of all company directors. The method used, pretexting, is legally questionable and a prominent director resigned in outrage.

Such a break between the two was inevitable; the invasion of privacy merely the final straw. The two main "characters" in the drama seemed to operate in parallel universes.

In this context, one could easily conclude that differing viewpoints, experience, and background are the real culprits. Yet, such a simplistic pronouncement would veil the real story: the consequences of a board lacking a culture of shared values and focus.

Dedicated directors are not satisfied with merely building a board. A board is a community, requiring shared purpose, guidelines, and direction. To function optimally, members must contribute as much as individual experiences and talents allow, and consider what best benefits the the board. Only then can the extended community, the organisation and its constituencies, derive the maximum governance benefit.

For directors, the level of participation and satisfaction are inextricably linked. The Cluster findings from those surveyed in the Americas show that only seven percent of those serving on "Least Demanding Boards" are extremely satisfied compared with the 25 percent of peers on "More Demanding Boards." Similarly, those with the least amount of involvement have the greatest worry about their primary charge as fiduciaries, the long-term viability of the company. Almost one-third (32 percent) of "Least Demanding Board" members cite this as their major concern, compared with 21 percent of their peers serving on "More Demanding Boards."

Developing yearly goals, having concise and targeted business plans, and possessing a short-and long term vision are secondary drivers of success for respondents sitting on European boards. Directors embrace this level of participation, striving to execute duties to the best of their abilities. In evaluating the performance of their boards, of these three criteria, two-thirds of European respondents give their board an "excellent" or "very good" rating.

Involvement via significant experiences also deepens the awareness of a director's far-reaching influence. Only 21 percent of the Americas respondents serving on "Least Demanding Boards," see a relationship between their company's revenue and the contributions a board member can make. The majority of "More Demanding Board" members (51 percent) and "Single-Focused Board" members (52 percent) believe their actions influence the revenue stream.

Clearly, it is imperative that boards draw the most from their directors by harnessing the power of personality, intellectual capital, and the present individual leadership abilities. Many boards use individual reviews as a means to enhance the quality of contribution and interaction, a practice endorsed by the vast majority of directors worldwide. This exercise, which can include a peer review, facilitates the swift assimilation of directors new to board service, a phenomenon becoming more commonplace.

In addition, a degree of compatibility is essential; blind support is not. Exceptional director candidates are realistic about their abilities to engage fully in governance and compromising their integrity is not an option.

A significant number of respondents state they have refused a directorship because they did not agree with company policies. Many also state they did not want the additional responsibilities, perhaps because of existing leadership commitments.

This year's responses suggest that governance is entering a new era, one where strategy will be the focus rather than the implementation of oversight mandates. Contributions will continue to improve as directors refine their abilities to work together in committees and with the full board. And, stronger leadership and a cohesive board will only strengthen corporate performance, resulting in attainment of their primary goal: better protection of shareholders.

### Data Integrity

Korn/Ferry International retained Data Development Worldwide, LLC (or DDW), a leading marketing research firm based in New York, for survey preparation and data analysis, providing continuity of methodology for this global study. The firm uses state-of-the-art techniques in data collection, statistical analysis, and data visualisation.

DDW assures the integrity and validity of the data in this study. Survey results are presented with a +/- 3.5 percent margin of error at a 95 percent confidence level. The firm considers the directors surveyed and their responses to be sufficiently representative of the entire population in order to draw conclusions about this group. Korn/Ferry is grateful to DDW for their participation in this important study.

### About Korn/Ferry International

Korn/Ferry International (NYSE: KFY), with more than 70 offices in 40 countries, is a premier global provider of talent management solutions. Based in Los Angeles, the firm delivers an array of solutions that help clients to identify, deploy, develop, retain and reward their talent.

For more information on the Korn/Ferry International family of companies, visit [www.kornferry.com](http://www.kornferry.com).

### About the Global Board Services Practice

Since 1972, Korn/Ferry International has been a premier provider of director recruiting and corporate governance consulting. We understand the difficulties of assembling an effective, knowledgeable and cohesive board of directors prepared to meet growing demands for greater accountability and more effective board performance. The shortage of experienced directors, the tightening of governance policies and the desire on the part of corporations to diversify their boards have made the identification and recruiting of top-flight talent more challenging than ever.

We have a dedicated team of global professionals whose sole focus is recruiting for boards of directors for clients worldwide and whose depth and expertise on matters of corporate governance are unparalleled.

To purchase additional copies of this Study, please e-mail the Global Marketing Department at [global.marketing@kornferry.com](mailto:global.marketing@kornferry.com)

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