CHAPTER 5

Reporting and Disclosure

In this chapter we examine the communication of financial and nonfinancial information in an international setting. Much of the discussion addresses disclosure related to financial reporting for external users. We focus on selected topics and do not attempt to discuss every disclosure issue that applies to financial statement users, preparers, and financial professionals.

The relative importance of equity markets in national economies is growing and individual investors are becoming more active in those markets. As a result, public disclosure, investor protection, shareholder value, and stock market-driven forms of corporate governance are becoming increasingly important. Although disclosure practices vary from country to country, they are converging. However, important differences among countries will continue to affect many firms, particularly those that are not active in international capital or product markets.

Government regulators who seek to maintain or increase the credibility of their national capital markets also influence disclosure practices around the world. Stock exchanges have concluded that their continued growth and success depends on offering a high-quality market with effective investor protection. As a result, oversight by regulators and stock exchanges is increasing and disclosure requirements are becoming more stringent. The trend toward greater investor protection and enhanced disclosure will continue as stock exchanges face growing competition from each other and from less-regulated trading systems.

DEVELOPMENT OF DISCLOSURE

The development of disclosure systems closely parallels the development of accounting systems discussed in Chapter 2.[1] Disclosure standards and practices are influenced

[1] The terms *disclosure systems* and *accounting systems* overlap considerably. Often, as in Chapter 2 of this text, "accounting development" refers to the development of accounting standards and practices. "Disclosure development" as discussed in this chapter refers to the development of financial and nonfinancial disclosures presented in financial reports. We do not discuss disclosures made in press releases, although much of the discussion in this chapter applies to this area.

by sources of finance, legal systems, political and economic ties, level of economic development, education level, culture, and other factors.

National differences in disclosure are driven largely by differences in corporate governance and finance. In the United States, the United Kingdom, and other Anglo-American countries, equity markets have provided most corporate financing and have become highly developed. In these markets, ownership tends to be spread among many shareholders, and investor protection is emphasized. Institutional investors play a growing role in these countries, demanding financial returns and increased shareholder value. Public disclosure is highly developed in response to companies' accountability to the public.

In many other countries (such as France, Germany, Japan, and numerous emerging-market countries), shareholdings remain highly concentrated and banks (and/or family owners) traditionally have been the primary source of corporate financing. Structures are in place to protect incumbent management. Banks (which sometimes are both creditors and owners) and other insiders (such as corporate members of interlocking shareholder groups) provide discipline. These banks, insiders, and others are closely informed about the company's financial position and its activities. Public disclosure is less developed in these markets and large differences in the amount of information given to large shareholders and creditors vis-à-vis the public may be permitted.

Voluntary Disclosure

Managers have better information than external parties about their firm's current and future performance. Several studies show that managers have incentives to disclose such information voluntarily. The benefits of enhanced disclosure may include lower transaction costs in the trading of the firm's securities, greater interest in the company by financial analysts and investors, increased share liquidity, and lower cost of capital. One recent report supports the view that companies can achieve capital markets benefits by enhancing their voluntary disclosure.[2] The report includes guidance on how companies can describe and explain their investment potential to investors.

As investors around the world demand more detailed and timely information, voluntary disclosure levels are increasing in both highly developed and emerging-market countries. It is widely recognized, however, that financial reporting can be an imperfect mechanism for communicating with outside investors when managers' incentives are not perfectly aligned with the interests of all shareholders. In one classic paper, the authors argue that managers' communication with outside investors is imperfect when (1) managers have superior information about their firm, (2) managers' incentives are not perfectly aligned with the interests of all the shareholders, and (3) accounting rules and auditing are imperfect.[3] The authors state that contracting mechanisms (such as compensation linking managers' rewards to long-term share value) can reduce this conflict.

Evidence strongly indicates that corporate managers often have strong incentives to delay the disclosure of bad news, "manage" their financial reports to convey a more

---

[2] Financial Accounting Standards Board, *Improving Business Reporting: Insights into Enhancing Voluntary Disclosures*, www.fasb.org/brrp/BRRP2.PDF, 2001.
[3] See P. M. Healy and K. G. Palepu, "The Effect of Firms' Financial Disclosure Strategies on Stock Prices," *Accounting Horizons* (March 1993): 1–11.

positive image of the firm, and overstate their firm's financial performance and prospects. For example, executives face significant risks of being dismissed in firms whose financial or stock market performance is relatively poor. Seriously stressed firms may have a higher risk of bankruptcy, acquisition, or hostile takeover, leading to a management change. Also, the possible competitive disadvantage created when proprietary information is made public may offset the benefits of full disclosure.

Regulation (e.g., accounting and disclosure regulation) and third-party certification (e.g., auditing) can improve the functioning of markets. Accounting regulation attempts to reduce managers' ability to record economic transactions in ways that are not in shareholders' best interests. Disclosure regulation sets forth requirements to ensure that shareholders receive timely, complete, and accurate information. External auditors try to ensure that managers apply appropriate accounting policies, make reasonable accounting estimates, maintain adequate accounting records and control systems, and provide the required disclosures in a timely manner.

Although these mechanisms can strongly influence practice, managers occasionally conclude that the benefits of noncompliance with reporting requirements (e.g., a higher stock price due to inflated earnings) outweigh the costs (e.g., the risk of job loss and litigation resulting in criminal or civil penalties if the noncompliance is detected and reported). Thus, managers' disclosure choices reflect the combined effects of disclosure requirements and their incentives to disclose information voluntarily.

Regulatory Disclosure Requirements

To protect investors, most securities exchanges (together with professional or government regulatory bodies such as the U.S. Securities and Exchange Commission and the Financial Services Agency in Japan) impose reporting and disclosure requirements on domestic and foreign companies that seek access to their markets. These exchanges want to make sure that investors have enough information to allow them to evaluate a company's performance and prospects. Nowhere is this concern more evident than in the United States, whose disclosure standards generally are considered to be the most stringent in the world.

Stock exchanges and government regulators generally require foreign listed firms to furnish almost the same financial and nonfinancial information as that required of domestic companies. Foreign listed firms generally have some flexibility in regard to the accounting principles they use and the extent of disclosure. In many countries, foreign listed firms must file with the stock exchange any information made public, distributed to shareholders, or filed with regulators in the domestic market. However, many countries do not monitor or enforce this "cross-jurisdictional conformity of disclosure" requirement.

Shareholder protection varies substantially among countries. Anglo-American countries such as Canada, the United Kingdom, and the United States provide extensive and strictly enforced investor protection. In contrast, shareholder protection receives less emphasis in other parts of the world. For example, while China prohibits insider trading, its weak judiciary makes enforcement almost nonexistent. Shareholder protection codes in the Czech Republic, Mexico, and many other emerging-market countries also are rudimentary. Even in many developed countries, the concept of investor protection is of recent origin, and many commentators argue that it still is inadequate. For example, insider trading was not a criminal offense in Germany until the enactment of the Securities Trading Act 1994.

Frost and Lang discuss the twin objectives of investor-oriented markets: investor protection and market quality.[4]

- ***Investor Protection.*** Investors are provided with material information and are protected by monitoring and enforcing market rules. Fraud is inhibited in the public offering, trading, voting, and tendering of securities. Comparable financial and nonfinancial information is sought so that investors may compare companies across industries and countries.
- ***Market Quality.*** Markets are fair, orderly, efficient, and free from abuse and misconduct. Market fairness is promoted through equitable access to information and trading opportunities. Market efficiency is advanced by enhancing liquidity and reducing transactions costs. Quality markets are marked by investor confidence and they facilitate capital formation. Prices reflect investors' perceptions of value without being arbitrary or capricious.

Frost and Lang also outline four principles under which investor-oriented markets should operate:

1. ***Cost effectiveness.*** The cost of market regulation should be proportionate to the benefits it secures.
2. ***Market freedom and flexibility.*** Regulation should not impede competition and market evolution.
3. ***Transparent financial reporting and full and complete disclosure.***
4. ***Equal treatment of foreign and domestic firms.***

As Frost and Lang note, investor protection requires that investors receive timely material information and are protected through effective monitoring and enforcement. Disclosure should be sufficient to allow investors to compare companies across industries and countries. Furthermore, full and credible disclosure will enhance investor confidence, which will increase liquidity, reduce transactions costs, and improve overall market quality.

The U.S. SEC Financial Reporting Debate

The SEC generally requires foreign registrants to furnish financial information substantially similar to that required of domestic companies.[5] The SEC's financial reporting requirements are acknowledged to be the most comprehensive and rigorously enforced of any in the world. Whether the SEC's requirements help or hinder the SEC in meeting its regulatory objectives is widely debated. The SEC's reporting requirements are generally consistent with the objectives of investor protection and market quality. However, stringent reporting requirements may achieve the goal of

---

[4] Carol A. Frost and Mark Lang, "Foreign Companies and U.S. Securities Markets: Financial Reporting Policy Issues and Suggestions for Research," *Accounting Horizons* 10 (March 1996): 97.

[5] Foreign registrants' financial statements need not be prepared in accordance with U.S. GAAP if they are presented in accordance with another comprehensive body of accounting principles and are accompanied by a quantitative reconciliation to U.S. GAAP of net income, shareholders' equity, and earnings per share. Until 2007, this reconciliation requirement extended to International Financial Reporting Standards (IFRS). However, the SEC now accepts financial statements prepared using IFRS, as promulgated by the International Accounting Standards Board.

investor protection at the cost of reducing investment opportunities or imposing high transaction costs on investing.

Some commentators argue that the SEC's financial reporting requirements for foreign companies deter them from making their securities available in the United States.[6,7] As a result, it is claimed, U.S. investors are more likely to trade in markets such as the U.S. Over-the-Counter (OTC) market or overseas markets where liquidity may be relatively low, transaction costs relatively high, and investor protection less important than on the national exchanges in the United States. It then is argued that the SEC could provide U.S. investors with more investment opportunities within the regulated U.S. markets by relaxing its financial reporting requirements; this, in turn, would better balance the SEC's objectives of investor protection and market quality.

Others counter that the current accounting and disclosure system both protects investors and ensures the quality of U.S. capital markets.[8] Underlying this argument are the principles of full disclosure and equal treatment of foreign and domestic issuers. Indeed, the competitive strength of U.S. capital markets, including their substantial liquidity and high level of investor confidence, is often attributed (at least in part) to the SEC's existing disclosure system and vigorous enforcement. Research shows that cross-listing in U.S. markets can significantly reduce a foreign firm's cost of capital, particularly if the firm is from a country with weak shareholder protection.[9]

The implementation of the 2002 Sarbanes-Oxley Act (SOX) has been accompanied by new complaints about its Section 404 requiring the chief executives and chief financial officers of public companies (and their external auditors) to appraise and certify the effectiveness and adequacy of internal controls. Some foreign firms have delisted from U.S. stock exchanges (such as British companies Cable and Wireless and Rank Group). Others are apparently avoiding U.S. listings and choosing to list on other markets such as the London Stock Exchange.[10] This issue raises concerns similar to those about the SEC's reporting requirements. Sarbanes-Oxley has imposed significant new audit costs on companies (estimates range from 35 to 150 percent of pre-SOX audit fees). But the benefits of better auditing and more trustworthy financial statements are no less real.[11]

---

[6] See J. L. Cochrane, "Are U.S. Regulatory Requirements for Foreign Firms Appropriate?" *Fordham International Law Journal* 17 (1994): S58–S67; J. L. Cochrane, J. E. Shapiro, and J. E. Tobin, "Foreign Equities and U.S. Investors: Breaking Down the Barriers Separating Supply and Demand," *Stanford Journal of Law, Business and Finance* 1997.

[7] As discussed below, new regulations enacted by the 2002 Sarbanes-Oxley Act are also said to deter foreign companies from a U.S. listing. See John Rossant, "Who Needs U.S. Markets?" *Business Week* (February 16, 2004): 13.

[8] See Richard C. Breeden, "Foreign Companies and U.S. Securities Markets in a Time of Economic Transformation," *Fordham International Law Journal* 17 (1994): S77–S96; Pat McConnell,"Practical Company Experience in Entering U.S. Markets: Significant Issues and Hurdles from the Advisor's Perspective," *Fordham International Law Journal* 17 (1994): S120–S128; and remarks by SEC Commissioner Isaac C. Hunt, Jr. at the Second European FASB-SEC Financial Reporting Conference, Frankfurt, Germany (March 23, 2000), www.sec.gov/news/speech/spch363.htm.

[9] Luzi Hail and Christian Leuz, "Cost of Capital Effects and Changes in Growth Expectations around U.S. Cross-Listings," *Journal of Financial Economics* (September 2009): 428–454.

[10] See "404 Tonnes of Paper," *Economist* (December 18, 2004): 116; "Big Apple Blues," *Economist* (January 29, 2005): 73; "Escape from New York," *Accountancy Magazine* (April 2006): 52–53.

[11] There is empirical evidence that dispels the notion that SOX is responsible for recent delistings from the New York Stock Exchange. See Craig Doidge, G. Andrew Karoli, and René M. Stulz, "Has New York Become Less Competitive than London in Global Markets? Evaluation Foreign Listing Choices over Time," *Journal of Financial Economics* (March 2009): 253–277.

REPORTING AND DISCLOSURE PRACTICES

What do companies around the world actually disclose in their annual reports? Annual report disclosure practices reflect managers' responses to regulatory disclosure requirements and their incentives to provide information to financial statement users voluntarily. In many parts of the world, disclosure rules mean little, and monitoring and enforcement are largely absent. Insofar as disclosure rules are not enforced, the required disclosures are (in practice) voluntary, because corporate managers will not comply with disclosure rules if compliance is more costly than the expected costs of noncompliance. Therefore, it is important to clearly distinguish between disclosures that are "required" and disclosures that actually are made. It is misleading to focus on disclosure rules without also looking at actual disclosure practices.

For some types of disclosure (e.g., disclosures about material developments), managerial discretion plays such an important role that monitoring (and hence enforcement) is difficult. Therefore, these types of disclosure are more or less voluntary. Finally, disclosure rules vary dramatically worldwide in areas such as changes in equity statements, related party transactions, segment reporting, fair value of financial assets and liabilities, and earnings per share.

In this section we focus on (1) disclosures of forward-looking information, (2) segment disclosures, (3) social responsibility reporting, (4) corporate governance disclosures, and (5) Internet business reporting and XBRL. These disclosure and reporting items were selected because of their importance to financial statement users. For example, financial analysts and regulators have emphasized the importance of corporate disclosures of forward-looking information, such as that related to corporate goals and planned expenditures, and business-segment information. Governance disclosures have become important in recent years as a result of corporate scandals at Enron, WorldCom, Parmalot, Ahold, and other companies.

Disclosures of Forward-Looking Information

Disclosures of forward-looking information are considered highly relevant in equity markets worldwide. For example, the EU's Fourth Directive states that the annual report should include an indication of the company's likely future developments. The SEC's Regulation S-K requires companies to disclose presently known information that will materially impact future liquidity, capital resources, and operating results. As a third example, the Tokyo Stock Exchange "requests" management of listed firms to provide forecasts of sales, earnings, and dividends in their annual and semiannual press releases.

As used here, the term *forward-looking information* includes (1) forecasts of revenues, income (loss), cash flows, capital expenditures, and other financial items; (2) prospective information about future economic performance or position that is less definite than forecasts in terms of projected item, fiscal period, and projected amount;[12] and (3) statements of management's plans and objectives for future operations. These three categories of forward-looking information become more general as we move from (1) forecasts to (2) prospective information to (3) plans and objectives. Given that a primary aim of investors and analysts is assessing a

---

[12] For convenience we use the term *prospective disclosure* to refer to "softer" nonforecast disclosures.

company's future earnings and cash flows, it is reasonable to ask whether companies provide their own internal forecasts of such financial information. The practice is not very common, particularly precise forecasts. (Range forecasts are more common than precise forecasts, and directional forecasts [increase or decrease] are more common still.) One reason is that forecasts can be unreliable because they incorporate subjective estimates of uncertain future events. In addition, there can be legal repercussions for management if forecasts are not met. In the United States, the potential for lawsuits is a major deterrent to providing financial forecasts. However, as perhaps could be expected, vaguer forms of forward-looking information are more common. A study of 200 large public companies in France, Germany, Japan, the United Kingdom, and United States found that most of them disclosed information about management's plans and objectives. Softer, prospective information was also fairly common, but forecasts were much less common.[13]

An example is the forecast disclosure of Daimler, the German car company, in its 2008 annual report:

> Daimler anticipates a significant decrease in business volume in 2009. From the starting point of the currently projected unit sales, revenue is likely to be lower than in 2008 in all of the vehicle divisions. In the year 2010, we then expect at least slight growth in our business volumes, provided that the projected revival of automotive markets actually occurs. . . . . We anticipate further substantial burdens on the earnings of the Daimler Group and its divisions. . . . . With the help of our intensified efficiency-improving actions and the market success of our new products, we should be able to increase our earnings again in 2010.[14]

Segment Disclosures

Investor and analyst demand for information about firms' industry and geographic-segment operations and financial results is significant and growing. For example, financial analysts in the United States consistently request financial statement data disaggregated in much greater detail than it is now. International Financial Reporting Standards (IFRS) include highly detailed segment reporting requirements, as do accounting standards in many countries.[15] Segment disclosures help financial statement users better understand how the parts of a company make up the whole. After all, product lines and areas of the world vary in terms of risks, returns, and opportunities. A disaggregation by lines of business and geographic area should make for more informed judgments about the overall company.

Exhibit 5-1 presents the business segment and geographic area disclosure made in the 2008 Annual Report of Lafarge (a French firm). The business-segment

[13] Carol A. Frost and Kurt P. Ramin, "Corporate Financial Disclosure: A Global Assessment," in *International Finance and Accounting Handbook*, ed. Frederick D. S. Choi, 3rd ed. (New York: John Wiley, 2003), pp. 13–31.
[14] Refer to www.daimler.com/Projects/c2c/channel/documents/1677323_DAI_2008_Annual_Report.pdf (pp. 82–87) for Daimler's complete discussion of its outlook.
[15] See Lee H. Radebaugh and Donna L. Street, "Segmental and Foreign Operations Disclosure," in *International Finance and Accounting Handbook*, ed. Frederick D. S. Choi, 3rd ed. (New York: John Wiley, 2003), for a detailed discussion of segment and foreign operations disclosure.

EXHIBIT 5-1 Segment Disclosures by Lafarge

Consolidated Statements

Note 4 – Business Segment and Geographic Area Information

(a) Business segment information

	2008				
(million euros)	**Cement**	**Aggregates & Concrete**	**Gypsum**	**Other**	**Total**
STATEMENT OF INCOME					
Gross revenue	11,720	6,580	1,546	29	19,875
Less: intersegment	(809)	(7)	(25)	(1)	(842)
REVENUE	**10,911**	**6,573**	**1,521**	**28**	**19,033**
Operating income before capital gains, impairment, restricting, and other	2,964	623	36	(81)	3,542
Gains on disposals, net	228	(3)	—	4	229
Other operating income (expenses)	(294)	(70)	(9)	(36)	(409)
Including impairment on assets and goodwill	*(221)*	*(52)*	*(3)*	—	*(276)*
OPERATING INCOME	**2,898**	**550**	**27**	**(113)**	**3,362**
Finance costs					(1,157)
Finance income					216
Income from associates	15	4	13	(35)	(3)
Income taxes					(479)
NET INCOME					**1,939**
OTHER INFORMATION					
Depreciation and amortization	(700)	(260)	(80)	(36)	(1,076)
Impairment on assets and goodwill	(221)	(52)	(3)	—	(276)
Other segment noncash income (expenses) of operating income	10	—	(3)	(44)	(37)
Capital expenditures	2,109	556	144	77	2,886
Capital employed	25,547	5,503	1,484	731	33,265
BALANCE SHEET					
Segment assets	28,748	6,995	1,866	2,473	40,082
Of which investments in associates	*359*	*21*	*119*	*64*	*563*
Unallocated assets*					526
TOTAL ASSETS					**40,608**
Segment liabilities	2,601	1,273	398	1,958	6,230
Unallocated liabilities and equity**					34,378
TOTAL EQUITY AND LIABILITIES					**40,608**

*Deferred tax assets and derivative instruments.

**Deferred tax liability, financial debt, derivatives instruments, and equity.

Consolidated Statements

Note 4 – Business Segment and Geographic Area Information

	2007				
(*million euros*)	Cement	Aggregates & Concrete	Gypsum	Other	Total
STATEMENT OF INCOME					
Gross revenue	10,280	6,597	1,581	16	18,474
Less: intersegment	(824)	(11)	(25)	—	(860)
REVENUE	**9,456**	**6,586**	**1,556**	**16**	**17,614**
Operating income before capital gains, impairment, restricting, and other	2,481	721	116	(76)	3,242
Gains on disposals, net	156	10	—	30	196
Other operating income (expenses)	(128)	(38)	(32)	49	(149)
Including impairment on assets and goodwill	*(9)*	*(1)*	*(1)*	*(2)*	*(13)*
OPERATING INCOME	**2,509**	**693**	**84**	**3**	**3,289**
Finance costs					(652)
Finance income					126
Income from associates	13	14	19	(46)	—
Income taxes					(725)
NET INCOME FROM CONTINUING OPERATIONS					**2,038**
NET INCOME FROM DISCONTINUED OPERATIONS				**118**	**118**
NET INCOME					**2,156**
OTHER INFORMATION					
Depreciation and amortization	(578)	(258)	(73)	(32)	(941)
Other segment noncash income (expenses) of operating income	(22)	(9)	(15)	56	10
Capital expenditures	1,312	541	201	59	2,113
Capital employed	15,399	4,798	1,482	403	22,082
BALANCE SHEET					
Segment assets	18,094	6,065	1,854	2,027	28,040
Of which investments in associates	*115*	*57*	*103*	*56*	*331*
Unallocated assets*					268
TOTAL ASSETS					**28,308**
Segment liabilities	2,334	1,205	368	1,458	5,365
Unallocated liabilities and equity**					22,943
TOTAL EQUITY AND LIABILITIES					**28,308**

*Deferred tax assets and derivative instruments.

**Deferred tax liability, financial debt, derivatives instruments, and equity.

	2006					
(*million euros*)	**Cement**	**Aggregates & Concrete**	**Roofing[3]**	**Gypsum**	**Other**	**Total**
STATEMENT OF INCOME						
Gross revenue	9,641	6,449		1,632	14	17,736
Less: intersegment	(794)	(10)		(22)	(1)	(827)
REVENUE	**8,847**	**6,439**		**1,610**	**13**	**16,909**
Operating income before capital gains, impairment, restricting, and other	2,103	564		198	(93)	2,772
Gains on disposals, net	7	3		(8)	26	28
Other operating income (expenses)	(114)	(12)		(21)	25	(122)
Including impairment on assets and goodwill	*(3)*	*(1)*		*(19)*	—	*(23)*
OPERATING INCOME	**1,996**	**555**		**169**	**(42)**	**2,678**
Finance costs						(582)
Finance income						97
Income from associates	3	11		16		30
Income taxes						(630)
NET INCOME FROM CONTINUING OPERATIONS						**1,593**
NET INCOME FROM DISCONTINUED OPERATIONS			**(4)**			**(4)**
NET INCOME						**1,589**
OTHER INFORMATION						
Depreciation and amortization	(575)	(258)		(69)	(30)	(932)
Other segment noncash income (expenses) of operating income	(157)	(35)		(24)	142	(74)
Capital expenditures	931	436		222	50	1,639
Capital employed	15,209	4,585		1,433	163	21,390
BALANCE SHEET						
Segment assets	17,661	5,295		1,695	2,126	26,777
Of which investments in associates	*113*	*41*		*92*	*7*	*253*
Assets held for sale			2,733			2,733
Unallocated assets[1]						331
TOTAL ASSETS						**29,841**
Segment liabilities	2,316	1,174		365	1,791	5,646
Liabilities associated with assets held for sale			842			842
Unallocated liabilities and equity[2]						23,353
TOTAL EQUITY AND LIABILITIES						**29,841**

[1]*Deferred tax assets and derivative instruments.*
[2]*Deferred tax liability, financial debt, derivatives instruments, and equity.*
[3]*Discontinued operations.*

Consolidated Statements
Note 4 – Business Segment and Geographic Area Information

(b) Geographic area information

	2008			2007			2006		
(*million euros*)	**Revenue**	**Capital expenditure**	**Segment assets**	**Revenue**	**Capital expenditure**	**Segment assets**	**Revenue***	**Capital expenditure***	**Segment assets**
WESTERN EUROPE	**6,021**	**669**	**11,236**	**6,285**	**606**	**10,872**	**5,953**	**501**	**10,266**
Of which:									
France	*2,721*	*314*	*4,620*	*2,676*	*264*	*3,628*	*2,524*	*255*	*3,047*
United Kingdom	*1,191*	*141*	*1,846*	*1,487*	*196*	*2,707*	*1,387*	*127*	*3,100*
Spain	*671*	*89*	*1,554*	*703*	*47*	*994*	*672*	*33*	*1,000*
NORTH AMERICA	**4,270**	**477**	**7,339**	**4,780**	**485**	**7,177**	**5,116**	**562**	**7,296**
Of which:									
United States	*2,215*	*286*	*5,634*	*2,709*	*336*	*5,324*	*3,216*	*430*	*6,192*
Canada	*2,055*	*191*	*1,705*	*2,071*	*149*	*1,853*	*1,900*	*132*	*1,104*
MIDDLE EAST	**1,611**	**436**	**6,752**	**527**	**78**	**878**	**628**	**44**	**861**
Of which:									
Egypt	*504*	*62*	*2,998*	*65*	*24*	*158*	*64*	*3*	*142*
CENTRAL & EASTERN EUROPE	**1,761**	**329**	**2,352**	**1,467**	**290**	**1,992**	**1,014**	**112**	**1,552**
LATIN AMERICA	**968**	**130**	**1,393**	**876**	**114**	**1,502**	**796**	**74**	**1,446**
AFRICA	**2,373**	**469**	**6,280**	**1,911**	**261**	**1,904**	**1,801**	**178**	**1,795**
Of which:									
Algeria	*361*	*51*	*3,896*	*9*	*6*	*14*	*8*	*1*	*9*
ASIA	**2,029**	**376**	**4,730**	**1,768**	**279**	**3,715**	**1,601**	**168**	**3,561**
TOTAL	**19,033**	**2,886**	**40,082**	**17,614**	**2,113**	**28,040**	**16,909**	**1,639**	**26,777**

Only from continuing operations.

disclosure reveals the most recent three years' revenue, operating income, depreciation and amortization, capital expenditures, capital employed, segment assets, and segment liabilities for Lafarge's three main product lines. The geographic area disclosure shows three years' revenue, capital expenditure, and assets by regions of the world and selected countries. Lafarge also discusses its product and geographic markets in significant detail elsewhere in the annual report.

Social Responsibility Reporting

Increasingly, companies are being called upon to answer to a wide range of "stakeholders"—employees, customers, suppliers, governments, activist groups, and the general public—who have areas of concern other than the company's ability to create economic value. Social responsibility reporting refers to the measurement and communication of information about a company's effects on employee welfare, the local community, and the environment. It reflects a belief that companies owe stakeholders an annual accounting of their social and environmental performance just like the financial information they provide shareholders. More important, as suggested by the saying "What gets measured, gets managed," social responsibility reporting is a way to demonstrate corporate citizenship. For a variety of reasons, multinational corporations are working harder than ever to protect their reputations and the environment in which they do business. Corporate scandals such as Enron, WorldCom, and Parmalat have eroded trust in business organizations and prompted new regulations. Big companies are being watched more than ever—thanks to the Internet, embarrassing news anywhere can be published everywhere. Social responsibility reporting, once mostly a side-show, is now a central part of the communication that most large companies have with outsiders.[16] "Sustainability" reports that integrate economic, social, and environmental performance are referred to as "triple-bottom-line reporting" (profits, people, and planet). Moreover, to avoid criticism that the reporting is "green-washing" (i.e., a public relations ploy without substance), such information is increasingly being verified by independent third parties.[17]

Information on employee welfare has long been of interest to labor groups.[18] Particular areas of concern relate to working conditions, job security, equal opportunity, workforce diversity, and child labor. Employee disclosures are also of interest to investors in that they provide useful insights about a firm's labor relations, costs, and productivity.

Information disclosure regarding number of employees is of great interest to national governments. Number-of-employees disclosure by geographic area gives host governments information on the employment effect of multinational companies. Employee disclosure by line of business, in turn, helps identify those industries and activities that foreign direct investors find economically attractive. If there is a conflict

---

[16] See "Just Good Business: A Special Report on Corporate Social Responsibility," *Economist* (January 19, 2008): 1–24. It is said that concern over climate change is the single biggest driver in the growth of corporate social responsibility.

[17] Mel Wilson and Rosie Lombardi, "Globalization and Its Discontent: The Arrival of Triple-Bottom-Line Reporting, *Ivey Business Journal* 66, 1 (September/October 2001): 69–72. See also P. Engardio, "Beyond the Green Corporation," *Business Week* (January 29, 2007): 50–64.

[18] For many years, workers have been considered business partners in continental Europe, with worker participation in works councils mandatory in the large companies of many countries.

between the behavior of the investors and the goals of the host government—for example, if investors invest in operations that employ low-skill workers while the government seeks to expand high-skill employment—an alert government could take steps to encourage foreign investment in the desired direction. When combined with geographical and/or line-of-business reporting, employee disclosure by function enables governments and labor groups to examine whether employment practices of multinational companies are consistent with local laws and norms.

Environmental issues include the impact of production processes, products, and services on air, water, land, biodiversity, and human health. As an example, French listed companies are now required to publish the results of their environmental activities. Among other items, information must be given on:

- Water, raw material, and energy consumption, and actions taken to improve energy efficiency
- Activities to reduce pollution in the air, water, or ground, including noise pollution, and their costs
- Amount of provisions for environmental risks

Social responsibility reporting has its critics. For example:

> One problem with the triple-bottom-line is quickly apparent. Measuring profits is fairly straightforward; measuring environmental protection and social justice is not. The difficulty is partly that there is no single yardstick for measuring progress in those areas. How is any given success for environmental action to be weighed against any given advance in social justice—or, for that matter, against any given change in profits? And how are the three to be traded off against each other? . . . Measuring profits—the good old single bottom line—offers a pretty clear test of business success. The triple-bottom-line does not.
>
> The problem is not just that there is no one yardstick allowing the three measures to be compared with each other. It is also that there is no agreement on what progress on the environment, or progress in the social sphere, actually mean—not, at least, if you are trying to be precise about it. In other words, there are no yardsticks by which different aspects of environmental protection can be compared even with each other, let alone with other criteria. And the same goes for social justice. . . .
>
> The great virtue of the single bottom line is that it holds managers to account for something. The-triple-bottom line does not. It is not so much a license to operate as a license to obfuscate.[19]

Despite such criticisms, social responsibility reporting is now the norm among large multinational companies. A recent survey found that 80 percent of the world's largest 250 multinationals engage in such reporting, either in their annual reports or in separate sustainability reports. Reporting rates are highest among Japanese and U.K. companies and there was a sizable increase in social responsibility reporting by U.S. companies

[19] "The Good Company: A Survey of Corporate Social Responsibility," *Economist* (January 22, 2005): 14.

compared to earlier surveys. The Global Reporting Initiative guidelines, discussed next, are used by three-fourths of these companies as their framework for reporting. The survey also found that 40 percent of the companies have their reports audited, up from 30 percent three years earlier.[20,21]

Guidelines for sustainability reports have been issued by the Global Reporting Initiative (GRI), an independent institution affiliated with the United Nations Environment Programme. The GRI "G3" framework recommends the disclosure of performance indicators in the areas of:

- Economic performance, such as revenues, employee compensation, donations and community investments, and payments to capital providers and governments
- Environmental performance, such as energy consumption, water usage, and greenhouse emissions
- Social performance, specifically
  - Labor practices and decent work, such as employment numbers and employee turnover, labor/management relations, health and safety, training and education, and diversity and equal opportunity
  - Human rights, such as policies on nondiscrimination, child labor, and indigenous rights
  - Society, such as community impacts, anti-corruption policies, lobbying, and contributions to political parties and politicians
  - Product responsibility, such as customer health and safety, product and service labeling, advertising, and customer privacy[22]

Exhibits 5-2, 5-3, and 5-4 present examples of social responsibility reporting. They are taken from the 2008 Annual Report of the Swiss company, Roche. Exhibit 5-2 shows employment levels by region of the world and operating division. The disclosure also discusses turnover, diversity, and human rights. Exhibit 5-3 discusses health and safety issues, along with environmental protection concerns such as energy use, greenhouse gas emissions, ozone depletion, waste, and water use. Finally, Exhibit 5-4 is the auditor's report on Roche's sustainability reporting and a statement by the company's chief executive officer that Roche's sustainability reporting is aligned with GRI guidelines.[23]

Corporate Governance Disclosures

Corporate governance relates to the internal means by which a corporation is operated and controlled—the responsibilities, accountability, and relationships among shareholders, board members, and managers designed to meet corporate objectives. That is,

---

[20] *KPMG International Survey of Corporate Responsibility Reporting 2008* (October 2008), www.kpmg.com.

[21] Standards for the audit of financial information exist worldwide. However, few countries have assurance standards for sustainability reports. The Netherlands and Sweden are two European countries with such standards, while France has issued informal guidelines. For an overview of Europe refer to the Web site of the European Sustainability Reporting Association, www.sustainabilityreporting.eu.

[22] Global Reporting Initiative, *Sustainability Reporting Guidelines*, www.globalreporting.org/NR/rdonlyres/ED9E9B36-AB54-4DE1-BFF2-5F735235CA44/0/G3_GuidelinesENU.pdf.

[23] For further discussion and illustrations, see Helen Gernon and Gary K. Meek, *Accounting: An International Perspective*, 5th ed. (Boston: Irwin McGraw-Hill, 2001); and Carol Adams, Geoffrey Frost, and Sidney J. Gray, "Corporate Social and Environmental Disclosures," in *International Finance and Accounting Handbook*, ed. Frederick D. S. Choi, 3rd ed. (New York: John Wiley, 2003).

EXHIBIT 5-2 Employment Disclosure by Roche

People

'People are a core factor in our business success—we need people who are enthusiastic about their job and about their employer. This enthusiasm is infectious: our customers pick up on it, helping to build their trust in Roche.'

Wolfgang Troebs, General Manager of Roche Diagnostics Switzerland

Total Employees (FTE)

	2008
Number	80,080
Growth rate	+1.88%
Growth related to acquisitions	+1.01%

Employees by contract types (Headcount)

	2008	Variance
Permanent	78,216	5.2%
Temporary	2,184	–49.4%
Apprentices	931	20.1%
Full time	76,058	2.3%
Part time	4,342	0.6%

Employer of choice

Roche is determined to remain an employer of choice. We seek to attract, recruit and retain the right employees to drive the innovation on which our business is built.

Achieving this starts with our value proposition to current and prospective employees. Under the slogan 'Make your mark. Improve lives', our employer brand embodies what differentiates Roche from other employers. It presents us as a winning company offering opportunities for professional and personal growth in a collaborative and stimulating work environment. The new employer brand will be integrated in our 65 local career websites by the end of 2009.

Our Group values and leadership competencies, introduced in 2008, reinforce Roche's principles and the work environment we seek to offer. In 2009, these will be integrated into our talent management processes.

Employees (full-time equivalent , FTE) by regions | 2008

Other	1,634	*(4.0%)*
Asia	13,065	*(2.5%)*
Latin America	4,988	*(–0.4%)*
North America	25,823	*(4.3%)*
Europe	34,570	*(0.2%)*

Employees (FTE) by operating divisions | 2008

Other	535	*(18.6%)*
Genentech	11,029	*(–0.3%)*
Chugai	6,590	*(1.9%)*
Diagnostics	25,404	*(10.2%)*
Roche Pharmaceuticals	36,522	*(–2.8%)*

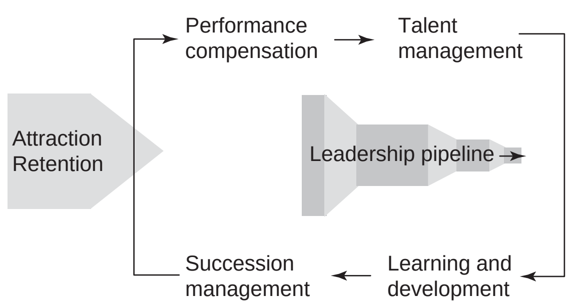
Talent management

At Roche, talent management helps us identify, recruit, develop, lead and reward employees. While the focus is on identifying employees for key positions, talent management involves developing the potential of all employees to help achieve our goals.

Our Corporate Executive Committee has identified talent management as the key people priority for Roche in 2009. We will drive and measure our progress in the areas of: attraction, retention, performance management, compensation, succession management, and learning and development.

Attraction | Competition for talent around the world is fierce. The size of the global working-age population in developed countries is decreasing and talented people from emerging markets are increasingly returning to their home countries. This shortage means that it is difficult to attract the right people.

Global standardized processes & systems



As an innovative, research-driven healthcare company, Roche operates in an industry that can have a direct benefit on the lives of millions of people worldwide. This aspect of our business can play a critical part in attracting and retaining the most motivated people. Our position as a leading multinational company, moreover, enables us to offer prospects in a growing industry with career opportunities globally.

Our careers website remains our widest-reaching and most effective tool for recruitment, with more than 10.6 million visitors in 2008.

The global careers site enables prospective and current employees to search for positions by role or by region. Roche uses the application in 37 countries to attract, source and hire candidates. In 2008 some 4,800 employees used this system to move to different positions within the Roche Group.

Approximately 65 percent of our total new hires were sourced externally. We have a talent pool of some 160,000 prospective candidates who have registered their details on our careers site.

Recruitment rate internal versus external | 2008
External 65%
Internal 35%

Career website opportunities (cumulative)

	2008	2007	2006
Registered people on the site	159,079	85,000	60,000
New employees recruited	9,192	4,100	1,700
Internal moves	4,830	451	

In 2008 we introduced a standardised recruiting process that will be rolled out across the organisation in 2009. This enables Roche to drive quality and consistency in recruiting across our operations, and helps us hire candidates in line with our renewed values and leadership competencies.

Overall, Roche had 9,192 new hires in 2008.

Retention I 2008 was a year characterised not only by acquisitions but also some significant optimisation and restructuring initiatives. Our Pharma division reduced their primary care sales force and optimised local operations such as finance, HR and other headoffice functions. Manufacturing reorganisations were also initiated in Latin America and the United States, with voluntary severance plans offered in the latter. Overall, such optimisation and restructuring initiatives accounted for 86% of employer-driven movements.

When dealing with acquisitions and reorganizations, we place an emphasis on our ability to retain valued employees. Roche offers support measures such as relocation, retention incentives and new career orientation support.

Turnover

	2008
Total	9.9%
Europe	9.5%
Latin America	14.3%
North America	10.4%
Asia	8.1%
Other	13.5%

Reasons for leaving

	2008
Employer-related	24%
Employee-related	56%
Neutral	20%

Compensation, benefits and well being | The total compensation package—pay and benefits—we offer makes a significant contribution to attracting and retaining talent within the Group. Equally important are long-term job stability, development opportunities and a good working environment.

Salaries at Roche reflect employees' contributions to the business. Pay rises and bonuses reflect business and personal performance—our 'Pay for Performance' philosophy encapsulates this. Regular benchmarks confirm that Roche offers competitive pension and benefits programmes to employees in most countries. These usually supplement local social security programmes and follow local market practices.

The remuneration packages offered by local affiliates are aligned with our Group remuneration policy, which was revised in 2004. In 2008 our total remuneration cost was 11.1 billion Swiss francs.

Through our Roche Connect programme, employees in most countries can purchase Roche's nonvoting equity securities at up to a 20% discount. In 2008 16,050 employees in 41 countries—36% of those eligible—participated in Roche Connect, up from 15,300 in 2007.

Nonvoting equity securities are awarded to managers, based on their performance, through the Roche Long-Term Plan, which was introduced in 2005. A total of 3,300 of them took part in 2008, with 880 joining for the first time.

In 2008 we moved from providing defined-benefit plans—which pay out depending on a formula defined by employees' salary, age at retirement and other factors—to defined-contribution plans—which pay out according to contributions and subsequent investments. Defined benefit plans are honoured for employees already enrolled.

We have a range of programmes to encourage our staff to look after their well-being. These include free medical check-ups, workplace ergonomic evaluations and counselling. Healthy options are available at staff restaurants.

We offer part-time, flexi-time and home-working options where appropriate. Approximately 5.4% of employees work part-time and sabbaticals are regularly arranged. Over the past year, Roche has introduced paternity leave in several countries and maternity leave is above the statutory minimum in several countries.

Performance and development | To help employees achieve their full potential, we provide regular feedback on their performance and encourage them to discuss career goals and development opportunities with their managers. In 2008 86% of our employees took part in performance management programmes and 57% in formal career development planning.

Staff performance and development is not just an employee responsibility but a management accountability. In 2008 performance management processes were reviewed to increase dialogue between managers and employees. Tight line management allows us to differentiate between high and low performers and give appropriate feedback to support employees' professional growth.

Succession management | Strengthening our talent pipeline is critical as we seek to maintain our competitive success and continue to drive a culture of innovation. In 2008 we introduced a corporate-wide approach to talent management, enabling us to nurture our high-potential employees.

Our talent framework provides us with a global approach to identify, develop and guide high-potential employees. The framework highlights talented individuals and provides access to a broad pool of employees that can take over key positions, in the short or long term.

Each step in the talent pipeline is supported by Group-wide development programmes. These programmes target the top 5% of our employees and amount to approximately 15% of total spending on learning and development.

Development opportunities are also offered through international assignments, helping to distinguish Roche as an attractive employer.

In 2008 approximately 440 employees were on long- or short-term international assignments in 50 countries. We want to ensure employees on international assignments perform successfully in their new surroundings. In 2008 we introduced cultural awareness courses to facilitate integration into the host country. Interactive training that gives employees the tools to understand the local culture from a social and business point of view were launched this year and will be rolled out widely in 2009.

We also established support programmes to help partners of employees on international assignments integrate in their new country. These programmes provide information about networks, clubs and other social organisations, and career support to enable a successful job search.

Our secondment programme gives employees the chance to work in capability and healthcare building programmes in developing countries for between 3 and 18 months. In 2008 two new secondments were approved.

Learning and development | Roche invested 139 million Swiss Francs in skills training and education in 2008 providing a total of approximately 2.4 million hours, or nearly 29 hours per employee.

Training includes technical skills programmes to meet compliance requirements, language courses, interpersonal skills training, individual coaching and programmes on leadership and change management.

Most training courses are run by the Global Functions/Business Areas or the individual affiliates and are tailored to meet local needs.

Some Roche affiliates offer comprehensive apprenticeships. Roche normally offers apprentices several alternatives, including temporary assignments, additional time at university, or a one-year internship with the company. Over half of the apprentices are hired by Roche when they finish their training. We currently have 931 apprentices working across the Group, including 156 new apprentices in 2008.

Diversity

'Having worked in different parts of the globe, I have experienced the value of diversity: it strengthens an organisation through the richness of ideas and opinions brought by people with different gender, ethnic or cultural origins.'

Pascal Soriot, Head of Commercial Operations Pharmaceuticals Division

A diverse workforce is critical to the success of a global company like Roche. Other than visible characteristics such as age, race and gender, diversity comprises experience, competencies and mindset. We believe that diversity promotes innovation. allows flexibility and inspires creativity to help Roche tackle future challenges.

We do not tolerate any form of discrimination. We foster inclusion by integrating diversity into our employee management systems.

Diversity flourishes in an environment where it exists and is acknowledged, is understood, valued and fostered, and is reflected in processes and structures.

We encourage employee diversity through formal training such as our Diversity Management Training programme and policies including the Prevention of Abuse of Power in the Workplace. We also embed inclusion into processes and daily activities.

In Basel, for example, we ensure diversity in the recruiting process through mixed gender interview panels. Ongoing improvements in family support and flexible work arrangements ensure a constant high return rate from maternity leave. For example, we opened our second day care centre in 2008 and now offer emergency day care support.

The number of women in key positions at all levels of the organisation continues to increase. In 2008, our Corporate Executive Committee welcomed its first female member, Silvia Ayyoubi, Global Head of Human Resources. Women account for 46% of our total workforce. In 2008 37% of our managers and 8% of senior managers (approximately the top 120 employees) were women, compared with 32% and 74%, respectively, in the previous year.

Gender diversity

	2008	2007	2006
Women in total workforce	46%	45%	45%
Women in management	37%	32%	31%[1]
Number (%) of women in top 120 management positions	9 (8%)	8 (7%)	4 (5%)

[1]Restated due to a reporting error in 2006 Annual Report

Being a woman has never been a career barrier to Vesna Cizej, Adriatic Management Centre Head and General Manager of Slovenia. We are all different. Intelligence is independent of race, gender and geography,' she says. 'And it is this strength of talent, with these combined differences that become the foundation for our success.'

Acknowledging diversity in Roche's workforce has allowed Vesna Cizej to adapt her leadership style to meet the needs of individual employees. She knows the importance of having an overall vision for her team but communicating that vision requires fine-tuning. 'You must be fully engaged in communicating that vision to every person in ways that are meaningful and motivational to them,' Vesna Cizej says.

Ultimately, it's all about what an employer offers its staff that keeps them inspired. At Roche, this is the opportunity to be part of something important. 'I can see where my contribution is making a real difference to people's lives. This renews the passion and energy I have for my work,' Vesna Cizej concludes.

Roche represents 139 nationalities worldwide. At our headquarters in Basel, more than half our employees do not originate from Switzerland. In the Roche affiliates, local nationals account for the majority of the workforce and for approximately 75% of their management teams. This helps to ensure that our Group policies and work reflect the diversity of our global operations.

Employee engagement

We communicate with our employees through features on our intranet and in internal newsletters, through town hall meetings and employee magazines in various languages. *Hexagon,* a worldwide employee magazine, appears quarterly in eight languages. It is also available on the Roche intranet.

We hold face-to-face lunch meetings seven or eight times a year where employees can meet members of the Corporate Executive Committee and senior managers, and ask questions. Employees from abroad can attend through live webcasts.

Human rights

Roche has a comprehensive Employment policy, which covers human rights as defined by the United Nations. The Group Compliance Officer monitors this policy throughout Roche and serves as a contact for all employees. At the end of 2008 Roche was among 230 companies recognised by Realizing Rights and Business and the Human Rights Resource Centre for our public commitment to human rights.

Roche respects the right of employees to freedom of association and collective bargaining. More than 6,600 of our employees represent their colleagues through unions memberships and over 26,160 are members of organisations that freely represent them, including the Roche Europe Forum (representing our employees across 26 countries).

Our directive on the protection of personal data protects information about employees and complies with the relevant local legislation. Where appropriate, we have negotiated data privacy agreements between different parts of the business or with works councils.

More on the web

- Employees: www.roche.com/employees
- Group policies, positions and guidelines: www.roche.com/policies_guidelines_and_posiitons
- Global careers portal: http://careers.roche.com/
- Employment policy: www.roche.com/employment_policy.pdf
- Core standards: www.roche.com/commitments

Source: 2008 Roche Annual Report

EXHIBIT 5-3 Safety and Environmental Disclosure by Roche

Safety, security, health and environmental protection

Safety, security, health and environmental protection (SHE) is integral to our business success. We take our responsibility in this area seriously throughout the lifecycle of our products. Our Corporate Principles and SHE Policy commit us to the highest standards of SHE. In 2008 we invested 218 million Swiss francs in SHE infrastructure and 295 million Swiss francs in SHE operating costs, including services and personnel.

SHE management

Everyone at Roche is responsible for ensuring the health and safety of themselves and those around them, and for minimizing the environmental impacts of our operations. We have a dedicated team of 619 full-time employees in the SHE departments across the Roche Group, including 30 people in the Corporate team, which coordinates SHE within Roche. The Corporate Security Officer appointed in 2007 within the SHE function has built up a network of local security officers to coordinate security activities across the business.

At local sites, we ensure the SHE policy and guidelines are implemented appropriately through individual site managers and SHE officers. 'Eco-delegates' working in the Diagnostics and Pharmaceuticals Divisions raise awareness of environmental issues among their colleagues.

SHE risks are identified and assessed across our businesses and affiliates, and listed in a web-based inventory. This enables us to evaluate risks and develop measures to mitigate them at Corporate level.

We monitor our SHE policy through regular site audits. In 2008 we audited 25 sites. No major deficiencies were uncovered. Most findings related to sites' risk analysis of processes requiring updates, insufficient training on emergency management or occupational hygiene assessments needing updates. We use the audits to improve our SHE performance. Recommendations are made to audited sites and their implementation is supervised by the audit team.

In 2008 we held our global conference of SHE officers to ensure our Roche Corporate SHE Policy, Guidelines and the revised Guidance notes issued in 2008 are being implemented appropriately. The conference also discussed progress towards our corporate SHE goals.

It is important for our employees to embrace our SHE standards throughout the Group. Site-specific training includes lectures and practical hands-on courses. In 2008 38,905 employees took part in 111,870 hours of SHE training.

Handling chemicals is an inherent risk in pharmaceutical and diagnostic research, development and manufacturing. Employees who handle chemicals as part of their role are trained to use them appropriately and we have published safety data sheets detailing the properties and the correct handling of over 1,000 specific chemicals.

Our three-yearly ECOmpetition encourages employees to suggest innovative ways to reduce our environmental impacts and our annual Responsible Care Network Awards ask individual sites to come up with solutions to improve energy efficiency and make them more environmentally friendly. These initiatives have led to a number of innovative proposals being implemented.

Health and safety

A safe and healthy workforce is essential to ensure employee wellbeing and productivity.

Goal: Reduce the Roche Accident Rate by 20% by 2010 to 0.079 from the 2005 baseline.

The Roche Accident Rate (RAR) measures the number of working days lost due to occupational accidents per employee per year.

In 2008 our RAR was 0.078. This represents a 2.6% increase from 2007, excluding a fatal traffic accident that year. We still remain on track to achieve our 2010 goal.

Health and Safety

	2008	2007	2006
Roche accident rate	0.078	0.076	0.083
Occupational accidents	474	482	473
Occupational illnesses	270	311	302
Work-related fatalities	0	1	0
Work-related accidents per million working hours	3.42	3.46	3.67

The number of accidents associated with contractors increased to 148. Due to the reduced number of hours worked by contractors, the associated injury frequency rate increased by 19.5%. Contractors working on our premises are obliged to follow the same safety rules as our employees.

Cases of occupational illnesses in 2008 dropped from 311 to 270 and the number of lost days reduced from 1,335 to 602. Diseases of the musculo-skeletal system accounted for more than two-thirds of these lost work days.

We strive to reduce the number and severity of occupational accidents and illnesses. All incidents are investigated and the relevant findings are communicated across the company.

Individual sites play a vital role in achieving the long-term global SHE goals we set in 2005. In 2008 sites followed up on action plans, which were developed at the SHE conference in September 2006 to help achieve the goals. The plans were assessed by Corporate SHE and the measures are continuously implemented.

Environmental footprint

We monitor our environmental footprint in research and production, packaging, transport and distribution during use and disposal.

Goal: Improve total eco-balance by 10% by 2015 from 2005 baseline (points/employee).

Performance: The environmental footprint of our business is calculated on the basis of the 'ecobalance' method designed by the Swiss Agency for the Environment (BAFU). The ecobalance reflects the total environmental impacts of our operations through the use of resources (raw materials and energy) as well as the generation of emissions and waste.

In 2008 our ecobalance was 4.95, an improvement of 3.9% from 2007. This reflects the reductions achieved across all environmental indicators, except for nitrous oxide air emissions and particulates, which have increased slightly this year. We are currently operating within our target ecobalance of 5.92 for 2015. To maintain this level we recognise the need to continuously cut resource use, and reduce the amount of waste and emissions we generate.

It is important to understand our environmental expenditure in relation to sales because this allows us to quantify the environmental impacts of our operations. We use this information to target our SHE investment in areas where we have the greatest impacts.

Our 'Eco-Efficiency Rate' (EER) combines data on energy use, waste, and emissions to air and water with expenditure on environmental protection and sales. A full explanation of the EER can be found on our website. In 2008, our EER was 77.95 an improvement of 16%

Eco-efficiency rate

	2008	2007	2006
Sales (in millions of CHF)	45,617	46,133	42,041
Environmental expenditure (in millions of CHF)	209	232	255
Environmental damage (in millions of environmental damage units)	2.80	2.96	3.30
EER	77.95	67.19	49.97

Energy and climate change

We aim to reduce energy use and emissions of green-house gases such as carbon dioxide (CO_2) from our operations.

Goal: Reduce total energy consumption by 10% by 2010 from 2005 baseline (GJ/employee)

Goal: Reduce greenhouse gas emissions by 10% by 2008 from 2003 baseline (CO_2 equivalent unit/sales)

Performance: In 2008 Roche used 13,662 terajoules of energy, a decrease of 2 terajoules from the previous year. This is equivalent to 0.718 gigajoules per employee, a slight decrease from 2007.

Energy use | terajoules

	2008	2007	2006
Total energy use	13,662	13,664	12,467
Total energy use per million CHF of sales	0.299	0.296	0.297
Total energy use per employee	0.178	0.179	0.174

Emissions from our energy use together with other greenhouse gas emissions totaled 1.06 million tonnes of CO_2 equivalent in 2008, an absolute increase on 1% from 2007. This rise in emissions despite lower energy consumption is due to increased car and plane travel.

Energy use by type in 2008 | %

Fuel used by company vehicles	9.9
Oil	1.7
Fuel due to business air travel	14.4
Waste	0.9
Grid electricity	29.0
District heating	3.9
Renewablse energy	0.5
Natural gas	39.7

Greenhouse gas emissions relative to sales have increased this year to 23.28 tonnes per million Swiss francs of sales. This equates to a total decrease of approximately 54.8% since 2003, which exceeds our 10% reduction goal by the end of 2008.

Greenhouse gas emissions | tonnes CO_2 equivalent

	2008	2007	2006
Total emissions	1,062,114	1,052,407	980,008
Total emissions per million CHF of sales	23.28	22.81	23.31

Our Group strategy for decreasing greenhouse gas emissions is guided by our position paper on Greenhouse Gases and Climate Change. The paper stresses the connection between CO_2 emissions and energy use and we are implementing measures to reduce energy consumption and improve efficiency.

We believe allowing individual sites to develop their own emissions reduction strategies maximises their efforts because they are the most familiar with local conditions. Sites are guided by our Group directive on energy conservation, which enforces a systematic approach. It includes energy efficiency standards on the design of new equipment and optimization of existing energy consuming items.

The directive requires site energy audits to be carried out. In 2008 we issued guidance to ensure a structured approach to these audits. They can be carried out by third parties or by the sites themselves. We select sites to be audited according to their circumstances and energy consumption. As a result, the audits may not cover an entire site but may concentrate on a particular system. We use the results to develop initiatives and goals to reduce future energy use.

One of the winning entries for the Roche Responsible Care Network Awards in 2008 came from our headquarters in Basel. By adjusting the site's air conditioning in IT rooms to a slightly higher temperature and a slightly lower humidity, energy use has been cut by 12% with no increased risk of damage to our IT equipment.

Some other entries shortlisted for the awards this year include:

- Roche Carolina: an energy monitoring system for data collection and data analysis allows the site to monitor, manage and optimise energy use
- Roche Burgdorf: a new heating system using wood pellets rather than fossil fuels will cut CO_2 emissions by 94%, with 28% of total energy used being renewable
- Roche Brussels: the new building includes special sun shading to prevent offices getting too hot in summer, use of rain water for toilet flushing and energy efficient lighting in the car park

We encourage employees to consolidate travel for several destinations into one trip. We invest in video and teleconferencing facilities and where travel is necessary, we promote the use of trains, rather than flights.

Changing the rules to invest in energy savings | In 2008 the World Business Council for Sustainable Development (WBCSD) exemplified Roche in a case study about our efforts to analyse the life-cycle costs and impact of energy efficiency investments. The WBCSD published the study to stimulate similar approaches in other companies. The paper highlights Roche's innovative method for calculating the value of energy-efficiency investments.

The WBCSD noted that converting the social, environmental and economic benefits over time into a single financial figure that can be compared to up-front costs is a valuable tool in promoting the business case for investment in energy-efficiency. Through this initiative, 'Roche has enabled managers throughout the business to rigorously assess the feasibility of energy efficiency investments and to pursue these opportunities for value creation.'

Ozone depletion

Halogenated hydrocarbons (such as CFCs and HCFCs) damage the ozone layer and affect the climate. Roche's directive on phasing out CFCs and HCFCs commits us to eliminate them from our cooling systems and fire extinguishing systems by 2010.

However, several projects to replace HCFCs in refrigeration units have been held up by the lack of accepted alternatives in some countries and reorganisation plans have put phasing-out projects on hold at important sites. The target date to eliminate these compounds has therefore been extended.

HFCs (hydrofluorocarbons) and PFCs (perfluorinated carbons), which are often used as replacements to HCFCs and CFCs, do not affect the ozone layer. However, they have considerable global warming potential and some are persistent in the atmosphere. We do not consider them to be a suitable long-term alternative and we aim to phase out these compounds by 2015. Appropriate plans are in place and investment projects are being implemented to meet this goal.

Ozone-depleting chemicals | tonnes

	2008	2007	2006
Halogenated hydrocarbons holdings	144.6	148.2	141.2
Halogenated hydrocarbons emissions	3.4	4.7	7.7

Emissions to air

Volatile organic compounds (VOCs) and particulates contribute to air pollution and smog, and nitrogen oxides (NO_x) and sulphur dioxide (SO_2) can contribute to acid rain. These emissions to air are included in our overall goal to reduce our total environmental impacts.

Performance: In 2008 our manufacturing processes and combustion plants emitted 213 tonnes of VOCs, down 11.3% from 2007. This means we surpassed our goal to reduce VOC emissions by 10% per tonne of unit sales from a 2003 baseline by 2008. Levels of particulates, NO, and SO_2 continue to fluctuate at a low level—with total emissions of 27 tonnes, 193 tonnes and ten tonnes, respectively, in 2008.

Emissions to air | tonnes

	2008	2007	2006
VOCs	213	240	281
Particulates	27	25	27
Nitrogen oxides	193	169	219
Sulphur dioxide	10	12	15

Waste

Roche's operations produce chemical waste that needs to be disposed of safely.

In 2008 our chemical waste amounted to 31,295 tonnes. This 18.0% decrease from 2007 reflects a smaller production volume. Incinerating this waste is the most responsible way to dispose of it, and the majority (96.8%) was dealt with in this manner.

Some waste streams originating from particular manufacturing processes can be reused by other companies. In 2008 we sold 4,940 tonnes of this waste. Our recycled chemical waste amounted to 13,811 tonnes, consisting mainly of solvents.

In 2008 we produced 42,823 tonnes of general waste, 145% more than the previous year. This considerable increase was mainly due to construction waste from building activities at different sites counting for approximately 25,000 tonnes. We incinerated 12.1% and sent 87.9% to landfill, mainly building rubble. We recycled 28,589 tonnes of general waste, down 9.8% from last year.

Landfill sites containing chemical waste from our premises are monitored regularly to make sure they do not pose a risk to human health or the environment. If necessary, landfills are sustainably remediated. We have made approximately 160 million Swiss francs available for such purposes.

Waste | tonnes

	2008	2007	2006
General waste produced	42,823	17,480	20,719
General waste per million CHF of sales	0.94	0.38	0.58
Chemical waste produced	31,295	38,167	51,155
Chemical waste per million CHF of sales	0.69	0.83	1.21

Water

Clean water is integral to Roche's manufacturing processes. In 2008 we withdrew 21 million m^3, for these purposes from various sources, approximately the same amount as last year.

The Global Reporting Initiative defines water consumption as the water used in products, cooling and air conditioning, and irrigation. We increased our consumption based on this definition by 4.3% from 2007 to 2.4 million m^3. We continually strive to reduce our water consumption globally.

Manufacturing processes often release contaminated wastewater as a by-product. We treat wastewater to ensure it is safe for the environment and humans before we release it into watercourses. We aim to increase our capacity to treat wastewater as our business continues to grow.

The extension of the biotechnological production at Roche in Penzberg, for example, required increased capacity to treat wastewater. We installed an innovative membrane technology that increases the capacity by 60% and requires less space and less energy than the previous installations. This solution was a winning entry in this year's Responsible Care Network Awards.

In 2008 we discharged 592 tonnes of organic material into water courses after treatment, a 7.6% decrease compared with 2007. Heavy metals such as chromium, copper and zinc can be removed from piping by wastewater. This year we released 545 kilograms of heavy metals, a decrease of 9.9% compared to 2007.

Water

	2008	2007	2006
Water withdrawn (million cubic meters)	21.0	21.0	22.1
Water used (million cubic meters)	2.4	2.3	4.3
Wastewater discharged to treatment plant (million cubic meters)	7.3	7.1	5.1
Organic matter discharged to watercourses after treatment (tonnes)	592	641	313
Heavy metals discharged to watercourses after treatment (kilograms)	545	605	1,086

Pharmaceuticals in the environment

Concerns have been raised about traces of pharmaceutical active ingredients detected in the environment. Current research shows that the quantities found in rivers, lakes and water supplies are generally far below the level at which they would have a therapeutic or adverse effect on human health or aquatic life in watercourses.

Manufacturing processes and improper disposal of unused medicines may lead to pharmaceuticals entering the environment but normal patient use is recognised as the main contributor. The risk of pharmaceuticals entering the environment is an important element of our life-cycle approach to environmental protection in product development.

Roche aims to minimise the release of pharmaceuticals into the environment wherever possible. All our manufacturing sites are designed and operated to ensure that, as far as practicable, active pharmaceutical ingredients are not discharged into the wastewater.

We offer financial incentives to encourage retailers and others in our value chain to return unused or outdated products. This ensures these are incinerated rather than disposed of in landfills. We promote new take-back programmes where they do not already exist.

In 2008 Roche published a global position statement on pharmaceuticals in the environment, outlining our intentions to monitor risks to human health and the environment.

We acknowledge that long-term effects of pharmaceuticals in the environment need to be researched further. We participate in international and local bodies dedicated to study the impact of trace chemicals, including pharmaceuticals, in surface and groundwater.

Compliance and incidents

Goal: Receive no significant SHE-related fines.

Performance: No significant fines have been reported for 2008.

The integrity of our business is compromised when we fail to comply with relevant legislation and regulations. Our Group policies often surpass local laws and regulations but as a minimum Roche is committed to comply with local requirements.

Some substances, as well as biological materials, used in pharmaceutical manufacturing are regulated because there is potential for them to be misused, for example in the production of narcotics, toxins or chemical weapons. We keep these substances in small quantities, under rigorous control and in line with all applicable legislation.

More on the web

- SHE performance: www.roche.com/key_figures_and_facts
- Safety, security, health and environmental protection: www.roche.com/environment
- Safety, security, health and environmental protection (SHE) policy: www.roche.com/reporting_and_indices
- Group fact sheets, positions, policies and guidelines: www.roche.com/policies_guidelines_and_positions

Source: 2008 Roche Annual Report

EXHIBIT 5-4 Auditor's Report on Sustainability Reporting by Roche

Independent Assurance Report

To the Corporate Sustainability Committee of Roche Holding Ltd, Basel ('Roche').

We have performed assurance procedures to provide assurance on the following aspects of the 2008 sustainability reporting of Roche.

Subject matter

Data and information disclosed with the sustainability reporting of Roche and its consolidated subsidiaries. excluding Chugai Pharmaceutical Co. Ltd. and Genentech Inc., for the year ended December 31, 2008 on the following aspects:

- The management and reporting processes with respect to the sustainability reporting and to the preparation of SHE and people key figures as well as the control environment in relation to the data aggregation of these key figures
- The SHE key figures in the tables on the pages 108 to 114 and some selected people key figures disclosed on the pages 100 to 105 of the Roche Business Report 2008

Criteria

- The Roche Group internal sustainability reporting guidelines based on the Responsible Care, Health, Safety and Environmental reporting guidelines published by the European Chemical Industry Council (CEFiC) and the 'Sustainability Reporting Guidelines G3' published on October 2006 by the Global Reporting Initiative (GRI)
- The defined procedures by which the SHE and people key figures are gathered, collated and aggregated internally

Responsibility and methodology

The accuracy and completeness of sustainability indicators are subject to inherent limitations given their nature and methods for determining, calculating and estimating such data. Our Assurance should therefore be read in connection with Roche's internal guidelines, definitions and procedures on the reporting of its sustainability performance.

The Roche Corporate Sustainability Committee is responsible for both the subject matter and the evaluation criteria. Our responsibility is to provide a conclusion on the subject matter based on our assurance procedures in accordance with the International Standard on Assurance Engagements (ISAE) 3000.

Main assurance procedures

Our assurance procedures included the following work:

- **Evaluation of the application of group guidelines** | Reviewing the application of the Roche internal sustainability reporting guidelines
- **Site visits** | Visiting selected sites of Roche's Pharmaceuticals and Diagnostics Divisions in Switzerland, France. UK, Canada, Mexico and Brazil. The selection was based on quantitative and qualitative criteria; Interviewing personnel responsible for internal reporting and data collection at the sites we visited and at the Group level to determine the understanding and application of the guidelines
- **Assessment of the key figures** | Performing tests on a sample basis of evidence supporting selected SHE and people key figures (Roche accident rate, energy consumption, CO_2 emissions related to energy consumption, general wastes, use of water, fines in relation to safety and environmental protection, headcount data, staff turnover, women in senior management positions and cost of training) concerning completeness, accuracy, adequacy and consistency
- **Review of the documentation and analysis of relevant policies and basic principles** | Reviewing the relevant documentation on a sample basis including group sustainability policies, management and reporting structures and documentation
- **Assessment of the processes and data consolidation** | Reviewing the appropriateness of the management and reporting processes for sustainability reporting Assessing the consolidation process of data at the Group level.

Conclusions

In our opinion

- The internal sustainability reporting guidelines are being applied properly
- The internal reporting system to collect and aggregate the SHE and people key figures is functioning as designed and provides an appropriate basis for its disclosure

Based on our work described in this report and the assessment of criteria, nothing has come to our attention that causes us to believe that the data and information mentioned in the subject matter and disclosed with the Sustainability Reporting in the Roche Business Report 2008 does not give a fair picture of Roche's performance.

Zurich, 23 January 2009
PriceWaterhouseCoopers AG
Dr. Thomas Scheiwiller Juerg Hutter

The Global Reporting Initiative sustainability reporting guidelines

As in previous years we have once again aligned our sustainability reporting to the guidelines of the Global Reporting Initiative (GRI).

For the second time, Roche is of the opinion that the A+ level of the GRI G3 guidelines applies to its Annual Report 2008. This was checked with and confirmed by the GRI.

Details of how we report against each indicator can be found at www.roche.com/reporting_and_indices

Severin Schwan

Source: 2008 Roche Annual Report

corporate governance is the system by which companies are directed and controlled. Among corporate governance issues are the rights and treatment of shareholders, the responsibilities of the board, disclosure and transparency, and the role of stakeholders.

Dallas provides a framework for understanding and assessing corporate governance mechanisms that exist in individual countries.[24] The four components of his framework are the market infrastructure, legal environment, regulatory environment, and informational infrastructure.

1. ***Market infrastructure*** includes ownership patterns (concentrated vs. dispersed), the extent to which companies are publicly listed, ownership rights, and the market for corporate control (takeovers). The structure of the board, traditions of board independence, and whether the chairperson and CEO roles are separated are related issues.
2. ***Legal environment*** includes the type of legal system and whether shareholder/stakeholders' rights are clearly defined and consistently and effectively enforced. Company laws and securities laws are part of the legal environment. Company laws cover how companies are formed and managed, and the rights and responsibilities of managers, directors, and shareholders. Securities laws relate to the issuance and trading of securities, including filing and disclosure requirements. In addition, general commercial laws are important in ensuring the rights of owners (including minority shareholders), creditors, and other stakeholders.
3. ***Regulatory environment*** is closely linked to the legal environment. Regulatory agencies are responsible for regulating markets to conform to existing laws. They ensure orderly and efficient markets and enforce public disclosure requirements.
4. ***Informational infrastructure*** pertains to the accounting standards used and whether they result in accurate, complete, and timely financial reporting. It also includes the structure of the auditing profession and professional standards for auditing practice and independence. The timely disclosure of reliable, publicly available information enables stakeholders to judge a company's governance effectiveness and its operating and financial performance.

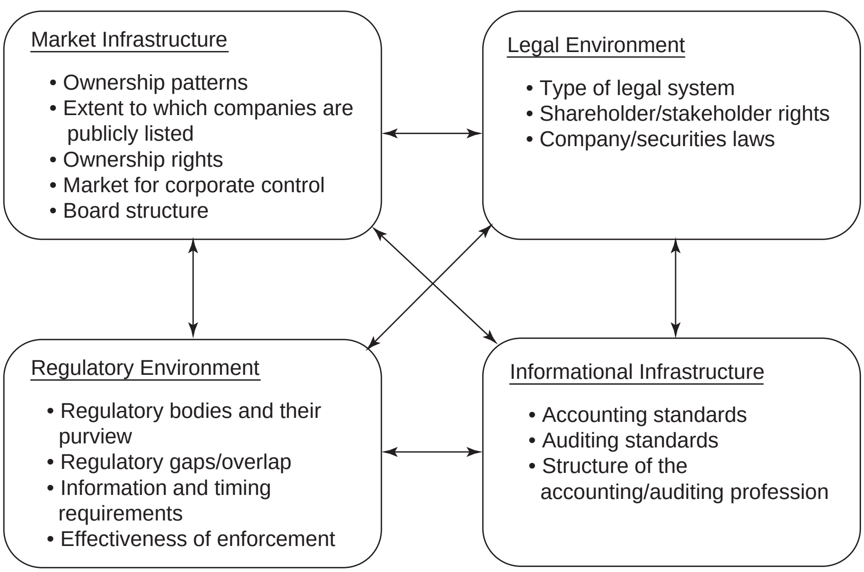
[24] George S. Dallas, *Governance and Risk* (New York: McGraw-Hill, 2004).

Exhibit 5-5 summarizes the relationships of Dallas's governance framework. Note that the four components are interconnected.

As implied by Exhibit 5-5, corporate governance structures and practices vary around the world, reflecting differences in culture, traditional sources of finance, patterns of corporate ownership concentration, and legal systems and frameworks. To illustrate, Exhibit 5-6 lists some broad generalizations about Germany and Japan on the one hand, and the United Kingdom and the United States on the other. Because of these differences, governance mechanisms are historically weaker in Germany and Japan than in the United Kingdom and United States. However, corporate governance is being improved in many countries around the world, including Germany and Japan, as companies' governance practices receive increased attention from regulators, investors, and analysts.

The United States, United Kingdom, and Australia are among the growing number of countries that require listed companies to make specific corporate governance disclosures in their annual reports. The EU Fourth and Seventh Directives (see Chapter 8) require publicly traded European companies to provide corporate governance statements. The Organisation for Economic Cooperation and Development (OECD, also discussed in Chapter 8) issued its revised *Principles of Corporate Governance* in 2004, enunciating six basic principles of corporate governance.[25] Disclosure and transparency are covered in the fifth principle, shown in Exhibit 5-7.

EXHIBIT 5-5 **Framework for Understanding Corporate Governance Mechanisms in Countries (Dallas 2004)**



[25] Organisation for Economic Cooperation and Development, *OECD Principles of Corporate Governance* (2004), www.oecd.org/dataoecd/32/18/31557724.pdf. The six principles are (1) ensuring the basis for an effective corporate governance framework, (2) the rights of shareholders and key ownership functions, (3) equitable treatment of shareholders, (4) the role of stakeholders in corporate governance, (5) disclosure and transparency, and (6) the responsibilities of the board.

EXHIBIT 5-6 Comparison of Germany and Japan vs. the United Kingdom and United States

Germany and Japan	United Kingdom and United States
• Consensus culture; cooperative relationships	• Competition; arm's-length relationships
• Network-oriented	• Market-oriented
• Bank-oriented: relatively more reliance on debt; stock exchange less important as source of finance	• Stock market-oriented: relatively more reliance on equity; stock exchange more important as source of finance
• Insider-dominated; concentrated ownership and relatively more influence of controlling shareholder(s)	• Outsider-dominated; dispersed ownership and relatively less influence of controlling shareholder(s)
• Stakeholder focused	• Shareholder focused
• Code (civil) law legal system	• Common law legal system

EXHIBIT 5-7 OECD Fifth Principle of Corporate Governance: Disclosure and Transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company.

A. Disclosure should include, but not be limited to, material information on:
  1. The financial and operating results of the company.
  2. Company objectives.
  3. Major share ownership and voting rights.
  4. Remuneration policy for members of the board and key executives, and information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board.
  5. Related party transactions.
  6. Foreseeable risk factors.
  7. Issues regarding employees and other stakeholders.
  8. Governance structures and policies, in particular, the content of any corporate code of policy and the process by which it is implemented.

B. Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and nonfinancial disclosure.

C. An annual audit should be conducted by an independent, competent, and qualified auditor in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly present the financial position and performance of the company in all material respects.

D. External auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit.

E. Channels for disseminating information should provide for equal, timely, and cost-efficient access to relevant information by users.

F. The corporate governance framework should be complemented by an effective approach that addresses and promotes the provision of analysis or advice by analysts, brokers, rating agencies and others, that is relevant to decisions by investors, free from material conflicts of interest that might compromise the integrity of their analysis or advice.

Source: OECD Principles of Corporate Governance (2004): 22–23 (www.oecd.org/dataoecd/32/18/31557724.pdf).

Disclosure is a key element in any system of good corporate governance. Exhibit 5-8 presents an example of a corporate governance disclosure from the annual report of the Swedish company Volvo. Included in its disclosure are statements about how governance is carried out, information about the board of directors, and a discussion of internal controls. Board of directors disclosures include the names of board members, how often the board meets, statements about independent directors, and the workings of the audit and remuneration committees. Volvo's disclosures are typical of many large multinational corporations.

EXHIBIT 5-8 Volvo Governance Disclosure

Corporate Governance Report

During 2008, the Board focused specifically on adapting the Group's operations to the present market conditions, initially to a very strong demand for the Group's products and during the second half to a significantly weaker development. The Board has furthermore focused specifically on issues pertaining to the continuous integration of newly acquired operations and on issues relating to the continuous renewal of the Group's product portfolio.

Corporate bodies in corporate governance

The governance and control of the Volvo Group is carried out through a number of corporate bodies. At the Annual General Meeting, the shareholders exercise their voting rights with regard, for example, to the composition of the Board of Directors of AB Volvo and election of external auditors. An Election Committee proposes candidates to serve as Board members, Board Chairman and external auditors. The Board is responsible for the Group's long-term development and strategy as well as controlling and evaluating the company's operations. In addition, the Board appoints the President of AB Volvo, who is also the Chief Executive Officer (CEO). The duties of the Board are partly exercised through its Audit Committee and its Remuneration Committee. The CEO is in charge of the daily management of the Group in accordance with guidelines and instructions provided by the Board.

The CEO is in charge of the daily management of the Group through primarily two different bodies, the Group Executive Committee and the business areas' and business units' Boards of Directors. The Group Executive Committee comprises those who report directly to the CEO. The Group Executive Committee meetings, which are led by the CEO, deal with Group-wide issues and issues affecting more than one business area/unit, and sharing of information concerning the Group's performance. The CEO or another member of the Group Executive Committee is the Chairman of the Boards of all business areas and business units and these comprise mainly of other members of the Group Executive Committee. The Boards of the business areas and business units effect control and follow-ups of business areas' and business units' financial development, business plans and goals as well as make decisions regarding, for example, investments.

Swedish Code of Corporate Governance

Volvo applies the Swedish Code of Corporate Governance, revised as of July 1, 2008 (the Code), in accordance with which this Corporate Governance Report has been prepared. The Board's report of the key aspects of the company's system for internal controls and risk management regarding financial reports is included as a special section of this Corporate Governance Report.

Between January 1, 2008 and December 31, 2008 Volvo did not deviate from any of the regulations set forth in the Code.

This Corporate Governance Report has not been reviewed by the company's auditors.

Election Committee

The Election Committee is the shareholders' body responsible for submitting to the Annual General Meeting the names of candidates to serve as Chairman and other members of the Board as well as proposal for fees and other compensations to be paid to the Board members. In the years in which election of auditors for Volvo shall be held, the Election Committee presents proposals for election of auditors and proposal for fees to be paid to the auditors based on the preparations carried out by Volvo's Audit Committee.

The Election Committee's proposal shall be presented to Volvo in sufficient time to be able to be included in the notice to attend the Annual General Meeting and at the same time to be published on Volvo's website. In conjunction with the notice to attend the Annual General Meeting is published, the Election Committee shall among other things comment on whether those persons who are proposed to be elected as Board members are to be considered as independent in relation to the company and company management as well as to large shareholders in the company and further to comment on their material assignments and holding of shares in Volvo. At Volvo's Annual General Meeting in 2007, new instructions for the Election Committee were adopted. According to these instructions, the Annual General Meeting shall select five members for the Election Committee, of which four shall represent the largest shareholders in the company, in terms of the number of votes, who have expressed their willingness to participate in the Election Committee. In addition, one of the members shall be the Chairman of the AB Volvo Board. Additionally, the Election Committee can offer other larger shareholders to appoint one representative as a member of the Election Committee. If such an offer is made, it should be directed in turn to the largest shareholder in terms of voting rights not already being represented on the Election Committee. The number of members on the Election Committee may not exceed seven however.

The Election Committee, which was appointed at Volvo's Annual General Meeting in 2008 in accordance with the new instructions, comprised Volvo's Chairman Finn Johnsson, Carl-Olof By, representing AB Industrivärden, Lars Förberg, representing Violet Partners LP, Anders Oscarsson, representing SEB Fonder / Trygg Försäkring and Thierry Moulonguet, representing Renault. The Election Committee elected Thierry Moulonguet as Chairman. Later during 2008, the Election Committee offered Svenska Handelsbanken together with SHB Pension Fund, SHB Pensionskassa, SHB Employee Fund and Oktagon and AMF Pension to appoint one representative each as a member of the Election Committee. Handelsbanken and others appointed Häkan Sandberg and AMF Pension appointed Christer Elmehagen. When Christer Elmehagen in December 2008 retired from AMF Pension, he also retired from the Election Committee.

The Election Committee has proposed reelection of Peter Bijur, Leif Johansson, Finn Johnsson (Chairman of the Board), Louis Schweitzer, Ravi Venkatesan, Lars Westerberg and Ying Yeh as members of the AB Volvo Board. In addition, the Election Committee proposed election for the first time of Jean-Baptiste Duzan and Anders Nyrén. Tom Hedelius and Philippe Klein have declined reelection.

The Board

In 2008, AB Volvo's Board of Directors consisted of nine members elected by the Annual General Meeting. In addition, the Board had three members and two deputy members appointed by employee organizations. The CEO, Leif Johansson, was a member of the Board.
During 2008, six regular meetings, one statutory meeting and one extraordinary meeting were held.

The Board has adopted work procedures for its activities that contain rules pertaining to the distribution of work between the Board members, the number of Board meetings, matters to be handled at regular meetings of the Board and duties incumbent on the Chairman.

In addition thereto, the work procedures contain directives concerning the tasks of the Audit Committee and the Remuneration Committee respectively. The Board has also issued

The Board's composition and attendance at meetings January 1, 2008, to December 31, 2008

	Board	Audit Committee	Remuneration Committee
Finn Johnsson	8		4
Peter Bijur	7	3	
Per-Olof Eriksson[1]	3	1	
Tom Hedelius	7		3
Leif Johansson	8		
Philippe Klein	5		
Louis Schweitzer	7		3
Ravi Venkatesan[2]	2		
Lars Westerberg	8	3	
Ying Yeh	7	3	
Martin Linder, employee rep.	8		
Olle Ludvigsson, employee rep.	8		
Johnny Rönnkvist, employee rep.	7		
Total number of meetings	**8**	**3**	**4**

[1] *Resigned from the Board in conjunction with the 2008 Annual General Meeting.*
[2] *Elected to the Board at the 2008 Annual General Meeting.*

written instructions specifying how financial information should be reported to the Board as well as the distribution of duties between the Board and the President.

The Annual General Meeting decides on the fees to be paid to the Board members elected by the shareholders. The Annual General Meeting held on April 9, 2008 approved a total fee to the Board, for the time until the end of the next Annual General Meeting, of SEK 5,725,000 to be distributed among the Board Members according to the following. The Chairman of the Board should receive a fee of SEK 1,500,000 and each of the remaining members should receive a fee of SEK 500,000, with the exception of the President. In addition, the Chairman of Audit Committee should receive SEK 250,000 and the other two members of the Audit Committee SEK 125,000 each and the members of the Remuneration Committee SEK 75,000 each.

During the year, the Board reviewed the business plans and strategies for the various businesses in the Volvo Group. The Board also reviewed the financial positions of AB Volvo and the Volvo Group on a regular basis and acted in order to ascertain that there are efficient systems in order to follow-up and control the business and financial position of the Volvo Group. In connection therewith, the Audit Committee was responsible for preparing for the Board's work to assure the quality of the company's financial reporting through reviewing the interim reports and the annual report. In connection therewith, the Board met with the company's auditors during 2008. The Board continuously evaluated the performance of the CEO.

During 2008, the Board focused specifically on adapting the Group's operations to the present market conditions; initially to a very strong demand for the Group's products and during the second half to a significantly weaker development. The Board has furthermore focused specifically on issues pertaining to continuation of the integration of newly acquired operations and on issues relating to the continuous renewal of the Group's product portfolio.

The Board's work is mainly performed through Board meetings and through meetings in the respective committees of the Board. In addition thereto, the Chairman of the Board is in regular contact with the CEO in order to discuss on-going business and to ensure that the decisions taken by the Board are executed. An account of each Board member's age, main education, professional experience, assignments in the Company and other important board memberships, own and related parties ownership of shares in Volvo as of March 4, 2009, and the years of membership on the Volvo Board, is presented on the Board and auditors page.

During 2008, the Board performed its yearly evaluation of the Board's work. The Chairman has informed the Election Committee on the result of the evaluation.

Independence requirements

The Board of Directors of Volvo must meet independence requirements pursuant to the rules of the OMX Nordic Exchange Stockholm (the "Stockholm Exchange"), and the Code. Below follows a short description of the rules of the Stockholm Exchange and the Code. The independence requirements mainly mean that only one person from the company's management may be a member of the Board, that a majority of the Board members elected by the General Meeting shall be independent of the company and the company management and that at least two of the Board members elected by the General Meeting that are independent from the company and the company's management shall also be independent of the company's major shareholders. In addition, the Code demands that a majority of the members in the Audit Committee shall be independent of the company and the company management and that at least one member shall be independent of the company's major shareholders. A member of the Board who is a member of the company management shall not be a member of the Audit Committee. With regard to the Remuneration Committee, the Code sets the requirement that members of the Remuneration Committee, with the exception of the Board Chairman if a member of the Remuneration Committee, shall be independent of the company and company management.

Considering the above demands regarding the Board's independence, the Election Committee has reported to the company the following understanding about the independence from the company and the company management as well as the company's largest shareholders with regard to the Board members who were elected at the Annual General Meeting in 2008:

Finn Johnsson, Peter Bijur, Tom Hedelius, Philippe Klein, Louis Schweitzer, Ravi Venkatesan, Lars Westerberg and Ying Yeh are all independent from the company and company management.

Leif Johansson, as Volvo's CEO, is not independent from the company and company management.

Louis Schweitzer and Philippe Klein are Chairman of the Board and employee, respectively, of Renault and represent Renault on the company's Board of Directors. Since Renault controls more than 10% of the shares and votes in Volvo, these persons may not, pursuant to the Code and the rules of the Stockholm Exchange, be considered as independent in relation to one of the company's major shareholders.

Also the Election Committee must meet independence requirements pursuant to the Code. According to the Code the majority of the members of the Election Committee are to be independent of the company and the company management. Neither the CEO nor other members of the executive management are to be members of the Election Committee. At least one member of the nomination committee is to be independent of the company's largest shareholder in terms of votes or any group of shareholders that act in concert in the governance of the company. All members of the Election Committee have been considered to be independent of Volvo and Volvo's management. All members of the Election Committee except Thierry Moulonguet have been considered to be independent of Volvo's largest shareholder in terms of votes, since Thierry Moulonguet represents Renault in the Election Committee and Renault is Volvo's largest shareholder in terms of votes.

Audit Committee

In December 2002, the Board established an Audit Committee primarily for the purpose of overseeing the accounting and financial reporting processes and the audit of the financial statements. The Audit Committee is responsible for preparing the Board's work to assure the quality of the company's financial reporting through reviewing the interim reports and the annual report. In addition, the Audit Committee's task is to establish guidelines specifying what other services than audit the company may procure from the company's auditors and to provide guidelines for and decisions on transactions with companies and persons closely associated with Volvo. The Audit Committee is also responsible for evaluating the internal and external auditors' work as well as to provide the Election Committee with the results of the evaluation and to assist in preparing proposals for auditors. Finally the Audit Committee shall evaluate the quality, relevance and efficiency of the Group's system for internal controls, internal audit and risk management.

At the statutory Board meeting following the 2008 Annual General Meeting, Peter Bijur, Lars Westerberg and Ying Yeh were appointed members of the Audit Committee. Lars Westerberg was appointed Chairman of the Audit Committee.

The Audit Committee met with the external auditors and Head of Internal Audit at the meetings of the Audit Committee. The Audit Committee has also met separately with the external auditors and the Head of Internal Audit without the presence of the company management. The Audit Committee and the external auditors have among other things discussed the external audit plan and risk management. The Audit Committee held three meetings during 2008.

Remuneration Committee

In April 2003, the Board established a Remuneration Committee primarily for the purpose of preparing and deciding on issues relating to remuneration to senior executives in the Group. The duties of the Committee include presenting recommendations for resolution by the Board regarding terms of employment and remuneration for the President of AB Volvo, principles for remuneration, including pensions and severance payment for other members of the Group Executive Committee, and principles for variable salary systems, share-based incentive programs, pensions and severance payment for other senior executives in the Group. In addition, the Remuneration Committee decides the individual terms of employment for the other members of the Group Executive Committee in accordance with the principles established by the Board.

In 2008, the Remuneration Committee comprised Board members Tom Hedelius, Louis Schweitzer and Finn Johnsson, Chairman. The Remuneration Committee held four meetings during the year.

Group Executive Committee

An account of their respective age, principal education, Board memberships, own and related parties' ownership of shares in Volvo as of March 4, 2009, and year of joining Volvo for the CEO and each member of the Group Executive Committee is presented in the Group Executive Committee section.

External auditing

Volvo's auditors are elected by the Annual General Meeting, for a period of three or four years. The current auditor is PricewaterhouseCoopers AB (PwC), which was elected at the 2007 Annual General Meeting for a period of three years. The next election of auditors will thus be at the 2010 Annual General Meeting. Two PwC partners, Göran Tidström and Olov Karlsson, are responsible for the audit of Volvo. Göran Tidström is the Lead Partner.

The external auditors discuss the external audit plan and risk management with the Audit Committee. The Auditors review the interim report for the period January 1 to June 30 and the annual report. The auditors report their findings as regards the annual report to the shareholders through the audit report, which they present to the Annual General Meeting of the shareholders. In addition, the auditors report detailed findings from their reviews to the Audit Committee twice a year and, once a year, to the full Board of Directors.

When PwC is retained to provide services other than the audit, it is done in accordance with rules decided by the Audit Committee pertaining to pre-approval of the nature of the services and the fees.

Disclosure Committee

A Disclosure Committee was established in 2004. The Committee contributes to ensuring that Volvo fulfills its obligations according to applicable legislation as well as to listing rules to timely disclose to the financial market all share price sensitive information.

The Committee comprises the heads of the departments Corporate Finance, Internal Audit, Investor Relations, Corporate Legal, Business Control and Financial Reporting. Chairman of the Disclosure Committee is the company's Senior Vice President of Corporate Communications.

Outstanding share- and share-price-related incentive programs

An account of outstanding share- and share-price-related incentive programs is provided in Note 34 Employees in the Group's notes.

The Board's report on the key aspects of the company's system for internal controls and risk management regarding financial reports

The Board is responsible for the internal controls according to the Swedish Companies Act and the Swedish Code of Corporate Governance (the Code). The purpose of this report is to provide shareholders and other interested parties an understanding of how internal control is organized at Volvo with regard to financial reporting.

The report has been prepared in accordance with the Code and the guidance issued by the Confederation of Swedish Enterprise and FAR SRS and is thus limited to internal control over financial reporting. This report is included as a section in the Corporate Governance Report, but does not comprise a portion of the formal annual report. This report has not been reviewed by the company's external auditors.

Introduction

Until March 2008 AB Volvo's Series B shares were registered with the Securities and Exchange Commission (SEC) in the US. Volvo was subject to the Sarbanes-Oxley Act (SOX) until the B shares were deregistered from the SEC. SOX includes, among other things, comprehensive regulations regarding the evaluation of the internal control over the financial reporting.

Also after the deregulation from the SEC Volvo has maintained many principles for the internal controls of the financial reporting which were implemented when the Group had to comply with the SOX regulations. Volvo primarily applies internal control principles introduced by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO principles consist of five interrelated components. The components are: control environment, risk assessment, control activities, information and communication and follow-up.

Volvo has had a specific department for internal control since 2005. The aim of the Internal Control function is to provide support for management groups within business areas and business units, so that they are able to continuously provide good and improved internal controls relating to financial reporting. Work that is conducted through this function is based primarily on an evaluation methodology that has been developed for the purpose of complying with SOX requirements. The methodology is aimed at ensuring both compliance with directives and policies, as well as to create good conditions for specific control activities in key processes related to financial reporting. The Audit Committee is informed of the result of the work performed by the Internal Control function within Volvo with regard to risks, control activities and follow-up on the financial reporting.

Volvo also has an Internal Audit function with the primary task of independently verifying that companies in the Group follow the principles and rules that are stated in the Group's directives, policies and instructions for financial reporting. The head of the Internal Audit function reports directly to the CEO, the Group's CFO and the Audit Committee.

Control environment

Fundamental to Volvo's control environment is the business culture that is established within the Group and in which managers and employees operate. Volvo works actively on communications and training regarding the company's basic values as described in The Volvo Way, an internal document concerning Volvo's business culture, and the Group's Code of Conduct, to ensure that good morals, ethics and integrity permeate the organization.

The foundation of the internal control process relating to the financial reporting is built up around the Group's directives, policies and instructions, and the responsibility and authority structure that has been adapted to the Group's organization to create and maintain a satisfactory control environment. The principles for internal controls and directives and policies for the financial reporting are contained in Volvo Financial Policies & Procedures (FPP), an internal book comprising all important instructions, rules and principles.

Risk assessment

Risks relating to the financial reporting are evaluated and monitored by the Board through the Audit Committee inter alia through identifying what types of risks that typically could be considered as material and where they would typically occur. The annual evaluation of internal control activities conducted by the Internal Control and Internal Audit functions, are based on a risk-based model. The evaluation of the risk that errors will appear in the financial reporting is based on a number of criteria. Complex accounting principles can, for example, mean that the financial reporting risks being inaccurate for those posts that are covered by such principles. Valuation of a particular asset or liability according to various evaluation criteria can also constitute a risk. The same is true for complex and/or changing business circumstances.

Control activities

In addition to the Board of AB Volvo and its Audit Committee, the Boards and management groups of Group companies constitute the overall supervisory body.

Several control activities are applied in the ongoing business processes to ensure that potential errors or deviations in the financial reporting are prevented, discovered and corrected. Control activities range from review of outcome results in management group meetings to specific reconciliation of accounts and analyses of the ongoing processes for financial reporting. CFOs in Group companies are ultimately responsible for ensuring that control activities in the financial processes are appropriate and in accordance with the Group's policies and instructions. They are also responsible for ensuring that authority structures are designed so that one person can't perform an activity and then perform the control of the same activity. Control activities within IT security and maintenance are a key part of Volvo's internal control over financial reporting.

Information and communication

Policies and instructions relating to the financial reporting are updated and communicated on a regular basis from management to all affected employees. In addition, there are a number of committees and networks within Volvo that serve as forums for information and discussions regarding issues relating to the financial reporting and application of internal rules. Included in these committees and networks are representatives from the business areas and the Group's staff units who are responsible for financial reporting. Work in these committees and networks is aimed, among other things, at ensuring a uniform application of the Group's policies, principles and instructions for the financial reporting and to identify and communicate shortcomings and areas of improvement in the processes for financial reporting.

Follow-up

Ongoing responsibility for follow-up rests with the business area's management groups and accounting and controller functions. In addition, the Internal Audit and the Internal Control functions conduct follow-up and supervision in accordance with what is adopted in the introduction of this report. The outcome of evaluation activities shall be reported to Group management and to the Audit Committee.

Source: 2008 Volvo Annual Report

Internet Business Reporting and XBRL

The World Wide Web is increasingly being used as an information dissemination channel, with print media often playing a secondary role. Electronic information dissemination is often less expensive than print media and offers instantaneous communication. The Web also allows interactive information dissemination in a manner not possible in print form.[26] Securities trading using the Internet has increased the demand for Web-based business and financial reporting. Individual investors are increasingly using the Web to trade and make investment decisions, and use the Web as an important source of information. Most companies listed on a stock exchange post their annual, interim, sustainability, and other reports of interest to investors on their Web sites (Investor Relations tab). Many stock exchanges have links to the Web sites of their listed companies. Many stock exchanges also use electronic news services to provide immediate access to all announcements by listed companies. The benefit to companies and investors is that all announcements, not just the ones deems "newsworthy" by the financial press, are made publicly available on a single Web site.

One important development that will facilitate Web-based business reporting is eXtensible Business Reporting Language (XBRL). XBRL is a system for labeling information or data. Data "tags," which work like barcodes, describe the financial information to which they are attached. Taxonomies are then developed for distributing, exchanging, and summarizing the information. This standard will be built into nearly all future releases of accounting and financial reporting software, and most users will not need to learn how to manipulate it directly in order to enjoy its benefits.[27] XBRL is on the verge of revolutionizing financial reporting. According to the Financial Executive Research Foundation, "XBRL will have as big an impact on commerce in the 21st century as double-entry bookkeeping had on the Industrial Revolution."[28]

The concept of a universal financial reporting computer language emerged in 1999. Soon after, Microsoft and IBM recognized both its potential and the need to develop a single standard cooperatively rather than each software company develop its own standard, which would undermine the very idea of making the language universal. Because it has been developed cooperatively, XBRL is free to software companies that wish to use it in their software, and extensions of XBRL developed for specific industries are free for downloading from the Internet.

[26] See International Accounting Standards Committee, "Business Reporting on the Internet: A Discussion Paper Issued by the IASC Staff" (London: November 1999).
[27] See Kurt Ramin, "Fair Values," *Business Excellence for the Intellectual Capital Investor* 1 (Summer 2000): 13–16; Stanley Zarowin and Wayne E. Harding, "Finally, Business Talks the Same Language," *Journal of Accountancy* (August 2000): 24–30.
[28] Glenn Cheney, "XBRL: A Technology Whose Time Is Now," *Financial Executive* (March 2005): 45.

XBRL automatically translates any desired item of business information—words or numbers—so that the information need be entered only once. Once entered, this information can be used and worked with in many ways without being reformatted. Reporting in an electronic XBRL format makes data interactive, enabling anyone using financial statements to pick and choose as much or as little information as they want.[29] To quote one observer:

> Everyone along the information supply chain—investors, creditors, analysts, stock exchanges, auditors, regulators, policymakers and others—can quickly, accurately, easily and inexpensively access, validate, compare, analyze, slice, dice, mix, match, and manipulate information for any number of companies. It also allows the same body of data to automatically—instantly—find its proper place in spreadsheets, tax returns, business reports, annual reports, pie charts, government forms, Web sites and financial statements. No manual transcription. No mistakes along the way.[30]

XBRL taxonomies have already been developed for U.S. and German GAAP and for IFRS, enabling financial statement preparation according to these accounting standards. Taxonomies of other national GAAP are also being developed. In 2009, the U.S. SEC began implementing requirements for XBRL-based financial reports and schedules as an exhibit to registration statements and periodic filings.

ANNUAL REPORT DISCLOSURES IN EMERGING-MARKET COUNTRIES

Disclosures in the annual reports of companies from emerging-market countries are generally less extensive and less credible than those of companies from developed countries. Insufficient and misleading disclosure and lax investor protection have been cited as factors contributing to the East Asia financial crisis of 1997.

The low disclosure levels in emerging-market countries are consistent with their systems of corporate governance and finance. Equity markets are not well developed, banks and insiders such as family groups supply most of the financing, and so in general there has been less demand for credible, timely public disclosure than in more developed economies.

However, investor demand for timely and credible information about companies in emerging-market countries has been growing. Regulators have responded to this demand by making disclosure requirements more stringent, and by stepping up their monitoring and enforcement efforts.

A recent study presents evidence supporting the view that disclosure levels and quality are lower in emerging-market countries than in developed countries.[31] The study is concerned with the "opacity" of earnings in 34 countries around the world. Opacity, the opposite of transparency, may be thought of as the extent to which an earnings amount obscures real economic performance. Exhibit 5-9 ranks countries in

[29] Further information is available at www.xbrl.org.
[30] Glenn Cheney, "XBRL: A Technology Whose Time Is Now," *Financial Executive* (March 2005): 45.
[31] See Utpal Bhattacharya, Hazem Daouk, and Michael Welker, "The World Price of Earnings Opacity," *Accounting Review* 78, No. 3 (July 2003): 641–678.

EXHIBIT 5-9 Earnings Opacity Ranking of Countries from Least to Most

1. United States	13. Switzerland	25. South Africa[a]
2. Norway	14. Sweden	26. Malaysia[a]
3. Portugal	15. Germany	27. Italy
4. Brazil[a]	16. The Netherlands	28. Pakistan[a]
5. Belgium	17. Finland	29. Japan
6. Mexico[a]	18. Austria	30. Chile[a]
7. Canada	19. Thailand[a]	31. India[a]
8. France	20. Ireland	32. Indonesia[a]
9. Australia	21. Hong Kong[a]	33. South Korea[a]
10. Spain	22. Singapore[a]	34. Greece[a]
11. United Kingdom	23. Taiwan[a]	
12. Denmark	24. Turkey[a]	

[a]*Emerging market country*

Source: Utpal Bhattacharya, Hazem Daouk, and Michael Welker, "The World Price of Earnings Opacity," *Accounting Review* 78, no. 3 (July 2003): 660.

terms of their overall earnings opacity from least to most opaque. Emerging-market countries tend to have the most opaque earnings. A further issue is having adequate numbers of accountants and auditors to monitor and enforce sound financial reporting systems. In general, there are far fewer accountants and auditors per capita in emerging-market countries than in developing countries, suggesting potential enforcement difficulties in emerging markets.[32]

Empirical evidence on disclosure practices in emerging-market countries was limited until recently. However, as these countries' stock markets and listed companies seek to increase their presence, researchers are developing more evidence on what these practices are and how they differ from those in developed countries.

IMPLICATIONS FOR FINANCIAL STATEMENT USERS AND MANAGERS

Financial statement users should expect wide variation in disclosure levels and financial reporting practices. Although managers in many firms continue to be strongly influenced by the costs of disclosing proprietary information, the levels of both mandatory and voluntary disclosure are increasing worldwide. Managers in traditionally low-disclosure countries should consider whether adopting a policy of enhanced disclosure might provide significant benefits for their firms. In addition, managers who decide to provide enhanced disclosures in areas investors and analysts consider important, such as segment and governance disclosures, might obtain a competitive advantage over firms with restrictive disclosure policies. Further study of the costs and benefits of enhanced disclosure in international settings should provide important evidence in this area.

[32] Shahrokh M.Saudagaran and Joselito G. Diga, "Financial Reporting in Emerging Capital Markets: Characteristics and Policy Issues," *Accounting Horizons* 11 (June 1997): 41–64. Chapter 4 discusses this issue in the case of China.

Discussion Questions

1. The chapter discusses the objectives of investor-oriented markets: investor protection and market quality. Transparent financial reporting is important for achieving these objectives. What is transparent financial reporting? Explain how transparent financial reporting protects investors and improves market quality.
2. Why are multinational corporations increasingly being held accountable to constituencies other than traditional investor groups?
3. Should foreign companies seeking to issue securities in the United States be required to disclose as much as U.S. companies issuing securities in the United States? Critically evaluate the arguments presented in this chapter.
4. What is the difference between voluntary disclosure and mandatory disclosure? Provide at least two explanations for the differences in managers' *voluntary* disclosure practices. Provide at least two explanations for the differences in managers' *mandatory* disclosure practices.
5. What is triple-bottom-line reporting, and why is it a growing trend among large multinational corporations? There are now few requirements for this type of reporting. Is more regulation necessary? Why or why not?
6. Do you expect to observe more or less voluntary disclosure by companies in emerging-market countries than in developed countries? Why? Do you expect to observe more or less regulatory disclosure requirements in emerging-market countries than in developed countries? Why?
7. What are the two broad objectives for investor-oriented markets? Which of these do you think is more important? Present reasons for your response.
8. From the perspective of a securities market regulator, is more required disclosure always better than less? Why or why not?
9. Why are forecasts of revenues and income relatively uncommon?
10. What is corporate governance? Listed companies in some countries are required to disclose information about their corporate governance practices. Why might investors and analysts find such information useful?

Exercises

1. The Outlook section in Daimler's 2008 annual report may be found at http://ar2008.daimler.com/daimler/annual/2008/gb/English/pdf/04_DAI_AR2008_Management-Report.pdf (pp. 82–87).

   Required: Provide (1) a list of items forecasted (e.g., sales, profits, economic growth), (2) the forecast horizon (e.g., one year ahead, six months ahead, not stated), and (3) the amount forecasted (e.g., growth of €10 million, 10 percent growth). How might an investor or analyst use such forecast information? Overall, how useful is Daimler's forecast disclosure? Why do you say so?
2. Exhibit 5-1 presents the business-segment and geographic-segment information of Lafarge, a French company that uses International Financial Reporting Standards (IFRS) in its consolidated financial statements.

   Required: Go to the Web site of the International Accounting Standards Board (www.iasb.org) and find the technical summary of IFRS 8, "Operating Segments." Compare the segment disclosures of Lafarge to the requirements of IFRS 8. Does Lafarge voluntarily report any information beyond the requirements of IFRS 8?
3. Exhibit 5-2 presents the employment disclosure of Roche.

   Required:
   a. How do the employment levels compare between the periods presented? Where are Roche's employees located?
   b. Which regions of the world have the highest turnover rates and what are the reasons for this turnover?
   c. What is Roche's policy on diversity in the workplace, and what is the evidence that its policy is being achieved?

d. What is the relevance of the above information for outside investors?

4. Exhibit 5-3 presents the safety and environmental disclosure of Roche.

Required: Comparing the three years: (1) Which measures show an improved record of safety and environmental protection? (2) Which measures show a worse record of safety and environmental protection? What is your overall conclusion about Roche's safety and environmental record for the years presented?

5. Exhibit 5-4 presents the independent assurance report on Roche's sustainability reporting. The auditor's engagement was carried out "in accordance with International Standards on Assurance Engagements (ISAE) 3000."

Required:

a. Go to the World Wide Web and learn about the International Auditing and Assurance Standards Board (www.ifac.org/IAASB).
b. What is the difference between auditing and assurance engagements?
c. Has Roche earned a "clean opinion" on its sustainability reporting?

6. Corporate social responsibility (CSR), as practiced by business, means many different things. Consider the following: "At one end of the broad span of CSR lie corporate policies that any well-run company ought to have in place anyway, policies that are called for on any sensible view of business ethics or good management practice. These include not lying to your employees, for instance, not paying bribes, and looking farther ahead than the next few weeks. At the other end of the range are the more ambitious and distinctive policies that differentiate between leaders and laggards in the CSR race—large expenditures of time and resources on charitable activities, for instance, or binding commitments to 'ethical investment,' or spending on environmental protection beyond what regulators demand."[33]

Required:

a. Discuss the meaning of corporate social responsibility.
b. Do companies have an obligation to do more than the law requires? Why or why not?
c. Should companies report on their social responsibility activities? Why or why not?
d. What is the relevance of CSR disclosures for outside investors?

7. The Global Reporting Initiative (GRI) has developed a set of guidelines for social responsibility reporting.

Required: Go to the GRI Web site (www.globalreporting.org) and find its guidelines. The disclosure guidelines are categorized as indicators of economic, environmental, and social performance.

a. List the performance indicators recommended in the GRI guidelines.
b. Which category requires the most extensive disclosures?
c. Which areas of disclosure are likely to be the easiest and which areas are likely to be the most difficult to provide?

8. Exhibit 5-8 is the corporate governance disclosure of the Volvo Group. Some of the disclosures relate to independence requirements for the board of directors and audit committee.

Required:

a. What is the independence requirement for the board of directors?
b. How many Volvo board members are independent? Does this number meet the requirement?
c. Certain board members are considered not independent. What criteria were used to determine that these board members are not independent? What rationale can you think of for viewing these board members as not independent?
d. How many members does the audit committee have? What percentage of these members is independent?

9. The Organisation for Economic Cooperation and Development (OECD) published its revised Principles of Corporate Governance in 2004.

Required: Obtain the document from the OECD Web site (www.oecd.org).

a. Outline the six sections of the OECD's corporate governance principles.
b. Discuss how these principles contribute to better corporate governance.

10. Exhibit 5-9 ranks 34 countries on earnings opacity. Which five countries have the most surprising placement? Why do you say so?

---

33 "The Good Company: A Survey of Corporate Social Responsibility," *Economist* (June 22, 2005): 8.

CASES

Case 5-1

In the Green

O.J. Sanders works in the financial reporting section of a large U.S. pharmaceutical company. The company has recently committed to "go green" and O.J.'s boss wants to add some environmental disclosures in the company's annual report. O.J. is charged with recommending the contents of the environmental disclosure. In his research, O.J. learns that U.S. companies have generally lagged European companies in environmental reporting, but that more and more U.S. companies are now disclosing environmental matters. He believes that his company should at least "match the competition" in the disclosures it makes. Toward that end, he obtains the annual report of Roche, a Swiss competitor. O.J. also learns about the G3 sustainability reporting guidelines of the Global Reporting Initiative.

Required:

1. Discuss why financial statement users find environmental disclosures informative.
2. Obtain the G3 sustainability reporting guidelines of the Global Reporting Initiative (GRI, www.globalreporting.org). List the environmental performance indicators that the GRI recommends for disclosure.
3. How closely do Roche's environmental disclosures match the GRI recommendations (see Exhibit 5-3)? What are the areas of nondisclosure?
4. Describe the environmental disclosures that O.J. should recommend his company make.

Case 5-2

Seeing Is Believing

Tyler Poland is a stock picker responsible for recommending Mexican securities for his brokerage firm's clients. He is often frustrated about the lack of credible information on companies in Mexico. "Everything is always so top secret," he says. "Any time I try to learn about a company's activities, all I hear is 'I wouldn't know what to tell you'." In Mexico, it seems, information is power. Trivial or not, information seems to be off-limits to anyone who is not an insider.

Tyler knows that this secretiveness goes way back in Mexico's history. The Aztec rulers kept their subjects amazed by powerful deities who were both unpredictable and hard to understand. The Spanish followed many detailed bureaucratic rules but hardly ever shared them with ordinary Mexicans.

After independence, the ruling political parties made sure that compromising information never got in the wrong hands.

Historian and novelist Hector Aguilar Camin has written, "In Mexico, powerful people have traditionally kidnapped information. Part of the process of democratization is freeing it." But "there is still a tendency to want to hold it hostage for some kind of benefit."[34]

Most economists believe that government secrecy made the 1994 currency collapse more severe because the Mexican government withheld vital macroeconomic statistics from the international banking community. Many worry now that secrecy will limit Mexico's economic growth. Yet pressure for transparency has grown along with an influx of foreign investors doing business in Mexico. The rise of opposition political parties and the growth of a free press have fueled a new debate over access to information.

"What good are all of these trends to me?" complains Tyler. "I need better information now."

[34] *Wall Street Journal*, September 10, 1998, p. 1a.

Required

1. Discuss at least five characteristics that predict relatively *low* disclosure levels in Mexico. Your response should be based on a review of the material presented in Chapters 2 and 4 and this chapter, in addition to the case information above.
2. Discuss characteristics or features that predict relatively *high* levels of disclosure in Mexico.
3. Accounting measurement and disclosure practices are improving (from an investor-protection viewpoint) in many emerging-market economies. What are some of the recent improvements in these areas in Mexico? Discuss the underlying factors that help explain why the improvements are occurring. Again, refer to the material presented in Chapters 2 and 4 in addition to the case information above.