Speech given by Mr. Schlange from Systain Consulting:

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Thank you Mr. Bals, Ladies and Gentlemen,

I am very happy that we meet today here in Berlin to discuss the issue on what the capital market and investors want German listed companies to report concerning CSR.

In preparation for today's workshop Systain prepared a study about the link between corporate governance and CSR. Prior to telling you about the key findings, however, a few words on we experienced concerning CSR and the capital markets as a stakeholder.

A year ago we worked on a project for a German based multinational determining what stakeholders were expecting from them in terms of sustainable management. Looking at the capital market as one stakeholders there were the traditional SRI and a small number of pension fund managers from the UK, the US and the Netherlands, who were able to express clearly defined ideas on this issue. The great majority, i.e. mutual funds and other fund managers, though, had – simply speaking- no idea of what we wanted to discuss with them.

Over the course of a year this seems to have changed considerably: institutional investors across the board are now taking CSR seriously. Some do this more then others but it seems to have become sort of standard criterion when going through the process of selecting a fund manager. We shall hear more about this from the experts of Innovest and Goldman Sachs today.

In addition to this there is GRI, which has by now successfully completed its first sector supplements determining the particular issues on which companies belonging to a an industry should report. GRI seems to become the standard for CSR-reporting

All this represents for me a remarkable development within a relatively short time span.

Let me now tell you about our project, which we did on behalf of the German Federal Ministry of Environmental Protection and Germanwatch.

The objective was to find out if and to which extent there is a link between the Corporate Governance codes and CSR in Germany, the UK and France. The study also looked at the Winter Commission, the OECD guidelines and the Sarbannes Oxley Act. Our approach was to conduct a series of interviews with experts in the countries mentioned including representatives from the commissions devising the codes, law firms and money managers.

What are the results?

1. There is no direct or formal link between CG and CSR in none of the countries mentioned above, the only exception being the OECD guidelines, which contain an explicit recommendation to this extent

2. Indirectly, however, there is a clear connection between the two. Risk and transparent reporting are essential components of CG codices in the countries covered in this study.
   - risks in connection with CSR include the environment, labour, social issues as well as the company's reputation
   - the value of a corporation can suffer visibly if any of the above risks materializes, i.e. by falling revenues or by losing its license to operate
   - accordingly a growing number of investors expects that CSR-risks are being reported in a meaningful, detailed, quantified and timely manner and
   - they expect corporations to install an effective risk management system, which also takes these CSR-risks properly into account

3. Legislation, which is in place in France, the UK and Italy or which is being drafted, requires from listed companies to prepare a detailed and certified reporting on CSR as part of their annual report. Management is thus liable for what they report and do or not do.

4. A comparison between the countries shows the following:
    - European companies take the CSR topic much more seriously then their counterparts in the US
    - British firms have due to their mostly UK but also US investor base a lead in the implementation and - very important - the reporting of CSR
    - French are on average more advanced then German firms

5. The capital market or institutional investors increasingly take CSR-risks into account when going through their asset allocation process, our friends from Innovest and Goldman Sachs will further expand on this

6. As the most powerful stakeholder of all the capital market is in a position to effectively drive the CSR-development; we have witnessed, how large US and UK pension funds have openly put pressure on company management in order to get CG and CSR policies introduced; the latest example is Shell

7. Looking at the reform of the German and French pension system there will be large and powerful fund managers in the future and these will have to operate according to rules comparable to those in the US and UK.

8. What can be the foreseeable development?
    - CG codes are still at an early stage
    - There is a good likelihood that CSR will in one way or the other become part of CG
    - Shareholders will increasingly become better organized and take an active role in fighting for their interest against management
    - CSR will be considered not as a singular and exotic topic but as part of general good management and overall responsible behaviour.

9. What could all this mean for German companies?
    - in line with an increasing uniform EU legislation there is a good chance that Germany will have to come up with its own law concerning CSR-reporting

- the alternative and I think that that would be the more sensible way is a voluntary self regulating approach whereby corporations, investors and maybe the stock exchange would establish rules on how to report on CSR issues

These are the major findings.