Introduction

After several years of scrutiny following well-documented corporate scandals, the pressure on UK plc is set to continue with the introduction of a raft of new regulations to enhance market confidence and improve stakeholder engagement. Adding to the weight of new operational rules are calls for business to broaden its reach beyond core business concerns and underpin activity with the highest standards of corporate behaviour.

Amid these changes however, a number of factors remain constant; the investment community's need for regular and meaningful communication, access to the management team and an understanding of a company relative to its peers. And it falls increasingly to the Investor Relations function to help companies and their management meet the rigorous demands of the investment community.

Building on four consecutive years' findings, Effective Investor Relations 2006 aims to offer those involved in Investor Relations a guide to what the market values in a company. It provides a practical model for companies to build competitive advantage on the basis of open and transparent communication.

This year sees the introduction of a survey of UK & European IROs, looking at the main issues effecting them from an issuer perspective.

Methodology

Informing this report are the findings of the MORI summer 2005 study of institutional investors and city analysts, and the Investor Relations Society's (IRS) UK and European IRO Survey. The fieldwork for the MORI survey took place between 23 June and 27 July 2005. Researchers surveyed 100 investors and 45 analysts over the telephone. This city study is one of several conducted by the MORI Reputation Centre among key audiences, which include business and financial journalists, MPs and captains of industry. The fieldwork for the IRS survey took place between 17 October and 4 November 2005. Forty-six UK and 64 European IROs completed the on-line survey supplied by Richard Davies Investor Relations.

Executive summary – key findings

- Quality of management is for the third year running the most important factor that investors and analysts take into account when judging a company, leading all other measures by 34%. Indeed this trend has been apparent in MORI surveys for the past twenty years.
- Around a third of investors and analysts expect there to be a single accounting standard world-wide within the next five years.
- The majority of investors say that the time horizon on their firm's equity investments has remained static in the last couple of years.
- For analysts and investors, openness, frankness and honesty is now level pegging with communication as the factor that makes for outstanding relations with the investment community.
- 51% of analysts and 55% of investors have seen an improvement in the quality of corporate investor relations in the past two years.
- The majority of investors and analysts say that most companies would benefit from an increase in the number of non-executive directors. Interestingly, the gap has narrowed between those analysts who agree and disagree.
- The vast majority of UK and European IROs believe that Hedge Funds should disclose short positions.
- The majority of UK and European IROs did not believe that there were adequate levels of disclosure in their own markets.
- The average number of days UK senior managers spend on the road is lower than their European peers.
- UK and European IROs believe that institutions should disclose their interests when they start to own between 1%-2%.
- UK and European IROs have seen a two thirds increase in the amount of time their senior managers devote to IR over the last two years.

The current state of investor relations

The MORI survey reveals that the overall perception of the quality of Investor Relations remains relatively high with investors in particular stating that the practice of Investor Relations has improved.

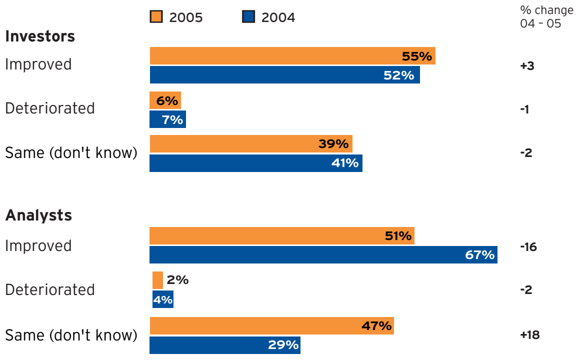
This year investors have seen an increase in improvement in Investor Relations from 52% to 55%. The overall trend from 2002 has been positive; in 2002 40% of investors thought that there had been an improvement in Investor Relations which has now increased to 55%. Investors have also seen a reduction in the perceived deterioration of Investor Relations. Again this follows a positive trend from 10% in 2002 to 6% in 2005.

This year analysts have seen a significant reduction in the number of corporates whose Investor Relations has improved which has decreased from 67% in 2004 to 51% in 2005. The trend since 2002 shows a gradual reduction in the number of corporates whose Investor Relations has improved as well as a reduction in the number of corporates where it has deteriorated.

What investors want from a company and its management

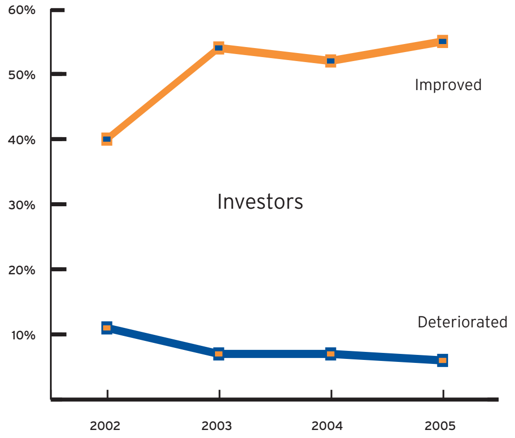
Although the MORI survey highlights the high regard in which the profession is held by the investment community, it is clear that companies need to be aware of the changing priorities of investors and analysts.

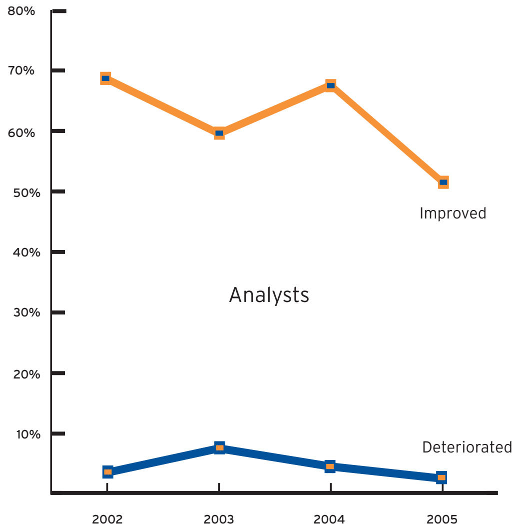
Over the past two years would you say the quality of corporate Investor Relations has generally improved, deteriorated or stayed about the same?



Base: All Investors (100) and Analysts (47), 2005

Over the past four years would you say the quality of corporate Investor Relations has generally improved, deteriorated or stayed about the same?





Base: All Investors (100) and Analysts (47), 2005

Relations with the financial community

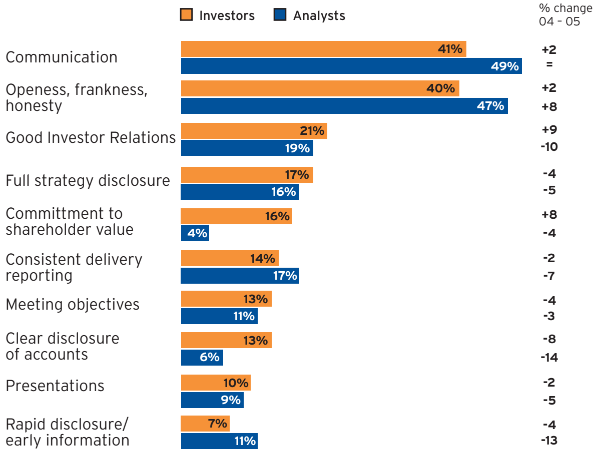
This year has seen a significant shift back in favour of 'openness, frankness & honesty', which is now almost level with the more general 'communications' as the most significant attributes the financial community are looking for.

At the other end of the spectrum there has been a significant shift away from 'clear disclosure of accounts' and 'rapid disclosure/early information'.

The trend towards an increased emphasis on openness, frankness and honesty and the significant reduction in clear disclosure of accounts may be in part due to the financial community relying more heavily on the personality and quality of senior management at a time when international reporting standards are still in their early stages.

Interestingly there is a clear difference of opinion between investors and analysts concerning how good Investor Relations develops 'outstanding relations' with the financial community. Investors have increased their opinion by 9% since 2004 while analysts have decreased theirs by 10%. This could in part be explained by the increased willingness of institutions to deal direct with corporate Investor Relations teams.

What kinds of company actions and initiatives make for outstanding relations with the financial community?



Base: All Investors (100) and Analysts (47), 2005

Judging companies

Quality of management still far outstrips all other factors when investors and analysts make judgements about companies. Investors have once again increased to 76% (up 3% on 2004) while analysts have reduced to 60% (down 7% on 2004). Interestingly there has been a significant increase in the emphasis on the projection of earnings (investors up 16% and analysts up 11 %). This could be explained by the increased focus of the financial community on a short-term vision of investment strategies.

What are the most important factors you take into account when making your judgement about companies?

Base: All Investors (100) and Analysts (47), 2005

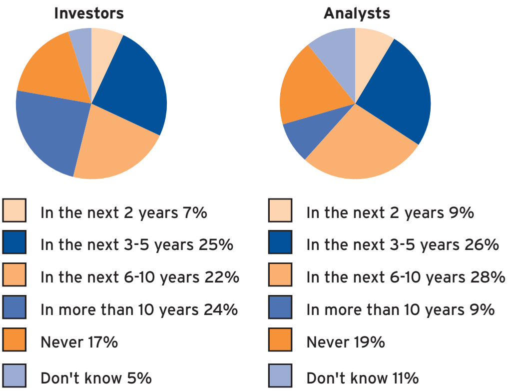
Reporting

2006 will continue to see further additions to the corporate governance canon which will stretch IROs further as they communicate their company's financial and non-financial information with shareholders in new ways.

International Financial Reporting Standards

Around a third of investors and analysts expect there to be a single accounting standard world-wide within the next five years. Around one in five of both groups do not believe that there will be full convergence of the standards. However, overall, analysts are more likely than investors to believe there will be a single standard world-wide within the next ten years.

Thinking now of accounting standards and their gradual global convergence, by when do you expect a single accounting standard world-wide?



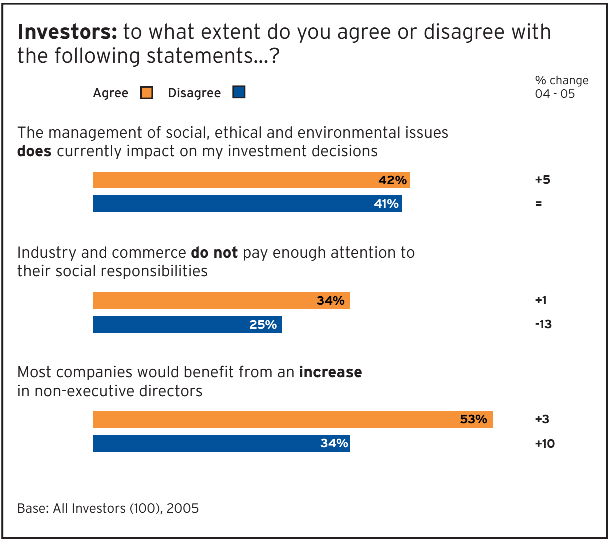
Base: All Investors (100) and Analysts (47), 2005

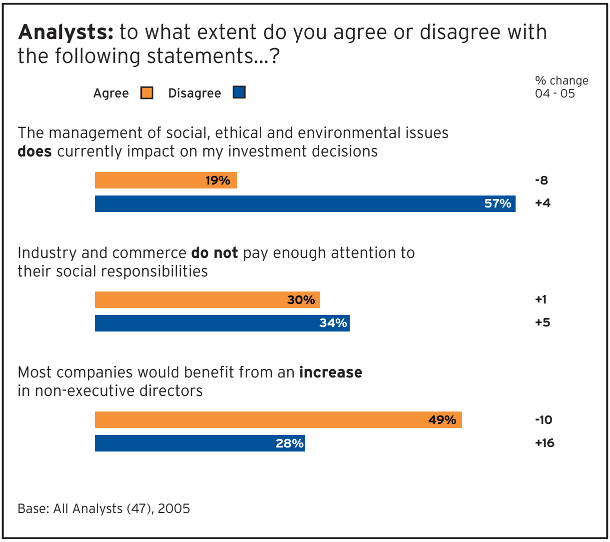
Social responsibility

The survey highlights the fact that investors and analysts are increasingly taking into consideration the effects that social responsibility has when considering stock selection.

Investors are more likely to consider social responsibility issues in their investment decisions than not. They also believe more strongly than in 2004 that industry does not pay enough attention to their social responsibilities. Interestingly, while investors have increased their desire to see more non-executive directors (now 53% an increase of 3% on 2004) there has also been a 10% increase (to 34%) in the number who disagree, more being neutral this year.

Analysts have shifted most significantly on the issue of numbers of non-executive directors with a reduction of 10% (to 49%) who believe that an increase would be beneficial and an increase of 16% (to 28%) who disagree.





The wider picture

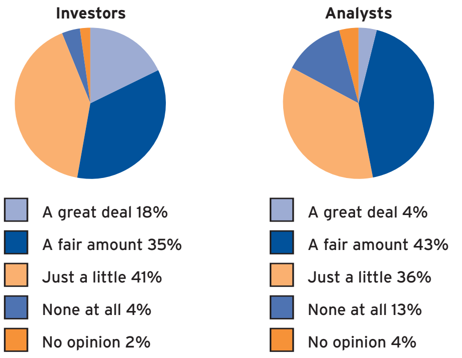
Companies today can no longer operate within a vacuum and never before, has there been such an interest in companies' non-business activities. CSR, SRI, CG, NEDs and board pay are seemingly as important to a growing spectrum of stakeholders as EPS and other financials. But is the investment community as concerned with these issues?

Corporate governance

Just under half of analysts and investors consider corporate governance issues when looking at companies. Investors have shifted most in this respect with 18% (up from 11% in 2004) who now consider corporate governance 'a great deal' in stock selection.

However, there does seem to be a significant minority that has yet to decide on the significance of corporate governance. When communicating on this subject the IRO should be mindful of the 'swing voters' who are up for grabs in this constituency.

To what extent do you incorporate Corporate Governance issues in your stock selection procedures?



Base: All Investors (100) and Analysts (47), 2005

UK and European IRO survey

This year sees the introduction of the UK & European IRO survey looking at the main issues effecting IROs from an issuer perspective.

The fieldwork for the IRS survey took place between 17 October and 4 November 2005. Forty six UK and sixty four European IROs completed an on-line survey, from Denmark (13), Finland (1), France (13), Germany (4), Greece (1), Italy (19) and Switzerland (13).

Current issues

There were two main issues that UK and European IROs commonly cited:

the implementation of a plethora of new regulations;

and

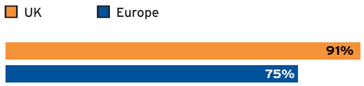
the opaque nature of share ownership.

The main new regulation that is causing concern for IROs in the UK is the new OFR, the communication of which will begin for all listed companies next year. For UK and European IROs the most common pressing issue is the communication of IFRS and, in particular, the need to give historically compatible numbers.

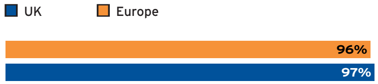
Disclosing positions

The vast majority of UK and European IROs believe that Hedge Funds should disclose short positions. The UK at 91% and Europeans at 75%.

Should hedge funds be required to disclose short positions in a stock to the investee company?



Should all investors of significant size be required to disclose their positions to the investee company?

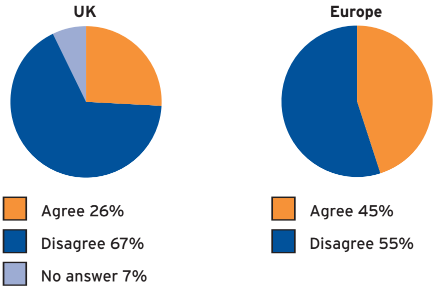


Base: IROs - UK (46) - Rest of Europe (64)

Transparency inadequate

The majority of UK and European IROs did not believe that there were adequate levels of disclosure in their own markets. Once more the UK appears to be more unified in its opinion with 67% of IROs believing that there are inadequate levels of investor transparency in the UK against only 55% of European IROs who believe the same for their markets.

Do you feel satisfied with the level of transparency in your market?

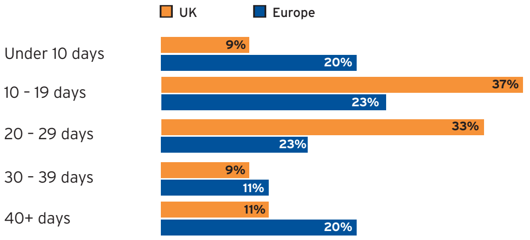


Base: IROs - UK (46) - Rest of Europe (64)

Days spent on IR roadshows

The average number of days UK senior managers spend on the road is lower that their European peers. The UK only manages an average of 20 days against Europeans who manage an average of 25 days on the road.

Number of days spent on IR roadshows



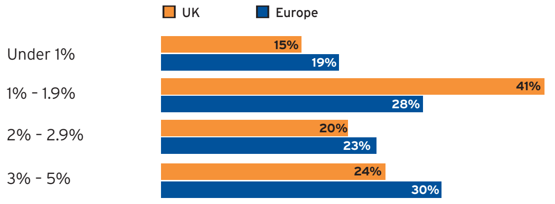
Means: UK 20 days – Europe 25 days

Base: IROs - UK (46) - Rest of Europe (64)

Economic interest in stocks

UK and European IROs believe that institutions should disclose their interests when they start to own between 1%-2%. Interestingly 41% of UK IROs believe the level should be between 1% – 2% while 30% of European IROs go for the highest available level of 3% - 5%.

If all major equity investors had to disclose their economic interest in stocks, what should be the threshold at which they disclose?



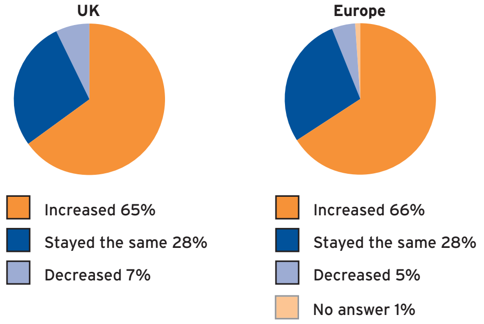
Means: UK 1.6% – Europe 2.2%

Base: IROs - UK (41) - Rest of Europe (57)

Investor Relations soaks up more senior management time

UK and European IROs have seen a two thirds increase in the amount of time their senior managers devote to Investor Relations over the last two years.

Over the last two years has your senior management's time devoted to IR responsibilities...



Base: IROs - UK (46) - Rest of Europe (64)

Conclusion

If companies want to have effective investor relations, this survey shows that they need to:

- be aware of the importance of their management to the investment community and ensure that they have an understanding of the role of Investor Relations;
- engage the investment community in an active communications process ensuring all information, difficult or unclear is communicated with clarity and openness;

and

- review the role and representation of non-executive directors on the board.

While these factors alone will not guarantee success for a company, they will certainly help to position it favourably. The IRS hopes that by giving the results of MORI's survey wide dissemination, 2006 will see a culture of investor scepticism give way to an appreciation that companies are embracing communication and accessibility enthusiastically.

The constantly evolving requirements of disclosure, transparency and corporate governance create significant challenges for all quoted companies. Investor Relations specialists, whether they work in-house or in an advisory capacity, have a vital role to play in helping companies to manage these issues and to communicate more effectively with the investment community. A key objective of the IRS is to provide members with the tools they need to carry out this increasingly complex task, to raise standards of competence and to champion the cause of the Investor Relations profession.

The Investor Relations Society is Europe's principal professional body for the investor relations sector. To find out more about how we can support you email tony@irs.org.uk

MORI is one of Britain's leading research agencies in the financial community. To find out more about how we can work with you email roger.stubbs@mori.com

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