



GICS Consultation 2004

MSCI and Standard & Poor's Consultation Paper on Potential Changes to the Global Industry Classification Standard (GICS®) Structure

I. INTRODUCTION

Standard & Poor's (S&P) and MSCI, as part of their annual GICS review, are studying the possibility of refining the GICS structure for certain Industry Groups, Industries and Sub-Industries. The objective of the proposed changes in this document is to ensure that the GICS structure continues to accurately represent the global equity markets and, thereby, enables asset owners, asset managers and investment research specialists to make seamless global comparisons by industry.

This paper is designed to serve as a basis for discussion before S&P and MSCI make any final decision. Changes, if any, are expected to be announced before the end of 2004. This consultation may or may not result in any changes to the GICS structure.

II. SUMMARY OF PROPOSALS

The main proposals set out in this paper are:

- Review of the Energy and Utilities Sectors
- Review of the Industrials Sector
- Review of the Specialty Stores Sub-Industry
- Review of the Internet Software & Services and Internet Retail Sub-Industries

III. BACKGROUND

In August of 1999, MSCI and Standard & Poor's (S&P), the leading providers of global equity indices and benchmark-related products and services, collaborated on the development of the Global Industry Classification Standard (GICS®). The standard is designed to facilitate the investment research and investment management processes for financial professionals worldwide. The GICS classification facilitates industry analysis by classifying companies at four different levels - Sectors, Industry Groups, Industries and Sub-Industries. Due to the global nature and flexibility of the GICS structure, its classifications have become widely used throughout the financial community. For a detailed description of the classification standard, please refer to the MSCI web site at www.msci.com or the Standard & Poor's web site at www.gics.standardandpoors.com.

This information is the property of Morgan Stanley Capital International Inc. (MSCI) and Standard & Poor's, a division of The McGraw-Hill Companies (NYSE: MHP). It has been prepared for informational purposes only and is not a recommendation to participate in any particular trading strategy. It may not be used to verify or correct data or any compilation of data or index or in the creation of any indices. This information is provided on an "as is" basis. Neither MSCI, Standard & Poor's or their affiliates guarantees the accuracy and/or completeness of this information. Neither MSCI, Standard & Poor's or their affiliates makes any representation or warranty, express or implied, as to the results to be obtained by any person or entity from any use of this information, and the user of this information assumes the entire risk of any use made of this information. Neither MSCI, Standard & Poor's or their affiliates makes any express or implied warranties, and each such party hereby expressly disclaims all warranties of merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, Standard & Poor's or their affiliates have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damage.

MSCI is a leading provider of global indices and benchmark related products and services to investors worldwide. Morgan Stanley, a global financial services firm and a market leader in securities, asset management, and credit services, is the majority shareholder of MSCI, and The Capital Group Companies, Inc., a global investment management group, is the minority shareholder.

Standard & Poor's, a division of The McGraw-Hill Companies (NYSE:MHP), is the world's foremost provider of independent credit ratings, indices, risk evaluation, investment research, data and valuations. With 5000 employees located in 20 countries, Standard & Poor's is an essential part of the world's financial infrastructure and has played a leading role for more than 140 years in providing investors with the independent benchmarks they need to feel more confident about their investment and financial decisions. For more information, visit www.standardandpoors.com.

The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)", "GICS" and "GICS Direct" are service marks of MSCI and Standard & Poor's. "GICS" is a trademark of MSCI and S&P.



IV. REVIEW OF THE ENERGY AND UTILITIES SECTOR

1. Rationale for the Review

The current Utilities Sector/Industry Group has four Industries – Electric Utilities, Gas Utilities, Multi-Utilities & Unregulated Power, and Water Utilities. This Sector includes companies that are regulated and others that are not. It also encompasses companies that provide services to both the final consumer and large industrial users. In the recent past, market driven events, along with changes in the regulatory framework, has led us to revisit the Sector to understand how these changes impact the GICS structure.

Traditionally, analysts tend to define or group Utility companies utilizing four distinct views (see Appendix 1): The value chain view (company classification depends on the role played within the energy/gas businesses), the regulation view (company classification is driven by its regulated/non-regulated, rate-of-return scheme), the end-user view (which depends upon the customers served), and the line-of-business view (companies are classified according to their lines-of-business). The current GICS Structure is not designed to favor a specific view.

In addition, the current Energy Sector is focused primarily on oil & gas products. Power production, power marketing & trading and coal mining companies are currently classified in other Sectors, while we find that many analysts view these companies as part of the energy cycle. As Energy and Utility Sectors are inter-related, we find it useful to review both Sectors together.

The first issue for discussion is whether it would be useful to separate power companies, operating in a more competitive environment, from more traditional utilities, operating in heavily regulated market. Independent power providers (IPPs) operating in a competitive market are driven by a different set of risk and return factors than those operating in a more regulated market. Should this distinction take place within the Utilities Sector? Or should it deserve the move of IPPs and related companies to the Energy Sector?

Similarly, within the Energy Sector would it be useful to separate the Oil & Gas Storage & Transportation companies from pure Refining & Marketing companies, as they operate in separate lines of business and are affected by different risk and return factors? For example, the oil and LNG tankers are affected by changes in charter rates and vessel values that can affect their earnings. Whereas an oil refiner is exposed to market risks related to changes in crude oil and refined product prices, as well as other refinery specific activities. Is this distinction important enough to form a new GICS Sub-Industry to accommodate the Oil & Gas Storage & Transportation companies?

2. The Proposed Structures

Based on the rationale above, two proposed alternatives for the Energy and Utilities Sectors are outlined below. The estimated size (global equity market capitalization of companies in the GICS universe) of the potential new Industries and Sub-industries were taken into account in our analysis.

Please note, none of the proposed alternatives are stand-alone. Our final analysis may result in parts of each alternative or no changes at all. Throughout this document, changes from the



GICS Consultation 2004 (continued)

current structure are highlighted in the shaded boxes. These include changes limited to name changes only, definitional changes, as well as classification additions and/or deletions.

Alternative I

The first proposal for the Utilities Sector is:

55	Utilities (Sector)		Industry		Sub-Industry
5510	Utilities (Industry Group)	551010	Electric Utilities	55101010	Electric Utilities
		551020	Gas Utilities	55102010	Gas Utilities
		551030	Multi-Utilities	55103010	Multi-Utilities
		551040	Water Utilities	55104010	Water Utilities
		551050	Independent Power Producers & Energy Traders	55105010	Independent Power Producers & Energy Traders

Note – Under Alternative I, the Energy Sector does not change.

The proposed definitions for the new Sub-Industries under Alternative I are:

Independent Power Producers & Energy Traders

Companies that operate as Independent Power Producers (IPPs), Gas & Power Marketing & Trading Specialists and/or Integrated Energy Merchants. Excludes electric transmission companies classified in the Electric Utilities Sub-Industry.

Multi-Utilities

Utility companies with significantly diversified activities in addition to core Electric Utility, Gas Utility and/or Water Utility operations.

Alternative II

The second proposed structure, which involves both the Energy and Utilities Sectors, is:

10	Energy (Sector)		Industry		Sub-Industry
1010	Energy (Industry Group)	101010	Energy Equipment & Services	10101010	Oil & Gas Drilling
				10101020	Oil & Gas Equipment & Services
		101020	Oil & Gas	10102010	Integrated Oil & Gas
				10102020	Oil & Gas Exploration & Production
				10102030	Oil & Gas Refining & Marketing
				10102040	Oil & Gas Storage & Transportation
				10102050	Coal & Consumable Fuels
101030	Independent Power Producers & Energy Traders	10103010	Independent Power Producers & Energy Traders		



GICS Consultation 2004 (continued)

55	Utilities (Sector)		Industry		Sub-Industry
5510	Utilities (Industry Group)	551010	Electric Utilities	55101010	Electric Utilities
		551020	Gas Utilities	55102010	Gas Utilities
		551030	Multi-Utilities	55103010	Multi-Utilities
		551040	Water Utilities	55104010	Water Utilities

The proposed definitions for the new Sub-Industries under Alternative II are:

Oil & Gas Refining & Marketing

Companies engaged in the refining and marketing of oil, gas and/or refined products not classified in the Integrated Oil & Gas or Independent Power Producers & Energy Traders Sub-Industries.

Oil & Gas Storage & Transportation

Companies engaged in the storage and/or transportation of oil, gas and/or refined products. Includes diversified midstream natural gas companies facing competitive markets, oil and refined product pipelines, coal slurry pipelines and oil & gas shipping companies.

Coal & Consumable Fuels

Companies primarily involved in the production and mining of coal, related products and other consumable fuels (such as uranium, biomass, hydrogen and related products).

Independent Power Producers & Energy Traders

Companies that operate as Independent Power Producers (IPPs), Gas & Power Marketing & Trading Specialists and/or Integrated Energy Merchants. Excludes electric transmission and utility distribution companies classified in the Utilities Sector.

Multi-Utilities

Utility companies with significantly diversified activities in Electric Utility, Gas Utility and/or Water Utility operations.

3. Discussion topics

- a. Is there a definite distinction between unregulated energy companies operating in competitive markets from similar entities operating in more regulated markets? Can this distinction be easily applied globally? In other words, are Independent Power Producers and Energy Traders appropriately classified under the current GICS structure in the Utilities Sector? If no, can they be more meaningfully classified within the Energy Sector?



GICS Consultation 2004 (continued)

- b. If the Independent Power Producers & Energy Traders are reclassified within the Energy Sector, will there be a compelling reason to create a new GICS level within the Energy Industry Group that will include Independent Power Producers, Gas & Power Marketing & Trading Companies and/or Integrated Energy Merchants? If yes, then what is an appropriate GICS level for this segment?
- c. If an “Independent Power Producers & Energy Traders” Industry is created, is it meaningful to break it down further into other GICS Sub-Industries?
- d. Is the business of Oil & Gas Storage & Transportation significantly different from Oil & Gas Refining & Marketing to warrant a separate GICS level for them within the Oil & Gas Industry? If yes, would it be appropriate to combine Energy Merchants and Oil & Gas Storage & Transportation companies together in their own GICS Industry/ Sub-Industry or is it more appropriate to keep these businesses separated?
- e. Is it appropriate to view companies primarily involved in the production and mining of coal (a fossil fuel) and related products as an energy company within the Energy Sector? Is it suitable to have Coal & Other Consumable Fuels as a Sub-Industry of its own in the Oil & Gas Industry or is there another place that is more appropriate?
- f. Should pure Electric Transmission companies remain classified in the Utilities Sector? If yes, is the fact that they operate as natural monopolies and are heavily regulated the determining factor?

V. REVIEW OF THE INDUSTRIALS SECTOR

1. Rationale for the Review

In recent years, the Diversified Commercial Services Sub-Industry has become increasingly large and diverse. We have found that many of the companies in this Sub-Industry are quite dissimilar across several meaningful business and investment characteristics, including the markets they serve – for example, businesses and governments versus consumers. Even within the business services segment, the diversity across companies is rather broad. We believe the relative size and diversity of this Sub-Industry make it possible to split it into two, or perhaps three, Sub-Industries.

Many of the companies', in the Diversified Commercial Services Sub-Industry, primary business model is to serve consumer market. These include, but are not limited to, companies that provide education, legal, wedding and funeral services, and cemeteries. As such, these companies may be most appropriately classified in the Consumer Discretionary Sector.



GICS Consultation 2004 (continued)

2. The Proposed Structure

The proposed structure for the Commercial Services & Supplies Industry Group is:

20	Industrials (Sector)	Industry	Sub-Industry
2020	Commercial Services & Supplies (Industry Group)	202010 Commercial Services & Supplies	20201010 Commercial Printing
			20201020 Data Processing (discontinued as of April 30, 2003)
			20201030 Diversified Commercial & Professional Services
			20201040 Human Resource & Employment Services
			20201050 Environmental & Facilities Services
			20201060 Office Services & Supplies

The corresponding proposed structure for a new Consumer Services Industry Group is:

25	Consumer Discretionary (Sector)	Industry	Sub-Industry
2530	Consumer Services (Industry Group)	253010 Hotels, Restaurants & Leisure	25301010 Casinos & Gaming
			25301020 Hotels, Resorts & Cruise Lines
			25301030 Leisure Facilities
			25301040 Restaurants
		253020 Diversified Consumer Services	25302010 Education Services
			25302020 Specialized Consumer Services

Proposed Industry Group: Consumer Services

The proposed Diversified Consumer Services Industry will be in the Consumer Discretionary Sector. To accommodate the new Industry, the current Hotels, Restaurants & Leisure Industry Group will be renamed '*Consumer Services*' and the Diversified Consumer Services Industry will be one of two Industries in the this Industry Group – the other being the current Hotels, Restaurants & Leisure.

The proposed definitions for the new Sub-Industries are:

Diversified Commercial & Professional Services

Companies primarily providing commercial, industrial and professional services to businesses and governments not classified elsewhere. Includes commercial cleaning services, consulting services, correctional facilities, dining & catering services, document & communication services, equipment repair services, security & alarm services, storage & warehousing, uniform rental and other rental & leasing services.

Human Resource & Employment Services

Companies providing business support services relating to human capital management. Includes employment agencies, employee training, payroll & benefit support services, retirement support services and temporary agencies.



GICS Consultation 2004 (continued)

Environmental & Facilities Services

Companies providing environmental and facilities maintenance services. Includes waste management, facilities management and pollution control services. Excludes large-scale water treatment systems classified in the Water Utilities Sub-Industry.

Education Services

Companies providing educational services, either on-line or through conventional teaching methods. Includes, private universities, correspondence teaching, providers of educational seminars, educational materials and technical education. Excludes companies providing employee education programs classified in the Human Resources & Employment Services Sub-Industry.

Specialized Consumer Services

Companies providing consumer services not classified elsewhere. Includes residential services, home security, legal services, personal services, renovation & interior design services, consumer auctions and wedding & funeral services.

3. Discussion Topics

- a. Should Consumer Services be differentiated from the traditional Diversified Commercial Services? If yes, should they be in the same Sector or a different Sector?

4. Additional topics for discussions related to the Industrials Sector

The suitability of moving "Housing" related Sub-Industries across Sectors.

The Building Products Sub-Industry and other related Sub-Industries, such as Homebuilding and Construction Materials, are currently part of three GICS Sectors (Materials, Industrial, and Consumer Discretionary). While these Sub-Industries are often related, they also have some distinctly different characteristics that make them appropriate for the Sector in which they are now classified. Is there any way to meaningfully consolidate these into one or two Sectors, or is the current classification breakdown the most appropriate?

VI. REVIEW OF THE SPECIALTY STORES SUB-INDUSTRY

1. Rationale For the Review

The Specialty Stores Sub-Industry is defined as 'owners and operators of specialty retail stores not classified elsewhere. Includes toy stores, office supply stores and automotive retail.' The Sub-Industry has become increasingly large and diverse. We have found that many of the companies in this Sub-Industry retail products that are quite dissimilar, creating a peer group that may be too diverse to provide meaningful analytic and investment characteristics. We believe it is possible to split this Sub-Industry into two, or perhaps three, more meaningful Sub-Industries.



GICS Consultation 2004 (continued)

2. The Proposed Structure:

The proposed structure for the Specialty Retail Industry is:

25	Consumer Discretionary (Sector)		Industry		Sub-Industry
2550	Retailing (Industry Group)	255040	Specialty Retail	25504010	Apparel Retail
				25504020	Computer & Electronics Retail
				25504030	Home Improvement Retail
				25504040	Specialty Stores
				25404050	Automotive Retail
				25504060	Homefurnishing Retail

The proposed definitions for the new or redefined Sub-Industries are:

Specialty Stores

Owners and operators of specialty retail stores not classified elsewhere. Includes jewelry stores, toy stores, office supply stores, health & vision care stores, and book & entertainment stores.

Automotive Retail

Owners and operators of stores specializing in automotive retail. Includes auto dealers, gas stations, and retailers of auto accessories, motorcycles & parts, automotive glass, and automotive equipment & parts.

Homefurnishing Retail

Owners and operators of furniture and home furnishings retail stores. Includes residential furniture, homefurnishings, housewares, and interior design. Excludes home and garden improvement stores, classified in the Home Improvement Retail Sub-Industry.

3. Discussion Topics

- a. Should automotive distributors currently classified in the Distributors Industry and Sub-Industry, in the Consumer Discretionary Sector, be moved to the newly proposed Automotive Retail Sub-Industry?
- b. Should consumer car rental companies currently classified in the Trucking Sub-Industry, in the Industrial Sector, be moved to the newly proposed Automotive Retail Sub-Industry? Is the Hotels, Restaurants & Leisure Industry more suitable?



VII. REVIEW OF THE INTERNET SOFTWARE & SERVICES AND INTERNET RETAIL SUB-INDUSTRIES

1. Rationale for the Review

Internet-related companies currently exist in two GICS Sectors. Internet Software & Services is an Information Technology Sub-Industry, whereas Internet Retail lies in the Consumer Discretionary Sector. As these companies mature, the distinguishing features between the two Sub-Industries become somewhat vague. As such, we would like to get feedback on the market's perception of such companies, so we can refine the definitions of these Sub-Industries, if necessary. As the Internet matures and the companies traditionally defined as "Internet" companies more-and-more compete with traditional businesses, it may become appropriate to change the classifications of such companies from "Internet Services" to another Sub-Industry.

2. Discussion Topics

- a. Is the investment community ready for these traditional Internet companies to be reclassified into an alternate Sub-Industry, be it Retailing, Media or Consumer Services, among others? What are the defining features that distinguish Internet companies from traditional businesses?
- b. Do you believe that firms that offer consumer services over the Internet, such as auction and travel sites, should be grouped with companies classified as Internet Retail? Or, should they be part of a Consumer Services Sub-Industry? Or, perhaps reclassified to the existing Internet Software & Services Sub-Industry in the Information Technology Sector?
- c. For example, do you believe Internet Portals that generate the majority of their revenues from advertising space should be moved to the Media Industry Group in the Consumer Discretionary Sector? If yes, in which Sub-Industry would they be best classified, Advertising or Publishing? Alternatively, would the creation of a stand-alone Internet Portals Sub-Industry within the Media Industry be justified?
- d. Is there enough distinction between Internet retailers and traditional retailers to justify a separate classification? Would it be more appropriate, for example, to reclassify Internet retailers to a Sub-Industry within the Multiline Retail Industry?
- e. Should the Internet Retail Sub-Industry be limited to companies, whose primary business model is to provide goods to consumers or distributors generally from their own inventory, which is held in stores or warehouses, using the Internet as their primary distribution channel?
- f. Alternatively, should the definition of Internet Retail be broadened in order to incorporate companies that sell consumer goods and provide related consumer services through the Internet? Could such a company be considered a retailer if it operates without carrying any tangible inventory held in a store or warehouse? What is the implication of such companies being included in a Retailing Industry Group?



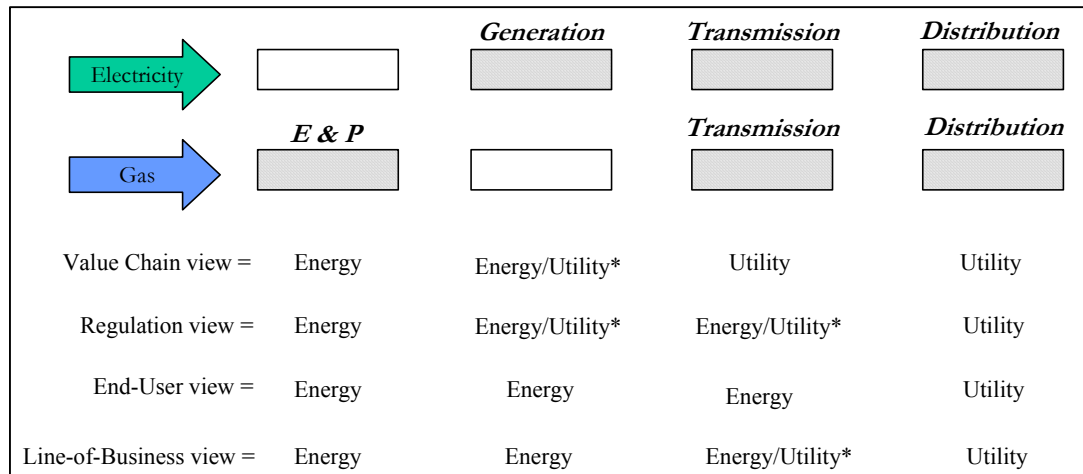
GICS Consultation 2004 (continued)

- g. If we decide to move many of the companies currently classified as Internet Retailers to the Information Technology Sector, do you believe that we should develop a more granular structure where technology service providers has multiple Sub-Industries?

VIII. CLIENT FEEDBACK

To participate in this consultation please contact our individual GICS email addresses, mscigics@msci.com or spgics@standardandpoors.com. Or contact your MSCI or Standard & Poor's Account Manager or Representative.

APPENDIX



* Depends on the country, analyst or historic market specifics

- The Value Chain View:** Under this view, a utility company is defined as such, if its role in the value chain is closely identified with integrated, monopolistic utility services. For example, prior to the late 1990's, electric plants in the U.S. were historically owned and operated as a part of integrated electric utility operations that generated power, transported the power from plants to metropolitan areas and delivered electricity to end-use customers.
- The Regulation View:** Under this view, a utility company is defined as such if it operates under a regulated legal framework. For example, independent electricity generators (Independent Power Producers or IPPs) which operate within an unregulated legal framework would be classified in the Energy Sector; while electricity distributors, which have regulated returns, would be classified under Utilities
- The End-User View:** Under this view, companies are classified according to the type of customer they serve. Companies providing distribution services to end-users (the public) would be considered a utility company. Neither regulation nor its role within the value chain would be determining factors when classifying a company. For example, power generators (IPPs), which do not cater to the end-user, would belong to the Energy Sector
- The Line-of-Business View:** Under this view, companies would be classified according to their lines-of-business and how they affect the total valuation of the company in the Energy/Utility cycle. For example, the valuation of electric transmission companies is distinctly different from oil & refined product pipelines, while they both involve energy "transportation." The same is true for natural gas-focused exploration & production companies versus oil-focused exploration & production companies. The differentiation between the two may be sufficient to warrant these being classified in different Sub-Industries and/or different Sectors.



NOTICE AND DISCLAIMER

The GICS Consultation Paper 2004 has been prepared by Standard & Poor's ("S&P") and Morgan Stanley Capital International Inc. ("MSCI") solely for informational purposes. The Consultation Paper is not a recommendation to participate in any particular trading strategy and may not be relied on as such. The user of the information contained in the Consultation Paper assumes the entire risk of any use made of the information provided herein. None of the proposals or alternatives set forth in the Consultation Paper has been adopted by MSCI or S&P, and there is no assurance that they will be considered or adopted, in whole or in part, by MSCI and S&P.

Neither MSCI, S&P, nor their affiliates makes any express or implied warranties or representations with respect to the information contained in the Consultation Paper (or the results to be obtained by the use thereof), and MSCI, S&P and their affiliates each hereby expressly disclaim all warranties of accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, S&P, or any of their affiliates have any liabilities for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

The Consultation Paper is proprietary to MSCI and S&P and may not be reproduced or re-disseminated in any form without prior written permission from MSCI and S&P. You may not use or permit the use of any of the information in the Consultation Paper to verify or correct data in any compilation of data or index. Also, you may not use or permit anyone else to use the information in the Consultation Paper in connection with the writing, trading, marketing or promotion of any financial instruments or to create any indices.

MSCI is a leading provider of global indices and benchmark related products and services to investors worldwide. Morgan Stanley, a global financial services firm and a market leader in securities, asset management, and credit services, is the majority shareholder of MSCI, and The Capital Group Companies, Inc., a global investment management group, is the minority shareholder.

Standard & Poor's, a division of The McGraw-Hill Companies (NYSE:MHP), is the world's foremost provider of independent credit ratings, indices, risk evaluation, investment research, data and valuations. With 5000 employees located in 20 countries, Standard & Poor's is an essential part of the world's financial infrastructure and has played a leading role for more than 140 years in providing investors with the independent benchmarks they need to feel more confident about their investment and financial decisions. For more information, visit www.standardandpoors.com.

The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)", "GICS" and "GICS Direct" are service marks of MSCI and Standard & Poor's. "GICS" is a trademark of MSCI and S&P.