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FINANCIAL RESEARCH AND ANALYSIS

EDUCATIONAL REPORT

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The Earnings Gap According to Largest ADRs: IFRS vs. US GAAP

KEY TAKEAWAYS

Investors face significant challenge in making apple-to-apples comparisons between IFRS and US GAAP results. Based on an analysis of IFRS to US GAAP reconciliation disclosures, we note that while US GAAP earnings were generally less favorable than IFRS, the earnings gap ranged between -84% and 15% of IFRS earnings and averaged -14%. Given that pensions and acquisitions appear to be the most significant differences, we believe the earnings gap may widen in 2009 for companies with significant pension obligations. Although the new acquisition accounting rules are expected to achieve convergence in this area, we believe legacy differences will continue to impact earnings. In addition, most of the largest differences between IFRS and US GAAP identified in this report could impact earnings in both directions, making it difficult to assess the impact without disclosure.

SUMMARY

Our analysis is based on the latest disclosure of IFRS to US GAAP reconciliation provided by the largest 30 ADR/ADS companies by market capitalization. Our main findings are summarized below:

- Impact on earnings. US GAAP earnings were less favorable for 90% of the companies compared with IFRS earnings. The impact ranged between -84% and 15%, averaging -14% of IFRS earnings. Pension accounting was the most prevalent reconciling item, followed by acquisitions (No. 1 in magnitude). We believe the difference in pension accounting rules may widen the earnings gap in 2009 for companies with significant pension obligations.
- Impact on book value and return on equity (ROE). Over 70% of the companies reported lower ROE under US GAAP, as a result of lower earnings and higher book value. The impact on book value ranged between -40% and 259% and averaged 13% of IFRS book value. The impact on ROE ranged between -44% and 11% and averaged -4%. The averages may understate the impact for individual companies as the top two differences affecting book value, acquisitions and minority interests, had the opposite impact for most companies.
- Most significant accounting differences. The most significant differences that resulted in the earnings gap were in the areas of (in order of declining frequency) pensions, acquisitions, deferred taxes, derivatives, minority interests, fixed asset impairments, sale leasebacks, restructuring charges, investments, capitalized interest, development costs and provisions. Only minority interests and investments caused US GAAP earnings to be lower for all of the companies reporting them as one of the top five reconciling items. The other differences impacted earnings in both directions, making it difficult to assess the impact without disclosure.
- Differential impact across industries. Companies with significant pension obligations and/or made significant acquisitions (e.g., health care companies) reported the largest negative adjustments in reconciling IFRS earnings to US GAAP earnings.

We caution that our findings may not be generalizable given the small sample size. In addition, the disclosure we analyzed was for fiscal 2006 for most companies, and current reconciling items may be different.

COMPANIES

ABN Amro Holding	ABNYY
Akzo Nobel	AKZOY
Alcatel-Lucent	ALU
Allianz	AZ
ArcelorMittal	MT
AstraZeneca	AZN
Banco Santander	STD
BASF	BASFY
Bayer AG	BAYRY
BG Group	BRGYY
BP PLC	BP
BT Group	BT
Deutsche Telekom	DT
Ericsson	ERIC
Fiat SpA	FIATY
GlaxoSmithKline	GSK
ING Groep	ING
Lafarge SA	LFRGY
Nokia Corp	NOK
Novartis AG	NVS
Novo Nordisk A/S	NVO
Portugal Telecom	PT
Repsol YPF	REP
Royal Dutch Shell PLC	RDS.A
Royal KPN	KKPNY
Siemens AG	SI
Swisscom AG	SCMWY
Telefonica SA	TEF
TNT NV	TNTTY
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Introduction

On November 14, 2008, the Securities and Exchange Commission (SEC) issued for public comment its proposed roadmap to IFRS reporting by U.S. companies beginning in 2010. This proposal is aimed at enhancing the comparability of financial information for global investors. In 2007, as part of its effort to promote global convergence, the SEC eliminated the requirement for U.S. listed foreign companies reporting under IFRS (as issued by the IASB) to reconcile their IFRS results to US GAAP results. While we strongly support the adoption of a single set of high-quality accounting standards globally, our analysis of the largest ADR/ADS companies suggests that, despite the efforts by the IASB and the FASB in the past six years, significant differences between IFRS and US GAAP continue to exist and have material impact on key performance metrics. In addition, although we find US GAAP earnings to be generally less favorable than IFRS earnings, most of the significant differences identified in our analysis could affect earnings in both directions and with a wide range of impact. This suggests that investors face significant challenge in making apples-to-apples comparisons without mandatory disclosure of the differences. Our analysis also suggests that continued convergence between IFRS and US GAAP likely will not eliminate the impact of legacy differences for many years to come.

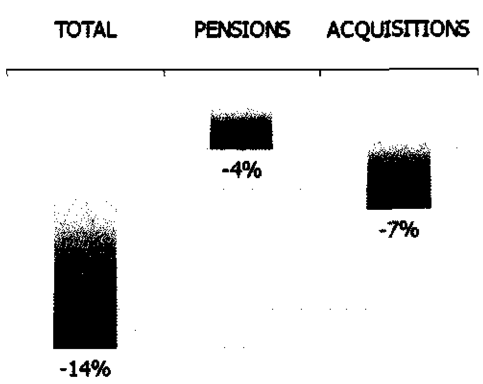
Our analysis is based on the disclosure of IFRS to US GAAP reconciliation provided in the 20-F filings of the largest 30 ADR/ADS companies by market capitalization as of July 2008. For most companies, the information is available only for fiscal 2006, as the SEC eliminated this disclosure requirement in 2007. We believe our overall findings would not have been materially different if we had information for fiscal 2007, since the most significant improvement in convergence in the past year occurred in the area of acquisitions, which will be effective in 2009. For each company, we collected IFRS and US GAAP earnings, the largest five adjustments made to IFRS earnings in arriving at US GAAP earnings, IFRS and US GAAP book values of equity, and the largest two adjustments made to IFRS book value in arriving at US GAAP book value. We analyze the size of the earnings and book value gap and the relative economic significance of the most prevalent accounting differences. We report our findings in the following sections:

I. Impact of IFRS-US GAAP differences on earnings
II. Impact of IFRS-US GAAP differences on book value and return on equity
III. Most prevalent differences between IFRS and US GAAP as reported by sample companies
IV. Differential impact across industries

Appendix A: Summary of SEC's proposed roadmap for IFRS adoption

Appendix B: Summary of major IFRS-US GAAP convergence projects

Average Impact of IFRS to US GAAP Reconciliation Relative to IFRS Earnings: Total and the Top 2 Adjustments



I. Impact of IFRS-US GAAP Differences on Earnings

US GAAP earnings were generally less favorable compared with IFRS earnings. Of the 30 companies included in this report, 27 (or 90%) reported lower earnings under US GAAP, averaging -14% relative to IFRS earnings. The earnings gap ranged between -84% and 15% relative to IFRS earnings.

The two most prevalent accounting differences (measured by the number of companies reporting the differences as one of the top five adjustments made to IFRS earnings) that resulted in the earnings gap were pensions (reported by 21 of the 30 companies) and acquisitions (reported by 16 of the 30 companies), and the differences resulted in lower earnings under US GAAP for most of these companies. Specifically, pension accounting resulted in lower US GAAP earnings for 17 of the 21 companies, while acquisitions resulted in lower US GAAP earnings for 14 of the 16 companies. In terms of magnitude, pensions and acquisitions on average accounted for about one-third and half of the total earnings gap, respectively.

We note that the difference in pension accounting rules may widen the earnings gap in 2009 for companies with significant pension obligations. Most of the companies that reported pensions as one of the top five accounting differences attributed the difference to the option under IFRS to immediately recognize pension actuarial gains/losses in the statement of recognized income and expense (bypassing earnings). These gains/losses are not recycled (amortized) into earnings in future periods under this option. In contrast, under US GAAP, gains/losses are amortized through earnings using the corridor method over the expected service life of active plan participants. Therefore, we believe for companies reporting under US GAAP, loss amortization may be significantly higher in 2009 compared with recent years due to poor asset returns this year and may persist for multiple periods.

With respect to acquisitions, the new accounting standards (FAS 141R and FAS 160) are expected to eliminate most of the differences for new transactions. However, we believe legacy differences will continue to impact earnings. For example, many companies disclosed that goodwill arising in acquisitions prior to the adoption of IFRS was written off immediately against equity and was not restated upon adoption of IFRS. This eliminates the possibility of an impairment charge for the legacy goodwill written off. This also has implications for gain/loss recognition upon disposal. To give another example, several companies stated that more intangible assets are recognized separately from goodwill under US GAAP compared with IFRS. This difference typically results in higher amortization under US GAAP. We believe the higher amortization in such cases likely will persist as the new rules do not affect acquisitions already completed.

TABLE 1a: Impact of Adjustments to Reconcile IFRS to US GAAP Earnings - Summary

	Total Difference % US GAAP Earnings	Total Difference % IFRS Earnings	Pension Difference % IFRS Earnings	M&A Difference % IFRS Earnings
Average*	-35%	-14%	-4%	-7%
Range*	-530% to 13%	-84% to 15%	-29% to 3%	-76% to 7%
No. Reporting Lower US GAAP Earnings	27 (out of 30)	27 (out of 30)	17 (out of 21)	14 (out of 16)

*The percentages exclude ALU, which reported a loss of €176 million under IFRS and a loss of €590 million under US GAAP.

TABLE 1b: Impact of Adjustments to Reconcile IFRS to US GAAP Earnings by Company

Company	Ticker	Currency	IFRS Earnings (m)	US GAAP Earnings (m)	Difference % IFRS Earnings	Difference % US GAAP Earnings
ABN AMRO Holding N.V.	ABNYY	EUR	4,715	4,461	-5%	-6%
Akzo Nobel N.V.	AKZOY	EUR	1,153	1,000	-13%	-15%
Alcatel-Lucent	ALU	EUR	(176)	(590)	-	-
Allianz SE	AZ	EUR	7,021	6,517	-7%	-8%
ArcelorMittal SA	MT	USD	6,086	5,405	-11%	-13%
AstraZeneca PLC	AZN	USD	6,043	4,392	-27%	-38%
Banco Santander S.A.	STD	EUR	9,636	7,297	-24%	-32%
BASF S.E.	BASFY	EUR	3,215	3,094	-4%	-4%
Bayer AG	BAYRY	EUR	1,695	269	-84%	-530%
BG Group PLC	BRGYY	GBP	1,824	2,103	15%	13%
BP PLC	BP	USD	22,315	21,116	-5%	-6%
BT Group PLC	BT	GBP	2,852	2,792	-2%	-2%
Deutsche Telekom AG	DT	EUR	3,165	3,219	2%	2%
Ericsson	ERIC	SEK	26,251	26,080	-1%	-1%
Fiat S.p.A.	FIATY	EUR	1,151	447	-61%	-157%
GlaxoSmithKline PLC	GSK	GBP	5,498	4,465	-19%	-23%
ING Groep N.V.	ING	EUR	7,692	6,827	-11%	-13%
Lafarge S.A.	LFRGY	EUR	1,589	1,299	-18%	-22%
Nokia Corp.	NOK	EUR	4,306	4,275	-1%	-1%
Novartis AG	NVS	USD	7,019	5,150	-27%	-36%
Novo Nordisk A/S	NVO	DKK	6,452	6,310	-2%	-2%
Portugal Telecom SGPS S/A	PT	EUR	954	735	-23%	-30%
Repsol YPF S.A.	REP	EUR	3,348	2,972	-11%	-13%
Royal Dutch Shell PLC	RDS.A	USD	25,442	24,797	-3%	-3%
Royal KPN N.V.	KKPNY	EUR	1,583	1,545	-2%	-2%
Siemens AG	SI	EUR	4,038	2,417	-40%	-67%
Swisscom AG	SCMWY	CHF	1,599	1,553	-3%	-3%
Telefonica S.A.	TEF	EUR	6,579	6,341	-4%	-4%

Company	Ticker	Currency	IFRS Earnings (m)	US GAAP Earnings (m)	Difference % IFRS Earnings	Difference % US GAAP Earnings
TNT NV	TNTTY	EUR	670	657	-2%	-2%
Unilever PLC	UL	EUR	5,015	4,385	-13%	-14%

II. Impact of IFRS-US GAAP Differences on Book Value and ROE

Return on equity (ROE) under US GAAP was generally less favorable compared with IFRS as a result of higher book value and lower earnings under US GAAP for most companies. ROE under US GAAP was lower than that under IFRS for over 70% of the companies included in the report. While the difference averaged -4%, the range varied between -44% and 11%. The difference between IFRS and US GAAP book value of equity ranged between -40% and 259% relative to IFRS book value, averaging 13%.

The two most prevalent accounting differences (measured by the number of companies reporting the differences as one of the top two adjustments made to IFRS book value) that resulted in the gap in book value were acquisitions (22 out of 30) and minority interests (11 out of 30). While differences in acquisition accounting rules resulted in higher book value under US GAAP for most of the companies, minority interests had the opposite impact. In terms of magnitude, acquisitions accounted for the majority of the gap in book value.

As discussed above, we do not expect the new acquisition accounting rules to eliminate the differences in book value and ROE, because they do not apply to acquisitions already completed. As an example of the long-term impact of legacy differences, GSK reported the largest increase in book value under US GAAP (£25 billion or 259% of IFRS book value), consisting of mostly goodwill and product rights. The company attributed the difference largely to the combination of Glaxo Wellcome and SmithKline Beecham completed in 2000. The acquisition was treated as pooling of interest under UK GAAP, but did not qualify for the pooling treatment under US GAAP. Upon adoption of IFRS, the company chose the transition option of not restating prior acquisitions.

TABLE 2a: Impact of Adjustments to Reconcile IFRS to US GAAP Book Value of Equity - Summary

	Total Difference % IFRS Book Value	Total Difference % US GAAP Book Value	ROE Difference	M&A Difference % IFRS Book Value	Minority Interest Diff % IFRS Book Value
Average	13%	1%	-4%	16%	-3%
Range	-40% to 259%	-65% to 72%	-44% to 11%	-19% to 186%	-27% to 0%
No. Reporting Higher US GAAP BV or lower ROE	16 (out of 30)	16 (out of 30)	22 (out of 30)	18 (out of 22)	0 (out of 11)

TABLE 2b: Impact of IFRS-US GAAP Differences on Book Value of Equity and Return on Equity by Company

Company	Ticker	Currency	IFRS Book Value of Equity (m)	US GAAP Book Value of Equity (m)	Difference % IFRS BV	Difference % US GAAP BV	IFRS ROE	US GAAP ROE	ROE Difference
ABN AMRO Holding N.V.	ABNYY	EUR	23,597	28,080	19%	16%	20%	16%	-4%
Akzo Nobel N.V.	AKZOY	EUR	4,144	7,162	73%	42%	28%	14%	-14%
Alcatel-Lucent	ALU	EUR	15,493	19,284	24%	20%	-1%	-3%	-2%
Allianz SE	AZ	EUR	50,481	52,999	5%	5%	14%	12%	-2%
ArcelorMittal SA	MT	USD	50,191	36,879	-27%	-36%	12%	15%	3%
AstraZeneca PLC	AZN	USD	15,304	32,467	112%	53%	39%	14%	-26%
Banco Santander S.A.	STD	EUR	57,558	57,394	0%	0%	17%	13%	-4%
BASF S.E.	BASFY	EUR	18,578	18,394	-1%	-1%	17%	17%	0%
Bayer AG	BAYRY	EUR	12,851	12,181	-5%	-6%	13%	2%	-11%
BG Group PLC	BRGYY	GBP	6,465	6,251	-3%	-3%	28%	34%	5%
BP PLC	BP	USD	84,624	86,517	2%	2%	26%	24%	-2%
BT Group PLC	BT	GBP	4,272	3,586	-16%	-19%	67%	78%	11%
Deutsche Telekom AG	DT	EUR	49,670	52,747	6%	6%	6%	6%	0%
Ericsson	ERIC	SEK	120,113	121,898	1%	1%	22%	21%	0%
Fiat S.p.A.	FIATY	EUR	10,036	6,604	-34%	-52%	11%	7%	-5%
GlaxoSmithKline PLC	GSK	GBP	9,648	34,653	259%	72%	57%	13%	-44%
ING Groep N.V.	ING	EUR	41,215	40,647	-1%	-1%	19%	17%	-2%
Lafarge S.A.	LFRGY	EUR	11,794	10,510	-11%	-12%	13%	12%	-1%
Nokia Corp.	NOK	EUR	12,060	12,112	0.43%	0.43%	36%	35%	0%
Novartis AG	NVS	USD	41,294	41,670	1%	1%	17%	12%	-5%
Novo Nordisk A/S	NVO	DKK	30,122	29,235	-3%	-3%	21%	22%	0%
Portugal Telecom SGPS	PT	EUR	3,106	1,878	-40%	-65%	31%	39%	8%
Repsol YPF S.A.	REP	EUR	18,042	18,472	2%	2%	19%	16%	-2%
Royal Dutch Shell PLC	RDS.A	USD	114,945	108,018	-6%	-6%	22%	23%	1%
Royal KPN N.V.	KKPNY	EUR	4,195	4,786	14%	12%	38%	32%	-5%
Siemens AG	SI	EUR	29,627	30,379	3%	2%	14%	8%	-6%
Swisscom AG	SCMWY	CHF	4,436	3,413	-23%	-30%	36%	46%	9%
Telefonica S.A.	TEF	EUR	20,001	23,376	17%	14%	33%	27%	-6%

Company	Ticker	Currency	IFRS Book Value of Equity (m)	US GAAP Book Value of Equity (m)	Difference % IFRS BV	Difference % US GAAP BV	IFRS ROE	US GAAP ROE	ROE Difference
TNT NV	TNTTY	EUR	2,008	1,571	-22%	-28%	33%	42%	8%
Unilever PLC	UL	EUR	11,672	17,068	46%	32%	43%	26%	-17%

III. Most Significant Differences between IFRS and US GAAP

We summarize the most prevalent differences (measured by the number of companies reporting the differences as one of the top five adjustments made to IFRS earnings) between IFRS and US GAAP that resulted in the earnings gap discussed above in **Tables 3a** and **3b**. It appears that most of the differences could impact earnings in both directions making it difficult to assess the impact without disclosure. Minority interests and investments were the only items that consistently caused US GAAP earnings to be lower than IFRS earnings. Pensions, acquisitions and development costs caused US GAAP earnings to be lower for the majority (at least 80%) of the companies. The other differences listed in the table could impact earnings in both directions with almost equal likelihood, and therefore the average impact tends to understate the economic significance of the accounting differences for individual companies. For example, the differences in accounting for derivatives caused US GAAP earnings to be lower for half of the companies that reported derivatives as one of the top 5 accounting differences. While on average US GAAP earnings were higher than IFRS earnings by 5% adjusting for the difference in derivatives accounting, the size of the impact ignoring the direction is 11% of IFRS earnings. Similarly, for deferred taxes, the average impact is 1% of IFRS earnings, while the impact ignoring the direction is 6%.

TABLE 3a: Most Prevalent Differences Between IFRS and US GAAP and Economic Significance*

Reconciling Items	Frequency (out of 30)	No. Negative Impact	Average Impact % of IFRS Earnings^	Minimum Impact	Maximum Impact
Pensions	21	17	-7%	-29%	3%
Acquisitions	16	14	-12%	-76%	7%
Deferred Taxes	11	7	1%	-15%	23%
Derivatives	10	5	5%	-14%	35%
Minority Interests	10	10	-7%	-16%	0%
Fix Assets (mainly impairment)	9	4	0%	-12%	5%
Sale Leasebacks	7	4	1%	-17%	28%
Restructuring	6	3	8%	-6%	27%

Reconciling Items	Frequency (out of 30)	No. Negative Impact	Average Impact % of IFRS Earnings^	Minimum Impact	Maximum Impact
Investments	6	6	-5%	-15%	0%
Capitalized Interest	5	2	0%	-3%	1%
Development Costs	5	4	-9%	-22%	0%#
Provisions	5	3	-1%	-3%	3%

*The top five reconciling items reported by sample companies not presented in the table include convertible debt, currency translation, acquisition cost of life insurance businesses, inventory, joint venture, allowance for credit loss, oil and gas reserve, revenue recognition, securitization, share based compensation and disposal. Each of these items excluded from the table was reported by fewer than five companies.
^Average based on companies reporting the specific items.
#A positive adjustment by ALU excluded.

TABLE 3b: Comparison of Most Prevalent IFRS-US GAAP Differences as Disclosed by Sample Companies*

Topic	US GAAP	IFRS
Pensions	• Actuarial gains/losses recognized in owners' equity and amortized through earnings over the expected remaining service period of active plan participants using the corridor method. • Prior service cost amortized over expected remaining service period of active plan participants. • Curtailment loss recognized when probable and reasonably estimable; curtailment gain recognized upon adoption of plan amendment.	• Besides the corridor method, companies can choose to recognize actuarial gains/losses immediately (no amortization) in the statement of recognized income and expense, bypassing earnings. • Prior service cost for vested employees recognized immediately; Unvested amortized over the remaining service period to full vesting. • Curtailment gain/loss recognized generally when management is "demonstrably committed" to a plan.
Acquisitions/goodwill/ intangible assets	• In-process research and development (IPRD) expensed (FAS 141R adopted IFRS approach, effective 1/09). • Goodwill impairment tested at the "reporting unit" level, following a 2-step process: 1) carrying amount of reporting unit > fair value of reporting unit; 2) impairment loss measured as excess of carrying amount over implied fair value of goodwill. • Negative goodwill applied against non-current non-monetary assets before impacting earnings (FAS 141R adopted IFRS approach, effective 1/09).	• IPRD capitalized. • Goodwill impairment tested at the "cash generating unit", following a 1-step process: impairment loss measured as excess of carrying amount of cash generating unit over recoverable amount. • Negative goodwill recognized as gain. • Acquisition date typically closing date.

Topic	US GAAP	IFRS
	• Acquisition date typically announcement date (FAS 141R adopted IFRS approach, effective 1/09).	
Deferred Taxes	• Tax effect related to intra-company transactions based on seller's (manufacturer's) tax rate. • Deferred tax benefit on employee stock options based on grant date fair value.	• Tax effect related to intra-company transactions based on buyer's tax rate. • Deferred tax benefit on employee stock options based on estimated future tax deduction (i.e., intrinsic value).
Derivatives	• Stand alone derivatives marked to market. • Gains/losses on derivatives qualifying for fair value hedge included in earnings along with the losses/gains on the hedged assets/liabilities. • Gains/losses on derivatives qualifying for Cash flow hedge recognized in other comprehensive income. • Significant documentation requirement.	• Similar to US GAAP. But generally more derivatives qualify for hedge accounting treatment, e.g., macro hedge permitted.
Minority Interests	• Earnings after minority interests. • Minority interests classified outside of equity (FAS 160 adopted IFRS approach, effective 1/09).	• Earnings before minority interests. • Minority interests classified as part of equity.
Fix Assets	• Impairment charges on assets held for use not reversible. • 2-step impairment process: 1) undiscounted future cash flow < carrying amount; 2) impairment loss measured as excess of carrying amount over fair value.	• Impairment charges reversible. • 1-step impairment process: impairment loss measured as excess of carrying amount over recoverable amount (defined as the higher of fair value less cost to sell or value in use).
Sale Leasebacks	• Gains generally deferred and recognized over lease term for operating leases.	• Gains generally recognized immediately if the sale price is at fair value for operating leases.
Restructuring	• Termination benefit costs generally recognized when employee accepts the offer.	• Termination benefit costs generally recognized when management commits to a plan.
Capitalized Interest	• Interests on construction loans capitalized during construction.	• *Capitalization of interest cost optional (revised* IAS 23 adopted US GAAP approach, effective 1/09).
Development Costs	• Development costs expensed except software development cost upon reaching technical feasibility.	• Development costs meeting technical feasibility and other criteria capitalized.

Topic	US GAAP	IFRS
Investments	• Generally equity method for significant influence investees (investee results must be reported in accordance with US GAAP). • "Objective evidence" not part of impairment assessment for available-for-sale securities.	• Equity method or proportionate consolidation for significant influence investees. • "Objective evidence" part of impairment assessment for available-for-sale securities.
Provisions	• Discounting generally not allowed.	• Discounting generally required

*Based on disclosure by sample companies. This table is not a complete summary of the differences between IFRS and US GAAP or a complete summary of the differences in specific areas.

IV. Differential Implications of IFRS-US GAAP Differences across Industries

We present the average impact on earnings and ROE by GIC sector in this section. Pension accounting was the most prevalent difference for companies in consumer, industrials, information technology, and telecom services. Acquisition accounting was the most prevalent difference for companies in health care and materials. Deferred taxes and PPE tied for the most prevalent difference for companies in energy. For financial companies, derivatives were the most prevalent difference. Health care companies reported the largest negative adjustment upon reconciliation to US GAAP earnings. We caution that our industry results may not be meaningful given our small sample size. However, we decided to present the findings, because we believe they are largely consistent with industry characteristics.

TABLE 4: Average Impact of Adjusting IFRS to US GAAP Earnings and ROE by GIC Sector

GICs	No. of Companies	% Earnings Adjustment	Difference in ROE	Most Frequently Cited Difference
Consumer Discr/Staples	2	-37%	-11%	Pension
Energy	4	1%	1%	Deferred taxes & PPE
Financials	4	-12%	-3%	Derivatives
Health Care	5	-32%	-17%	Acquisitions
Industrials	2	-21%	-1%	Pension
Information Tech	3	-1%*	-0%*	Pension
Materials	4	-12%	-3%	Acquisitions
Telecom Services	6	-5%	3%	Pension

* The percentages exclude ALU, which reported a loss of €176 million under IFRS and a loss of €590 million under US GAAP.

Appendix A: Summary of SEC's Proposed IFRS Roadmap

On November 14, 2008, the Securities and Exchange Commission (SEC) issued for public comment its proposed roadmap for the potential mandatory adoption of IFRS by U.S. companies. The comment period ends on February 19, 2009.

Under the proposal, the SEC would assess in 2011 whether to proceed with mandatory adoption of IFRS in 2014. Among the factors that the SEC would consider in making its final decision are a study to be undertaken by the Office of the Chief Accountant on the implications for investors and other market participants of the implementation of IFRS to U.S. companies, and the status of the following seven milestones:

- improvements in accounting standards;
- the accountability and funding of the IASC Foundation;
- the improvement in the ability to use interactive data for IFRS reporting;
- education and training relating to IFRS;
- limited early use of IFRS where this would enhance comparability for U.S. investors;
- the anticipated timing of future rulemaking by the Commission; and
- the implementation of the mandatory use of IFRS by U.S. issuers.

The proposed effective date would be for fiscal years ending on or after December 15, 2014 for large accelerated filers, December 15, 2015 for accelerated filers, and December 15, 2016 for non-accelerated filers. Companies would be required to include three years of audited financial statements prepared in accordance with IFRS upon initial adoption.

U.S. companies that meet the following criteria would be eligible to early adopt IFRS beginning in 2010: 1) the company is among the 20 largest listed companies in its industry by market capitalization; and 2) IFRS is used more often than any other basis of financial reporting by the 20 largest listed companies in the industry. According to the SEC, a minimum of approximately 110 US companies (or 12% of total U.S. market capitalization as of December 2007) in 34 "IFRS industries" would meet the eligibility criteria. A "letter of no objection" from the SEC would be required before a company could adopt IFRS.

If a company elects to report under IFRS, two transition disclosure alternatives are proposed: A) one-time reconciling information from US GAAP to IFRS (consistent with IFRS 1); or B) in addition to the requirement under alternative A), on an ongoing basis, an unaudited reconciliation from IFRS to US GAAP for the annual financial statements covering 3 years.

Appendix B: IASB and FASB Convergence Projects

We list in **Table 5** the major convergence projects being undertaken by the IASB and the FASB. Many of the projects have an expected completion date of 2011.

Table 5: Major IASB/FASB Convergence Projects

Projects	Status
Conceptual framework	Phase A Exposure Draft issued in May 2008
Earnings per share	Revised Exposure Draft issued in August 2008
Emission trading schemes	Exposure Draft not yet issued
Financial statement presentation	Discussion Paper issued in October 2008
Income taxes	Exposure Draft not yet issued
Insurance contracts	Exposure Draft not yet issued
Leases	Discussion Paper not yet issued
Financial instruments (Liabilities and equity)	Exposure Draft not yet issued
Revenue recognition	Discussion paper expected in 2008
Consolidation	Exposure Draft expected in 2008
Discontinued operations	Exposure Draft issued September 2008

Source: FASB

RiskMetrics Group

The Center for the Financial Community

About RiskMetrics Group

RiskMetrics Group is a leading provider of risk management and corporate governance products and services to financial market participants. By bringing transparency, expertise and access to the financial markets, RiskMetrics Group helps investors better understand and manage the risks inherent in their financial portfolios. Made up of three business units – Risk Management, ISS Governance Services, and Financial Research and Analysis – our solutions address a broad spectrum of risks across our clients' financial assets. In January 2007, RiskMetrics Group acquired ISS, a leader in proxy voting and corporate governance services, and in August 2007, it acquired CFRA, a global leader in forensic accounting risk research, legal/regulatory risk assessment, due-diligence, and educational services. Headquartered in New York with 19 global offices, RiskMetrics Group serves some of the most prestigious institutions and corporations worldwide.

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