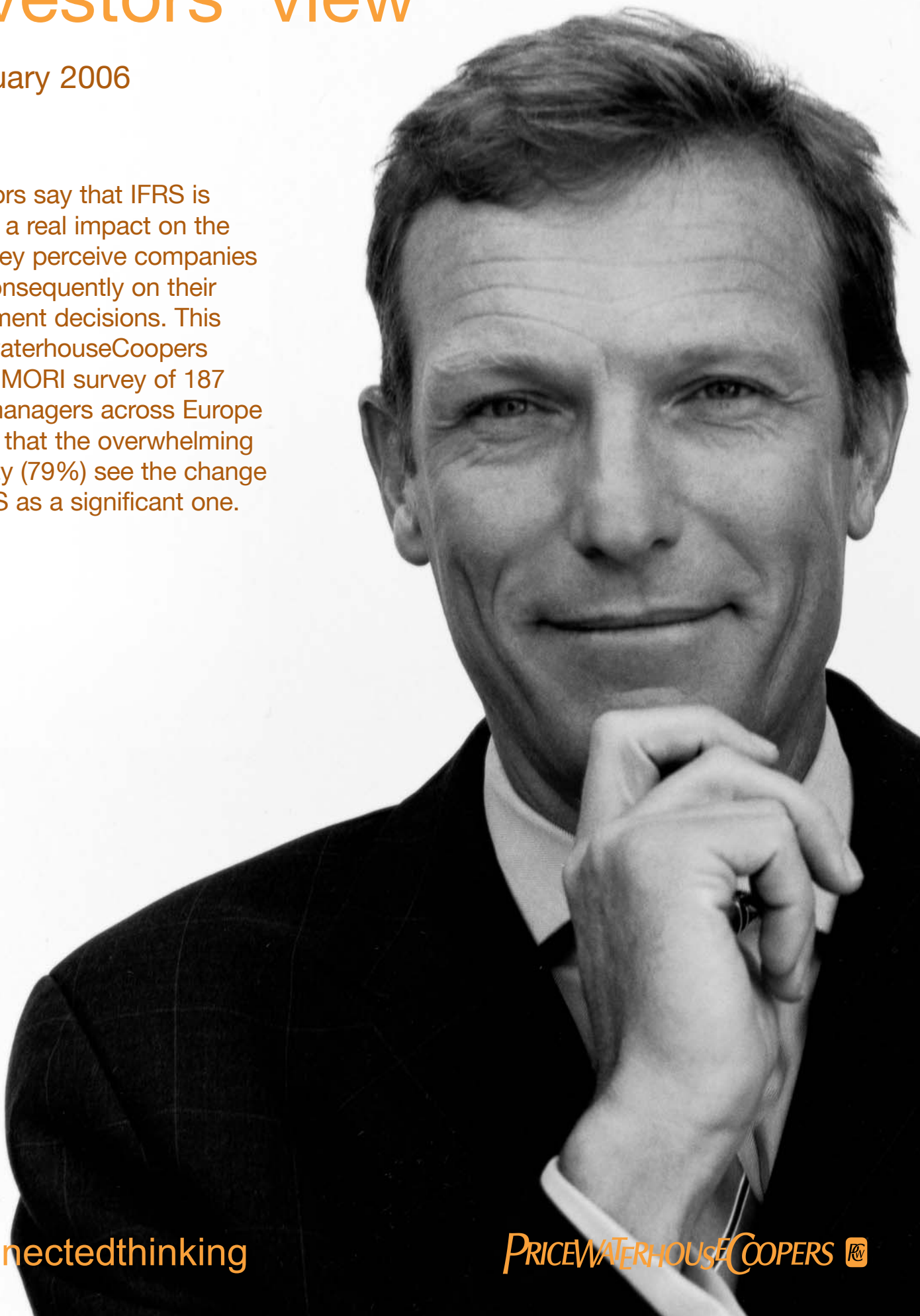


IFRS: The European investors' view*

February 2006

Investors say that IFRS is having a real impact on the way they perceive companies and consequently on their investment decisions. This PricewaterhouseCoopers /Ipsos MORI survey of 187 fund managers across Europe shows that the overwhelming majority (79%) see the change to IFRS as a significant one.



*connectedthinking

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Overview: Real influence on investment decisions



This survey finds that investors are already alert to the new IFRS information reported to them during 2005. They see the change to IFRS as significant and, even at this early stage, it has changed some perceptions of companies' value and had an impact on the investment decisions of over half the fund managers we spoke to. This underlines the significance of the first IFRS year-end accounts that are about to be published.

Companies can take heart from the fact that their hard work in making the change to IFRS has been noticed by investors — most fund managers have confidence in the way that management has handled the conversion so far. They are also positive about the greater transparency and comparability that IFRS brings.

It should be a priority for management teams to maintain this confidence as they progress towards making IFRS reporting part of their day-to-day business activity, rather than a special project.

Expectations about the quality of disclosures, and therefore the insight that the year-end will bring, appear to be high — particularly where these will provide better insight into companies' operating and financial risks. Investors don't expect surprises from IFRS implementation, but if there are any from the year-end disclosures, we can expect the market to react.

Suggestions from some commentators that investors would not understand the implications of the new standards are also wide of the mark. Most fund managers report reasonable confidence in their own understanding of the IFRS reporting of companies they invest in. However, only a quarter have 'a great deal of confidence', so it is clear that investors will continue to rely on companies to explain the full implications of their IFRS numbers.

Overall, the survey gives encouraging signs of market views so far. But, at the same time, companies must guard against complacency and think carefully about how they keep investors informed — particularly as the annual accounts will bring more detailed data and perhaps a few surprises.

'IFRS gives better insight into risks that are not [clear] in local GAAP financial statements'

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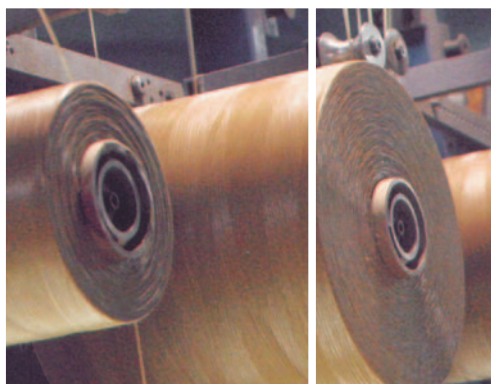
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Who we spoke to*

‘Everybody should go to IFRS. In Europe there should only be one system [for all companies]’

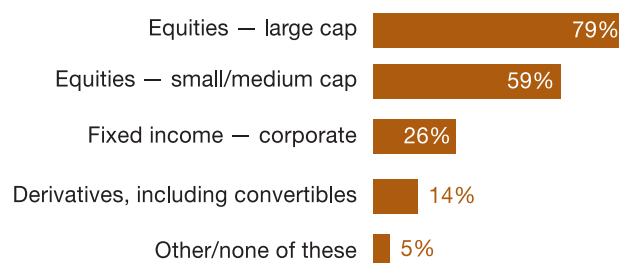
We set out to understand the reactions and perceptions of a key group of stakeholders — the fund managers who will use IFRS information as a core part of their investment decision-making process. This report focuses on pan-European trends as results show that there is a considerable consensus of views across the region. It also notes some national variations.

In the last quarter of 2005, 187 investment fund managers in seven countries gave us their views on the information provided by companies reporting under IFRS. Respondents were based in: Belgium, Germany, Italy, the Netherlands, Norway, Portugal and the UK. The research began in the UK and it was extended to six other countries because of the insight that the initial results offered. The field work was completed in late December 2005. Where results did not total 100%, due to rounding, 1% has been added to or subtracted from the largest category.

A large majority (79%) of fund managers that we spoke to invested in large cap equities while more than half invested in small cap equities. Significant minorities also invested in fixed-income corporate funds and derivatives (see chart).

The sample included a broad mix of fund managers who specialise in a variety of markets, including unit trusts, private assets, pension funds, insurance and hedge funds. These individuals work for entities representing the full size range of assets under management, from less than €7.4bn to over €75bn.

Which of the following asset classes do you manage?



Base: All respondents (187)

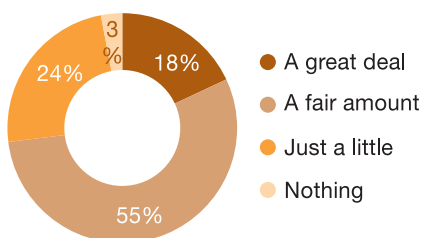
Investors' understanding of IFRS

Most of the fund managers interviewed for the survey said they are fairly well-informed and understand the impact of IFRS. Nearly three-quarters said they know either a lot or a fair amount about the impact of IFRS on companies in their country, and a similar proportion was very or fairly confident that they fully understood the impacts on the companies they are investing in.

This is an encouraging start and indicates that most companies have done a good job of explaining to the investment community what impact IFRS has on their financial reporting. The current level of knowledge provides a good platform from which to help investors develop their understanding — better investment decisions can be made if a higher proportion are 'very confident' (currently just 12%) of their understanding of the impact of IFRS. At the same time, the quarter admitting that they knew little or nothing need to make substantial progress.

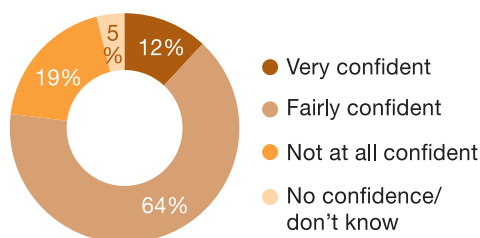
Those that have had specific IFRS training were more likely to have a fair or good understanding, indicating that companies' IFRS briefing sessions, as well as other IFRS courses, have helped. Further training sessions are likely to be welcomed by the investment community: only slightly more than half across Europe have received specific training on the interpretation of IFRS accounts. This rises to around three-quarters of fund managers that have received training in Germany and Norway, where IFRS has been an allowed alternative to national GAAP for some time.

How much, if anything, do you know about the impact of IFRS on companies in your territory?



Base: All respondents (187)

How confident are you that you have a full understanding of the impact of IFRS on the companies you are investing in?



Base: All respondents (187)

'Comparison of reported information is easier now in Europe; it is clearer for everyone'



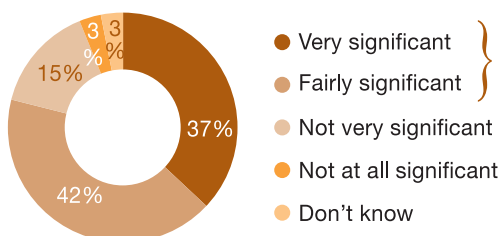
Confidence in change*

‘IFRS brings higher confidence in reporting which is beneficial for us’

IFRS adoption is significant

Investment fund managers see the change to IFRS as significant. Four in every five believe that the adoption of IFRS is either a very or fairly significant development for financial reporting. The majority (66%) have already noticed its impact on the operational results of the companies they invest in.

How significant a financial reporting development do you regard the adoption of IFRS by a company as being?



Base: All respondents (187)

Significant %	
Europe	79
Belgium	73
Germany	80
Italy	96
Netherlands	88
Norway	53
Portugal	83
UK	76

Impact on all companies

When asked about the impact of IFRS adoption on companies of different sizes, the vast majority of fund managers said that IFRS has an impact on all companies — small, medium and large. The mid-cap sector (those with a market capitalisation between €0.25 to €1bn) were identified by investors as a little more likely to see a ‘major impact’ (36%) from adoption.

This indicates that investors believe IFRS can impact all companies’ key financial indicators — regardless of their size. It may also indicate that they see medium-sized entities facing at least as many challenging IFRS transition issues as larger entities. They may have a relatively complex structure, for example, but they are likely to have fewer internal resources to help manage the change.

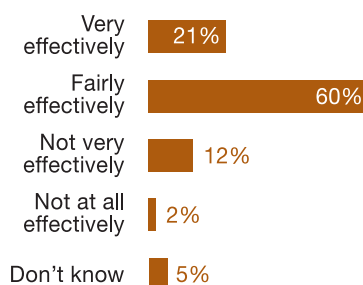
Confidence in management

It is encouraging that despite a few predictions of chaos on the introduction of new standards, investors perceive that management is handling the IFRS conversion well so far. A large majority, 81%, say that the management teams of the companies they invest in have, to date, coped very or fairly effectively with the change. This indicates that fund managers have high expectations and do not anticipate restatements after the year-end; they trust that the transition to IFRS has been effective. This will add to the pressures on management as they close their annual accounts for the first time.

It is crucial that this level of confidence is maintained as final statements are released and companies move on to coping effectively with IFRS reporting in their day-to-day business activities.

Most CFOs are already aware that this is the start of an ongoing change process. They have indicated in our previous surveys (eg, *Ready for take-off?*) that they have used tactical solutions to meet their immediate reporting deadlines and that they will work to embed the changes after the year-end.

How effectively have the management teams of companies you follow or invest in coped with the conversion to IFRS?



Base: All respondents (187)

‘Reporting is more transparent under IFRS, so it is easier to draw conclusions’

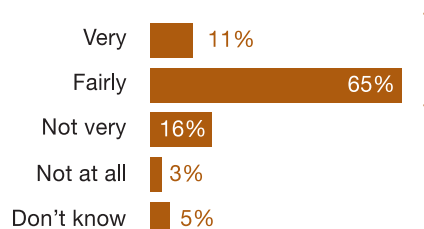
	Effectively %
Europe	81
Belgium	80
Germany	85
Italy	80
Netherlands	80
Norway	80
Portugal	83
UK	81

IFRS reporting is clear

Most fund managers also agreed that the IFRS information companies reported during 2005 was fairly clear and understandable - 65% said it was ‘fairly’ clear and a further 11% said it was ‘very’ clear. This result shows that there is an opportunity here for companies to improve their IFRS communications so that more fund managers rate IFRS information as ‘very’ clear.

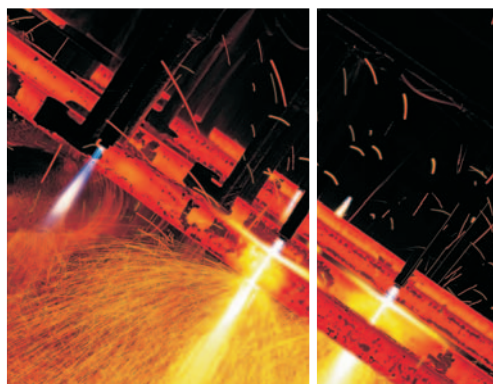
Almost the same proportions report that they find IFRS information fairly (66%) or very ‘useful’ (13%). We also asked fund managers to compare how useful they found IFRS in assessing a company’s performance when compared to their experience of using US GAAP. Overall, twice as many find IFRS more helpful (45% vs 20%), while 17% said it depended on circumstances and others found both equally useful or didn’t know. These results may also justify the ongoing debate about the appropriateness of the financial reporting framework vis-à-vis an investor’s valuation model.

How clear and understandable would you say the information presented by companies in their interim reports and IFRS restatements has been?



Base: All respondents (187)

	Clear/ understandable %
Europe	76
Belgium	80
Germany	60
Italy	72
Netherlands	76
Norway	93
Portugal	80
UK	77



IFRS impact on investment decisions*

‘Off balance sheet items become more visible through IFRS’

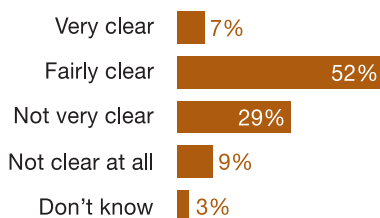
Transparency of historical performance

Fund managers identified the key benefits of IFRS as improved transparency and management information, together with consistency of reporting between jurisdictions and sectors.

Investors have welcomed the IFRS information that companies have been reporting during 2005. A clear majority of fund managers (59%) consider that IFRS is a good basis for looking at companies’ historical financial performance. Italy, Norway and Portugal have the highest proportion of investors who highlight the clarity of this aspect of IFRS.

The significant minority that do not find historical financial performance clear in IFRS financial statements might appreciate companies providing further explanation about any significant IFRS differences, especially while investors acclimatise to the new reporting regime.

How clear would you say IFRS makes companies’ historical financial performance?



Base: All respondents (187)

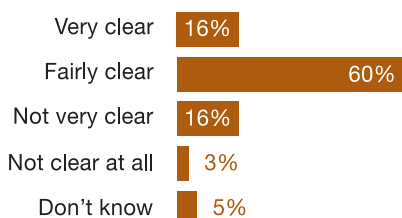
Insight into risk

The benefits of IFRS in providing fund managers with better insight into the risks that companies assume is more marked, especially for financial risks (see chart). Two-thirds say that IFRS makes operational risks clear and three-quarters report that the financial risks companies assume are 'fairly' or 'very' clear under IFRS.

We expect that the high proportion of fund managers who are positive about the clarity of financial risks under IFRS will increase further after the year-end when they can see the full set of risk disclosures. The implementation (2007) of the new financial instruments disclosure standard (IFRS 7) will also provide investors with more transparency about how management control financial risks on a day-to-day basis.

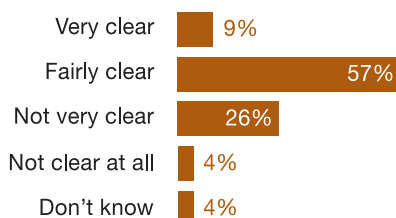
'IFRS provides better transparency for valuing stocks — derivatives are clearer and so are off balance sheet items'

How clear would you say that IFRS makes the financial risk companies assume?



Base: All respondents (187)

How clear would you say that IFRS makes the operational risk companies assume?



Base: All respondents (187)

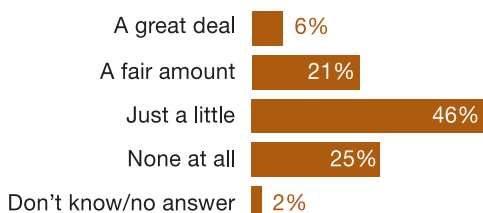
Effect on perceptions of company value

Even at this early stage, IFRS has already affected fund managers' perceptions of value. Almost three-quarters said that the change to IFRS has had at least some impact on their view of the value of the individual companies they invest in, mainly because financial information is now easier to compare and offers greater transparency.

Similar reasons were offered by the two-thirds of fund managers who said IFRS has affected their valuation of industry sectors.

'It became clear that some industry sectors had a bigger risk in their pension liability than I first thought'

How much of an impact has IFRS had on your perception of individual companies' value?



Base: All respondents (187)

‘Value perceptions change because IFRS closes the gap between companies’ internal reporting and what they report to the public’

‘A key benefit of IFRS is that goodwill will not be amortised and no hidden reserves can be built up — it is closer to reality’

Investment decisions influenced

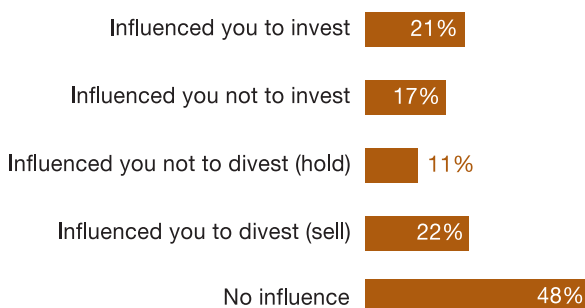
A majority (52%) of fund managers report that they have already used IFRS information to help them make their investment decisions. When looking at potential investments, 21% said that IFRS information had influenced decisions to buy, and another 17% said that it was a factor in their decision to walk away from a potential investment. IFRS had a similar impact on decisions about existing investments — 22% said it had influenced them to sell a company’s shares, and for 11% of fund managers it was a reason for holding onto shares.

Above average numbers of investors in Belgium, the Netherlands, Portugal and Norway said that IFRS has had a positive influence on them to invest in a company, although this is based on relatively small sample sizes.

This is a strong sign that IFRS information is useful in the decision-making process, particularly because the finding is based only on interim reporting; year-end financial statements had not been released when this survey was conducted. We expect that this impact on investment decisions will become more pronounced as companies report their year-end results with the full set of disclosures that were not required during 2005.

This finding contradicts commentators that say IFRS is simply an accounting change that will not have any real impact on market valuations or decisions.

Has the impact on any specific company of conversion to IFRS influenced you in any of the following ways?



Base: All respondents (187)



Looking ahead*

Investors' hopes and fears

The biggest challenge for investors is the time required to assess and understand the changes introduced by the new standards. Companies clearly have an ongoing role in making this as easy as possible for them. It is essential that investors can spot and understand the difference between: a change in the data that simply reflects the new accounting regime, and one that shows change in a company's underlying economics or performance.

Moves towards greater consistency of application, convergence, standardisation of requirements, and improved transparency, are high on the list of investors' hopes for the future development of IFRS. This echoes respondents' views on the key benefits of international standards and indicates that investors are more inclined to focus on the overall effects of IFRS, rather than on specific technical issues addressed by the standards.

Opinion divided on simplification

Opinions are divided about the feasibility of simplifying accounting standards in our current environment. Business is more complex today than in the past, so we need an accounting framework that brings transparency to complex transactions. But clearly this framework needs to be as easily understood as possible by investors and other stakeholders. A small majority of fund managers believe it is possible to simplify accounting standards further.

It certainly helps investors worldwide that so many countries are moving to the same set of international standards; their responses to this survey show that they already appreciate the advantages of having more transparent information that is comparable across borders rather than a different accounting framework in each country.

‘My biggest worry is that IFRS will not be implemented thoroughly in the market’

‘In the future, I would like to see one worldwide set of standards’

