

PRESS RELEASE

Study by Oppenheim Research and Ruhr University, Bochum

IFRS changes increase and distort earnings trends of many German companies

- *Empirical examination of effects on all DAX stocks and the entire German equity market*
- *Historical profit-based evaluation standards less informative*
- *Company analyses should have more basis on cash flow data*
- *Uniform IFRS accounting methods have yet to facilitate hoped-for corporate comparisons*

Frankfurt/Main, 11 January 2007 – The positive earnings trend is, to a considerable extent, attributable to changes in accounting standards in accordance with IFRS (International Financial Reporting Standards). The new standards for goodwill and pension accounting have allowed a significant increase in corporate earnings. This is one key reason why equity prices still appear low in historical comparisons. Cash flow analyses are now more important for the calculation of actual performance. This is the essence of the findings of a study by Oppenheim Research GmbH and the Ruhr University in Bochum, which examines the implications of the changes brought about by the IFRS accounting standards on capital markets, investors and companies. The results were presented at a press conference in Frankfurt today.

Uniform accounting in accordance with IFRS required since 2005 by the EU for all capital market-oriented companies has yet to facilitate company comparisons as hoped. The wide-ranging transition options when accounting for property, plant and equipment, goodwill, development costs and pension benefits mean that various accounting strategies can be employed.

The increasing application of IFRS, as well as the regular amendments to the standards over the past few years have meant considerable changes in statements of income for many companies in Germany. In the event of an upswing, the new

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accounting principles mean significantly higher earnings with increasing momentum and volatility. Dieter Pfundt, personally liable partner at Sal. Oppenheim jr. & Cie., explained, "There is currently a lack of attention being paid to this – even from the industry press and many investors and companies, although it has a significant effect on investment decisions and management procedures."

Prof. Bernhard Pellens, Chair of International Accounting at Ruhr University, Bochum commented, "The elimination of annual goodwill amortisation alone has raised reported earnings by hundreds of millions in many companies." Similarly, the latest option introduced of recognising actuarial losses in pension provisions directly in equity could have an impact of up to one hundred million euros on earnings. The mandatory recognition of development costs and increasing use of fair-value accounting also enable a significant rise in positive earnings. "The results currently reported by companies are therefore largely due to the changes in accounting," said Prof. Pellens.

The effects of these aspects of accounting on all DAX stocks as well as on the German equity market as a whole have been the subject of an empirical study. Dr. Wolfgang Sawazki, head of Equity Research at Sal. Oppenheim, presented the key findings for capital market players: Companies' statements of net income are now on average 10 to 15 per cent higher due to the transition to IFRS and the changes it has caused, than was the case under the provisions of HGB (The German Commercial Code). "This trend is set to continue over the next few years due to the further developments expected in IFRS, in areas such as pension obligations," said Dr. Sawazki. Increasing earnings volatility will also be evident in that increases in earnings will be more dynamic during upturns and more pronounced during downturns than was previously the case. Moreover, the low P/E ratio is extremely distorted and appears deceptively low due to the accounting changes. In historical terms, the current assessment level was more than 15 per cent too low in 2004 and 2005. On the basis of operating cash flows, the equity market is valued on the same level as in 2001, because price increases are far in excess of cash flow increases. Internal control systems geared to balance sheet figures and short-term management remuneration systems based thereon will also be distorted and will therefore have to be adjusted.

According to Prof. Pellens, the International Accounting Standards Board (IASB) should therefore pay closer attention to comparisons based on time, and revise EPS calculations. Since current calculations contain so many inconsistencies, it would be necessary from the investor's point of view to prepare dual reports – one on cash flow and one on EPS figures based entirely on changes in net assets.

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