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**Sir David Tweedie**
**Chairman**
**International Accounting Standards Board**
30 Cannon St. – 1st Floor

**London – GB EC4M 6XH**

March 4, 2003

## EXPOSURE DRAFT ED 2 SHARE-BASED PAYMENT

Dear Sir

We welcome very much the opportunity to comment on the above mentioned draft standard. We would first like to give you our general thoughts on accounting for share-based payment, and then we will answer the specific questions of the exposure draft in as much as we consider that they are relevant to preparers in the manufacturing and service sector.

## 1. General Comments

1. We would welcome more work by IASB on the underlying conceptual principles, in particular regarding the recognition of share-based payment as an expense in the company's income statement. The exposure draft itself starts from the basis that it is an expense for the company but has not proven this principle. Therefore, in order to safeguard the conceptual consistency of IFRS, the framework should be clarified. This aspect is important, because otherwise there would remain relevant arguments to oppose that the granting of share options to employees is an expense for the company.

2. As we stressed in our previous comments on share-based payment, a key aspect to bear in mind in this project is convergence and competition between standards. It would be totally unacceptable for enterprises preparing their financial statements according to IAS to have to comply with more stringent requirements than others preparing according to high-quality sets of standards. The need for a "a level playing-field" leads to the necessity to find equivalent accounting rules by all important standard setters.

3. The present exposure draft will undoubtedly lead to complex issues in practice for preparers as well as for auditors. The resulting demand for documentation and calculations will lead to

considerable costs which are, at the end, paid by the shareholder. Thus in order to prevent preparers and auditors to perform “l’art pour l’art”-exercises, we would very much support the introduction of an appropriate materiality clause in this standard.

4. The proposed retrospective application of this standard going back to the issue date of this exposure draft is strongly opposed by our members.

5. We strongly support the Board’s decision to set out the principles instead of a detailed set of rules. This is a prerequisite to establish sound valuation methods, because Black-Scholes as well as binominal models do have their empirical limitations. However, we would welcome some more examples that can be used as guidance on how to apply the principles underlying the current exposure draft. In this context, it would be appropriate to give more guidance as to what exactly constitutes an option feature (see our response to question 16).

6. The disclosure requirements of this exposure draft are going too far. We would prefer a reduction to the most relevant and material disclosures. Otherwise, the increasing disclosure requirements of all IAS/IFRS will lead to enormous financial reports.

7. The proposed rules do not sufficiently reflect the situation that arise in the context of corporate restructurings. In cases where employees are not part of a company’s workforce anymore, it would be inconsistent to continue expensing share-based payments. Thus, we disagree with the proposed treatment of the cash-settlement of non-vested shares or options because in such cases the entity has, in effect, vested the award. Furthermore, the exposure draft diverges from SFAS 123 (§37-38) which would be problematic (see our response to question 18).

## 2. Specific Questions of the ED 2 Share-based Payments

### Question 1

Paragraphs 1-3 of the draft set out the proposed scope of the IFRS. There are no proposed exemptions, apart from transactions within the scope of another IFRS.

Is the proposed scope appropriate? If not, which transactions should be excluded and why?

**Response**

We agree that the proposed scope is appropriate.

### Question 2

Paragraphs 4-6 of the draft IFRS propose requirements for the recognition of share-based payment transactions, including the recognition of an expense when the goods or services received or acquired are consumed.

Are these recognition requirements appropriate? If not, why not, or in which circumstances are the recognition requirements inappropriate?

**Response**

We agree with the proposal.

Nonetheless, we believe that the Board should consider clarifying the definition of an expense in the Framework so that no reference needs to be made to pronouncements of other standard-setting bodies as it is currently done in BC 42.

**Question 3**

For an equity-settled share-based payment transaction, the draft IFRS proposes that, in principle, the entity should measure the goods or services received, and the corresponding increase in equity, either directly, at the fair value of the goods or services received, or indirectly, by reference to the fair value of the equity instruments granted, whichever fair value is more readily determinable (paragraph 7). There are no exemptions to the requirement to measure share-based payment transactions at fair value. For example, there are no exemptions for unlisted entities.

Is this measurement principle appropriate? If not, why not, or in which circumstances is it not appropriate?

**Response**

We agree with the proposal.

**Question 4**

If the fair value of the goods or services received in an equity-settled share-based payment transaction is measured directly, the draft IFRS proposes that fair value should be measured at the date when the entity obtains the goods or receives the services (paragraph 8).

Do you agree that this is the appropriate date at which to measure the fair value of the goods or services received? If not, at which date should the fair value of the goods or services received be measured?

**Response**

We agree with the proposal as currently it is normal accounting practice not to recognise firm commitments for the purchase of goods or the rendering of services from third parties until at least one of the parties has performed under the agreement (e.g. a fixed asset is only recognised in the transaction system once it has been delivered to the company concerned).

**Question 5**

If the fair value of the goods or services received in an equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted, the draft IFRS proposes that the fair value of the equity instruments granted should be measured at grant date (paragraph 8).

Do you agree that this is the appropriate date at which to measure the fair value of the equity instruments granted? If not, at which date should the fair value of the equity instruments granted be measured? Why?

**Response**

We agree with the proposal.

**Question 6**

For equity-settled transactions with parties other than employees, the draft IFRS proposes a rebuttable presumption that the fair value of the goods or services received is more readily determinable than the fair value of the equity instruments granted (paragraphs 9 and 10).

Do you agree that the fair value of the goods or services received is usually more readily determinable than the fair value of the equity instruments granted? In what circumstances is this not so?

**Response**

We agree with the proposal.

**Question 7**

For equity-settled transactions with employees, the draft IFRS proposes that the entity should measure the fair value of the employee services received by reference to the fair value of the equity instruments granted, because the latter fair value is more readily determinable. (paragraphs 11 and 12).

Do you agree that the fair value of the equity instruments granted is more readily determinable than the fair value of the employee services received? Are there any circumstances in which this is not so?

**Response**

We agree with the proposal.

**Question 8**

Paragraphs 13 and 14 of the draft IFRS propose requirements for determining when the counterparty renders service for the equity instruments granted, based on whether the counterparty is required to complete a specified period of service before the equity instruments vest.

Do you agree that it is reasonable to presume that the services rendered by the counterparty as consideration for the equity instruments are received during the vesting period? If not, when are the services received, in your view?

**Response**

We agree with the proposal.

However, we strongly suggest that the new IFRS also clarify that where part of the grant can clearly be demonstrated to relate to past services, then paragraph 13 would be applicable and where the balance of the grant relates to future services, then paragraph 14 would be applicable.

**Question 9**

If the services received are measured by using the fair value of the equity instruments granted as a surrogate measure, the draft IFRS proposes that the entity should determine the amount to attribute to each unit of service received, by dividing the fair value of the equity instruments granted by the number of units of service expected to be received during the vesting period (paragraph 15).

Do you agree that if the fair value of the equity instruments granted is used as a surrogate measure of the fair value of the services received, it is necessary to determine the amount to attribute to each unit of service received? If not, what alternative approach do you propose?

If an entity is required to determine the amount to attribute to each unit of service received, do you agree that this should be calculated by dividing the fair value of the equity instruments granted by the number of units of services expected to be received during the vesting period? If not, what alternative method do you propose?

**Response**

We agree with the above two proposals.

**Question 10**

In an equity-settled share-based payment transaction, the draft IFRS proposes that having recognised the services received, and a corresponding increase in equity, the entity should make no subsequent adjustment to total equity, even if the equity instruments granted do not vest or, in the case of options, the options are not exercised (paragraph 16). However, this requirement does not preclude the entity from recognising a transfer within equity, i.e. a transfer from one component of equity to another.

Do you agree with this proposed requirement? If not, in what circumstances should an adjustment be made to total equity and why?

**Response**

We agree with the proposal.

**Question 11**

The draft IFRS proposes that the entity should measure the fair value of equity instruments granted, based on market prices if available, taking into account the terms and conditions of the grant (paragraph 17). In the absence of a market price, the draft IFRS proposes that the entity should estimate the fair value of options granted, by applying an option pricing model that takes into account various factors, namely the exercise price of the option, the life of the option, the current price of the underlying shares, the expected volatility of the share price, the dividends expected on the shares (where appropriate) and the risk-free interest rate for the life of the option (paragraph 20). Paragraph 23 of the proposed IFRS explains when it is appropriate to take into account expected dividends.

Do you agree that an option pricing model should be applied to estimate the fair value of options granted? If not, by what other means should the fair value of the options be estimated? Are there circumstances in which it would be inappropriate or impracticable to take into account any of the factors listed above in applying an option pricing model?

**Response**

We agree with the proposal.

**Question 12**

If an option is non-transferable, the draft IFRS proposes that the expected life of an option rather than its contracted life should be used in applying an option pricing model (paragraph 21). The draft IFRS also proposes requirements for options that are subject to vesting conditions and therefore cannot be exercised during the vesting period (paragraph 22).

Do you agree that replacing an option's contracted life with its expected life when applying an option pricing model is an appropriate means of adjusting the option's fair value for the effects of non-transferability? If not, do you have an alternative suggestion?

Is the proposed requirement for taking into account the inability to exercise an option during the vesting period appropriate?

**Response**

Yes, we believe that replacing an option's contracted life with its expected life when applying an option pricing model is an appropriate means of adjusting the option's fair value for the effects of non-transferability.

Yes, we agree that the proposed requirement of taking into account the inability to exercise an option during the vesting period is appropriate.

**Question 13**

If a grant of shares or options is conditional upon satisfying specified vesting conditions, the draft IFRS proposes that these conditions should be taken into account when an entity measures the fair value of the shares or options granted. In the case of options, vesting conditions should be taken into account either by incorporating them into the application of an option pricing model or by making an appropriate adjustment to the value produced by such a model (paragraph 24).

Do you agree that vesting conditions should be taken into account when estimating the fair value of options or shares granted? If not, why not?

Do you have any suggestions for how vesting conditions should be taken into account when estimating the fair value of shares or options granted?

**Response**

Yes, we agree that vesting conditions should be taken into account when estimating the fair value of options or shares granted.

**Question 14**

For options with a reload feature, the draft IFRS proposes that the reload feature should be taken into account, where practicable, when an entity measures the fair value of the options granted. However, if the reload feature is not taken into account in the measurement of the fair value of the options granted, then the reload option granted should be accounted for as a new option grant (paragraph 25).

Is this proposed requirement appropriate? If not, why not? Do you have an alternative proposal for dealing with options with reload features?

**Response**

Yes, we agree that where the reload feature is not taken into account in the measurement of the fair value of the options granted, then it should be accounted for as a new option grant.

**Question 15**

The draft IFRS proposes requirements for taking into account various features common to employee share options, such as non-transferability, inability to exercise the option during the vesting period, and vesting conditions (paragraphs 21-25).

Are there other common features of employee share options for which the IFRS should specify requirements?

**Response**

The following is a common feature of employee share options or share plans which the IFRS should also specify requirements for:

Shares which are granted to an employee and which vest immediately upon payment but for which there is a certain blocked period (e.g. two years) during which the employee is unable to sell the shares; however, should the employee leave the employ of the company before the end of the blocked period, the shares will be transferred to his account upon on his departure.

## Question 16

The draft IFRS does not contain prescriptive guidance on the estimation of the fair value of options, consistently with the Board's objective of setting principles-based standards and to allow for future developments in valuation methodologies.

Do you agree with this approach? Are there specific aspects of valuing options for which such guidance should be given?

### Response

We agree with the proposed approach. Furthermore, additional examples should be provided to clearly illustrate the valuation principals underlying the most common form of share-based payment transactions and in particular for (a) the grant of shares under an optional employee share plan (b) the grant of shares under a share purchase plan (c) the treatment of 'blocked' features discussed in question 15 above and (d) where identical share options are also traded on the stock exchange but where an adjustment still needs to be made for non-transferability during the vesting period.

Further, we also believe that more guidance should be provided as to what exactly constitutes an option feature without, of course, this resulting in any form of prescriptive guidance. For example, whether an option feature should be considered where an employee has the right to buy shares at a predetermined strike price for a period, of say, 31 days. For practical reasons, SFAS 123 para. 240 would consider this as a disqualifying option feature, which in our view, makes perfect sense.

## Question 17

If an entity reprices a share option, or otherwise modifies the terms or conditions on which equity instruments were granted, the draft IFRS proposes that the entity should measure the incremental value granted upon repricing, and include that incremental value when measuring the services received. This means that the entity is required to recognise additional amounts for services received during the remainder of the vesting period, i.e. additional to the amounts recognised in respect of the original option grant. Example 3 in Appendix B illustrates this requirement. As shown in that example, the incremental value granted on repricing is treated as a new option grant, in addition to the original option grant. An alternative approach is also illustrated, whereby the two grants are averaged and spread over the remainder of the vesting period.

Do you agree that the incremental value granted should be taken into account when measuring the services received, resulting in the recognition of additional amounts in the remainder of the vesting period?

If not, how do you suggest repricing should be dealt with? Of the two methods illustrated in Example 3, which is more appropriate? Why?

### Response

We agree with the proposal that the incremental value granted upon repricing of an option should be taken into account when measuring the services received, resulting in the recognition of additional amounts for the remainder of the vesting period. The rationale for this is that at grant date the entity did not presume the option would be repriced (and impractical to measure anyway), which therefore resulted in an option that was undervalued at grant date.

We believe that the alternative example is the more appropriate method of accounting for share-based payment transactions as it more closely reflects the additional expense of the remaining period over which the service is to be rendered and therefore more realistically portrays the economic reality of the underlying transaction.

**Question 18**

If an entity cancels a share or option grant during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the draft IFRS proposes that the entity should continue to recognise the services rendered by the counterparty for the remainder of the vesting period, as if that grant had not been cancelled. The draft IFRS also proposes requirements for dealing with any payment made on cancellation and/or a grant of replacement options, and for the repurchase of vested equity instruments.

Are the proposed requirements appropriate? If not, please explain why not and provide details of your suggested alternative approach.

**Response**

1. Cancellation of non-vested shares or options to be replaced with a new option grant

   We agree with the proposal that where an entity cancels a share or option grant during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), an entity should still continue to recognise the services rendered by the counterparty for the remainder of the vesting period as if that grant had not been cancelled if the new option grant is identified as replacement options for the cancelled options. The rationale for this is that at grant date the entity did not presume the option would be replaced i.e. 'repriced' (and impractical to measure anyway) which therefore resulted in an option that was undervalued at grant date. The replaced option grant would then be accounted for in the same way as a repriced share option (see question 17 above).

2. Settlement of non-vested shares or options with cash

   We disagree with the proposal that where an entity settles a share or option grant with cash during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), an entity should still continue to recognise the services rendered by the counterparty for the remainder of the vesting period, as if that grant had not been cancelled because the entity has, in effect, vested the award. Consequently, the amount of compensation cost to be recognised at the date of settlement or repurchase should, for example, equal the deemed fair value per unit of service multiplied by the number of units of employee service expected to have been received at grant date during the non-vested period. Our proposed treatment is in fact analogous to that required by SFAS 123 paragraphs 37-38 but which nevertheless does conflict with the recognition criteria under ED 2.4.

3. We agree with the proposal that if an entity does not identify the new options granted as replacement options for the cancelled non-vested options, the entity shall not account for those new options as replacement (i.e. 'repriced') options but rather as a new option grant. In this case the entity shall still continue to account for the services received in respect of the original option grant as if that grant had not been cancelled.

4. We agree with the proposal that where an entity repurchases an equity interest (whether vested or non-vested ), it should be accounted for as a deduction from equity except to the extent that the payment exceeds the fair value of the equity instruments repurchased, measured at the repurchase date. Any such excess shall be recognised as an expense.

**Question 19**

For cash-settled share-based payment transactions, the draft IFRS proposes that the entity should measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity should remeasure the fair value of the liability at each reporting date, with any changes in value recognised in the income statement.

Are the proposed requirements appropriate? If not, please provide details of your suggested alternative approach.

**Response**

We agree with the proposal.

**Question 20**

For share-based payment transactions in which either the entity or the supplier of goods or services may choose whether the entity settles the transaction in cash or by issuing equity instruments, the draft IFRS proposes that the entity should account for the transaction, or the components of that transaction, as a cash-settled share-based payment transaction if the entity has incurred a liability to settle in cash, or as an equity-settled share-based payment transaction if no such liability has been incurred. The draft IFRS proposes various requirements to apply this principle.

Are the proposed requirements appropriate? If not, please provide details of your suggested alternative approach.

**Response**

We agree with the proposal (see our response to question 25, point 1).

**Question 21**

The draft IFRS proposes that an entity should disclose information to enable users of financial statements to understand:

1. the nature and extent of share-based payment arrangements that existed during the period,
2. how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined, and
3. the effect of expenses arising from share-based payment transactions on the entity's profit or loss.

Are these disclosure requirements appropriate? If not, which disclosure requirements do you suggest should be added, deleted or amended (and how)?

**Response**

We support the disclosure principles set out in paragraphs 45, 47, 49, 50 and 51 but believe the minimum disclosure requirements set out in detail, and most particularly in paragraph 48 and paragraph 52(b), are excessive. For example, a company will need to keep a double set of accounting records for the same transactions in order for it to follow paragraph 52(b) without any apparent benefit to the entity concerned. This we certainly regard as impracticable and the process involved will cause 'undue cost or effort'. After all, the disclosures should support the understanding and interpretation of the amounts recognised and are not to be considered as stand-alone information. Disclosure should concentrate on the factors to which the estimated amounts are the most sensitive, particularly if they relate to an assumption that is essentially subjective. The proposed level of disclosure is not only considered burdensome for the preparers but it might also obscure the key messages to the users of financial statements. The objective of disclosure should not be to enable users to check the calculation made by the entity. It would therefore be better to rather treat paragraphs 46, 48 and 52 as an example of the sort of disclosure needed in order to meet the requirements set out in the bold paragraphs rather than as minimum disclosure rules. Consequently, we propose that the Board incorporates the disclosure requirements, as listed in para 46, 48 and 52, into Appendix D.

**Question 22**

The draft IFRS proposes that an entity should apply the requirements of the IFRS to grants of equity instruments that were granted after the publication date of this Exposure Draft and had not vested at the effective date of the IFRS. It also proposes that an entity should apply retrospectively the requirements of the IFRS to liabilities existing at the effective date of the IFRS, except that the entity is not required to measure vested share appreciation rights (and similar liabilities) at fair value, but instead should measure such liabilities at their settlement amount (i.e. the amount that would have been paid on settlement of the liability had the counterparty demanded settlement at the date the liability is measured).

Are the proposed requirements appropriate? If not, please provide details of your suggestions for the IFRS's transitional provisions.

**Response**

We disagree with the proposal and strongly believe that it would be more appropriate if the IFRS be applied to transactions from the effective date of the new standard - and not before.

**<u>Question 23</u>**

The draft IFRS proposes a consequential amendment to IAS 12 (revised 2000) Income Taxes to add an example to that standard illustrating how to account for the tax effects of share-based payment transactions. As shown in that example, it is proposed that all tax effects of share-based payment transactions should be recognised in the income statement.

Are the proposed requirements appropriate?

**Response**

We agree with the proposal.

**<u>Question 24</u>**

In developing the Exposure Draft, the Board considered how various issues are dealt with under the US standard SFAS 123 Accounting for Stock-Based Compensation, as explained further in the Basis for Conclusions. Although the draft IFRS is similar to SFAS 123 in many respects, there are some differences. The main differences include the following:

a) Apart from transactions within the scope of another IFRS, the draft IFRS does not propose any exemptions, either from the requirement to apply the IFRS or from the requirement to measure share-based payment transactions at fair value. SFAS 123 contains the following exemptions, none of which are included in the draft IFRS:
   - employee share purchase plans are excluded from SFAS 123, provided specified criteria are met, such as the discount given to employees is relatively small;
   - SFAS 123 encourages, but does not require, entities to apply its fair value measurement method to recognise transactions with employees; entities are permitted to apply instead the intrinsic value measurement method in Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (paragraphs BC70-BC74 in the Basis for Conclusions give an explanation of intrinsic value); and
   - unlisted (non-public) entities are permitted to apply the minimum value method when estimating the value of share options, which excludes from the valuation the effects of expected share price volatility (paragraphs BC75-BC78 in the Basis for Conclusions give an explanation of minimum value).

(b) For transactions in which equity instruments are granted to employees, both SFAS 123 and the draft IFRS have a measurement method that is based on the fair value of those equity instruments at grant date. However:
   - under SFAS 123, the estimate of the fair value of an equity instrument at grant date is not reduced for the possibility of forfeiture due to failure to satisfy the vesting conditions,

whereas the draft IFRS proposes that the possibility of forfeiture should be taken into account in making such an estimate.

- under SFAS 123, the transaction is measured at the fair value of the equity instruments issued. Because equity instruments are not regarded as issued until any specified vesting conditions have been satisfied, the transaction amount is ultimately measured at the number of vested equity instruments multiplied by the fair value of those equity instruments at grant date. Hence, any amounts recognised for employee services received during the vesting period will be subsequently reversed if the equity instruments granted are forfeited. Under the draft IFRS, the transaction is measured at the deemed fair value of the employee services received. The fair value of the equity instruments granted is used as a surrogate measure, to determine the deemed fair value of each unit of employee service received. The transaction amount is ultimately measured at the number of units of service received during the vesting period multiplied by the deemed fair value per unit of service. Hence, any amounts recognised for employee services received are not subsequently reversed, even if the equity instruments granted are forfeited.

(c) If, during the vesting period, an entity settles in cash a grant of equity instruments, under SFAS 123 those equity instruments are regarded as having immediately vested, and therefore the amount of compensation expense measured at grant date but not yet recognised is recognised immediately at the date of settlement. The draft IFRS does not require immediate recognition of an expense but instead proposes that the entity should continue to recognise the services received (and hence the resulting expense) over the remainder of the vesting period, as if that grant of equity instruments had not been cancelled.

(d) SFAS 123 does not specify a measurement date for transactions with parties other than employees that are measured at the fair value of the equity instruments issued. Emerging Issues Task Force Issue 96-18 Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services requires the fair value of the equity instruments issued to be measured at the earlier of (i) the date a performance commitment is reached or (ii) the date performance is complete. This date might be later than grant date, for example, if there is no performance commitment at grant date. Under the draft IFRS, the fair value of the equity instruments granted is measured at grant date in all cases (indirect method).

(e) SFAS 123 requires liabilities for cash-settled share appreciation rights (SARs) to be measured using an intrinsic value measurement method. The draft IFRS proposes that such liabilities should be measured using a fair value measurement method, which includes the time value of the SARs, in the same way that options have time value (refer to paragraphs BC70-BC81 of the Basis for Conclusions for a discussion of intrinsic value, time value and fair value).

(f) For a share-based payment transaction in which equity instruments are granted, SFAS 123 requires realised tax benefits to be credited direct to equity as additional paid-in capital, to the extent that those tax benefits exceed the tax benefits on the total amount of compensation expense recognised in respect of that grant of equity instruments. The draft IFRS, in a consequential amendment to IAS 12 (revised 2000) Income Taxes, proposes that all tax effects of share-based payment transactions should be recognised in profit or loss, as part of tax expense.

For each of the above differences, which treatment is the most appropriate? Why? If you regard neither treatment as appropriate, please provide details of your preferred treatment.

**Response**

We believe that the IASB proposed treatment is more appropriate in the above cases, except for the difference discussed under paragraph (c) above. Please therefore refer to question 18 for our preferred accounting treatment.

**Question 25**

Do you have any other comments on the Exposure Draft?

**Response**

1. Please remove the example on 'Fair value of share-based payment arrangements with cash alternatives' to a new appendix in the Exposure Draft and delete it from the Implementation Guidance (pages 12-14) as the latter does not form part of the Standard. In addition, we kindly ask the Board to complete the aforementioned example by detailing the different accounting entries required at the different stages during the life of this option grant.
2. We believe that the amount of compensation cost recognised for share-based payment transactions should not differ because one award calls for settlement in shares and another calls for settlement in an equivalent amount of cash (e.g. SARs). However, we are aware that the project Concepts - revenue, liabilities and equity is currently on the agenda and therefore strongly suggest that the aforementioned issue is specifically addressed during the course of that project.
3. It should also be clearly stated that the IFRS does not only apply to holding companies, but to any company within a consolidated group.

Yours sincerely,

Novartis International AG

| | |
|---|---|
| Malcolm Cheetham | Manfred Kaeser |
| Head of Novartis Financial Reporting & Accounting | Head of Novartis Accounting Principles |