

Through a rigorous and proprietary forensic accounting research process, our Financial Research and Analysis team of analysts have achieved a consistent and compelling track record of identifying early warning signals of deterioration in company operating results, uncovering nearly every significant accounting fraud and forewarning on pre-announcements, re-statements and securities claims.

We have harnessed this knowledge capital into a library of industry red flags, called the Industry Risk Assessment Profile (IRAP) Library, which is an accounting risk assessment resource for over 60 discrete industry sub-sectors globally. The unique perspective we provide in this list is at the intersection of accounting and risk in the capital markets.

Our Industry Risk Assessment Profiles include not only US GAAP industry-specific risks, but also specific risks for those companies who report their results under International Financial Reporting Standards. This enhancement to the IRAP Red Flag Library makes it a truly global research reference tool, shedding light on those factors which must be analyzed at a company in order to get a complete picture of the health of the underlying business. The industry-specific approach with global perspective provides descriptions of the issues, as well as references to related research and a complete checklist for those who desire full financial statement analysis.

Who Benefits From The IRAP Library?

RiskMetrics Group's IRAP Library provides a high-impact and mission-critical resource and training tool for a broad range of constituents in the financial services, professional services, and regulatory and educational communities. A fundamental requirement for any financial training program, the IRAP Library is a critical tool for the following sectors:

- + Investment Management
- + Insurance Underwriters
- + Investment Banking
- + Private Equity
- + Commercial Banking
- + Corporations
- + Auditors
- + Legal and Compliance
- + Academia - Faculty and Students
- + Oversight Boards and Regulatory Agencies

RiskMetrics Group Addresses a Broad Spectrum of Risk



Client Benefits:

- + Receive the latest and most relevant accounting issues for each industry; updated annually with new issues and examples added throughout the year.
- + Learn how and where to find these issues in a company's financial statements and footnotes
- + Understand the impact to the quality and sustainability of reported results
- + View relevant company examples and precedent situations
- + Access the IRAPs as a continuous learning tool and resource for your investment-making decision.

IRAP sample with key features:

Energy Equipment & Services

This report highlights important accounting issues relating to the Energy Equipment & Services industry as well as how the application of these issues can impact a company's financial statements. In analyzing this industry, we believe an understanding of the following accounting issues is essential:

- Percentage-of-Completion (POC) Accounting
- Derivatives and Hedge Accounting (IFAS 133)
- Sale and/or Securitization of Accounts Receivable
- Pension Benefits
- Environmental Costs
- Unbilled Receivables and Deferred Revenues
- Depreciation of Property Plant and Equipment (PP&E)
- Inventory Costing and Analysis
- Postretirement Benefits

The discussion of these issues will entail how different accounting choices can impact the financial statements and how management can manipulate these accounting choices to manage earnings.

The following appendices appear at the end of this IRAP:

- [Appendix 1: Risk Assessment Checklist](#)
- [Appendix 2: Industry Term Glossary](#)
- [Appendix 3: Accounting Term Glossary](#)
- [Appendix 4: QuickScore Output Table](#)

Energy Equipment & Services

Leading Companies
Company and Symbol

- Schlumberger Ltd. (SLB)
- Halliburton Co. (HAL)
- Transocean Inc. (RIG)
- Baker Hughes Inc. (BHI)
- GlobalSantaFe Corp. (GSF)

Related IRAPs

- [Multi-Utilities and Unregulated Electric Utilities](#)

Energy Equipment & Services

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Accounting Issues:

Percentage-of-Completion (POC) Accounting

Discussion:

Percentage-of-completion accounting is often used by Energy Equipment & Services companies (e.g., HAL) for long-term contracts. As performance on these contracts occurs over multiple reporting periods, a company recognizes both revenues and costs as the contract progresses. At each reporting period, the company must estimate total revenues and total profits based on estimates of the portion of total project costs that have been incurred as of the reporting date.

Completion is generally measured in one of three ways: (1) comparing costs incurred to estimated remaining costs to complete the project; (2) using a measure of effort, such as labor hours, machine hours, comparing effort expended to date with total estimated effort for the project; or (3) actual units completed to total estimated units, or service, required under contract. Estimating requires estimates that enable management to manipulate revenues or simply may be subject to inaccuracies. Specifically, a company may overestimate current period revenues and earnings at the expense of future revenues and earnings by overestimating the percentage of the project that has been completed or by underestimating total project cost. In doing so, management hopes that future contracts will make up for the loss in revenues and profits that result from aggressive accounting policies in the current period.

IAS/IFRS Standard:

Percentage of completion accounting under IAS 11 remains fundamentally the same as under US GAAP. The concerns, indicators and discussion above are equally applicable when focusing on companies reporting under IAS/IFRS.

Concern:

The estimates required in accruing revenues and costs under the POC method enable management to manipulate revenues and earnings.

Indicators:

- Footnote disclosure of the use of POC accounting.
- Revisions to contract estimates.
- Increase in unbilled receivables and/or a decrease in deferred revenues.

Related RiskMetrics Group Reports

[Introduction to Percentage of Co](#)

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1. Industry overview of accounting issues
2. Key industry participants
3. Other related IRAPs
4. In-depth discussion of accounting issues
5. Concerns and indicators for each issue
6. Analyst contact for additional support

Plus: Industry risk checklist & glossary

For more information on this and other solutions from RiskMetrics Group, please email marketing@riskmetrics.com, visit www.riskmetrics.com, or call:

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"Just as every musician should know his scales and arpeggios, every self-respecting financial analyst should be able to identify channel stuffing, 'cookie-jar' reserves and reaged loans."

The Wall Street Journal, on Industry Risk Assessment Profiles, January 17, 2006

IRAPs educate investors on important accounting issues, and how the application of those issues can impact a company's financial statements.

About RiskMetrics Group:

RiskMetrics Group is a leading provider of risk management products and services to financial market participants. By bringing transparency, expertise and access to the financial markets, we help investors better understand and manage the risks inherent in their financial portfolios. Our solutions address the market, credit, portfolio, governance, accounting, legal and environmental risks of our clients' financial assets. Headquartered in New York with 19 offices worldwide, RiskMetrics Group serves more than 2,300 institutions and 1,000 corporations in 50 countries. For more information, please visit www.riskmetrics.com.



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