

Periodic reporting requirements

The Transparency Directive

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Introduction

The Financial Services Authority's (FSA) new rules implementing the Transparency Directive (TD) apply for accounting periods beginning on or after 20 January 2007. These final rules (Disclosure Rules and Transparency Rules, referred to as DTR) which include requirements relating to the provision of periodic information are largely a copy of the TD requirements as written in the original EU Directive.

The FSA issued a special edition of their newsletter List! in December 2006 (issue 14) dedicated to the TD, which was updated in April 2007. Whilst the TD edition of List! represents 'informal views of the FSA and does not constitute formal FSA guidance', it does provide a good indication of how the FSA expects the rules to work in practice. As stated in the newsletter, the FSA 'supports a market-led solution' where the detail of periodic financial information, such as interim management statements (IMS) 'are developed by market practitioners and discussed between preparers and users of the information.' Accordingly, prior to the emergence of accepted good practice, formal guidance for companies is limited.

Our objective is to provide additional guidance for entities required to implement the new DTR rules, relating to quoted companies, focusing on the periodic reporting requirements of the DTR. This publication does not cover any other periodic reporting requirements arising from the Companies Act or the Listing Rules (with the exception of Listing Rules requirements relating to preliminary announcements).

Background to the Transparency Directive

The TD stems from the 'Implementing the framework for financial markets: Action Plan' published by the EU Commission in 1999. This communication identified a series of legislative actions needed in order to deliver components of a single European Capital Market.

The objective of the TD is to achieve greater harmonisation within the member states relating to the provision of periodic and ongoing information requirements for securities' issuers. In the view of the EU, this should lead to 'a high level of investor protection throughout the Community, which would enable barriers to the admission of securities to the regulated markets situated or operating within a member state to be removed'.

A number of member states, such as the UK, already had specific regulations relating to periodic and ongoing information requirements for issuers of traded securities. Accordingly, the objective of requiring member states to bring in regulations relating to the TD was not necessarily to add to existing requirements, but was to harmonise those requirements.

During the development of the TD the initial proposal was that the TD would bring full US style quarterly reporting into the EU. The view of the UK and some other member states was that this 'US style' approach has arguably led to both companies and investors adopting a more short term view of company performance, which is not desirable. Lobbying to have the initial proposals on quarterly reporting removed from the directive was successful. The proposals were instead replaced with a requirement for interim management statements (IMS), being a narrative update with minimal specific content requirements.

Main changes to existing UK requirements

It is important to emphasise that the objective of the TD was to harmonise existing periodic and ongoing information requirements for issuers of securities across the member states. Accordingly, the effect of enacting the TD is to bring those member states who previously did not have an existing framework in this area up to an agreed minimum level. Unlike the Prospectus Directive, the TD is not a maximum harmonisation directive and member states are free to impose additional reporting requirements on those issuers for which they are the home member state. In the UK the FSA took a decision, following consultation, to minimise any 'gold plating' of the TD requirements and has largely adopted a 'copy out' approach. However, some rules over and above the TD remain in the Listing Rules.

As existing rules and practices met or exceeded those proposed by the TD, the overall impact does not represent a fundamental change in the UK. There are however, a few important changes:

- Shortening of deadlines for publishing periodic financial information.
- Formal requirement to publish interim management statements. The previous market practice of issuers providing trading statements was voluntary.
- Requirement for issuers of retail debt to publish half-yearly financial statements.
- Removal of requirements of depository receipt issuers to produce half-yearly reports.
- Requirement that the half-yearly financial statements are prepared in accordance with EU-adopted IAS 34 ('IAS 34').
- Requirement to produce a management report at the half-year accompanying the half-yearly financial statements.
- Removal of the requirement that half-yearly reports be either sent to shareholders or inserted as a paid advertisement in a national newspaper.
- Annual and half-yearly reports to contain a responsibility statement.
- The requirement to produce a preliminary announcement has been removed; however, FSA rules include preliminary announcements as a voluntary regime (subject to minimum content requirements).

Summary of periodic reporting requirements

Reporting	Timing	1 February 2007 to 31 January 2008 financial year	1 January 2008 to 31 December 2008 financial year*
Interim management statements ('IMS')	Between 10 weeks after the beginning and six weeks before the end of the relevant six month period.	First quarter IMS to be issued between 11 April and 19 June 2007. Third quarter IMS to be issued between 8 October and 20 December 2007.	First quarter IMS to be issued between 11 March and 19 May 2008. Third quarter IMS to be issued between 8 September and 19 November 2008.
Half-yearly reports	Two months from half-year date.	Half-yearly reports to be issued by 30 September 2007.	Half-yearly reports to be issued by 31 August 2008.
Preliminary announcements (prelims)	Voluntary but within four months from the year-end date.	As prelims are voluntary, there is no formal deadline, however, prelims should be published as soon as possible after board approval.	
Annual financial reports	Four months from year-end date.	Annual financial reports to be made public by 31 May 2008.	Annual financial reports to be made public by 30 April 2009.

*Until a company enters the new regime, as determined by its accounting period, it remains subject to the full requirements of the unamended Listing Rules. See transitional rules set out in Annex B and Annex C to FSA 2006/70 made under the Financial Services and Markets Act 2000.

Applies to	Requirements
Companies with ordinary shares listed on main market (excludes preference shares and listed retail debt).	<ul style="list-style-type: none"> • An explanation of material events and transactions (in the relevant period) and their impact on the financial position. • A general description of the financial position and performance during the relevant period.
Companies with listed shares or retail debt on main market.	<ul style="list-style-type: none"> • A condensed set of financial statements prepared in accordance with applicable accounting standards. • Interim management report. • An appropriate statement of assurance from persons responsible in the issuer. • Publication of any audit report or review report in full.
No longer a regulatory requirement – now optional.	<p>Those who voluntarily produce prelims must comply with minimum content requirements, including:</p> <ul style="list-style-type: none"> • Same line items as disclosed in the half-yearly report. • Details of any likely audit report modifications. • Any significant information necessary to assess the results announcement.
Companies with listed shares or retail debt on main market.	<ul style="list-style-type: none"> • Audited financial statements prepared in accordance with applicable accounting standards. • A management report. • An appropriate statement of assurance from persons responsible in the issuer. • Audit report.

More information on each of these requirements can be found on the following pages. This publication focuses on the periodic reporting requirements under the FSA's 'Disclosure Rules and Transparency Rules' (DTR), which apply to regulated markets, including the main market. Regulated markets are those recognised investment exchanges within the meaning of S285 of the Financial Services and Markets Act 2000 and are regulated by the FSA.

AiM listed companies are bound by separate AiM rules, which are not addressed in this publication.

Interim management statements (IMS)

The rules for IMS apply to issuers whose shares (excluding preference shares) are admitted to trading and whose home state is the United Kingdom, as set out below:

Listing rule	Requirements
DTR 4.3.2 DTR 4.3.3	<ul style="list-style-type: none"> An issuer must make public a statement by its management during the first six month period of the financial year and another statement by its management during the second six month period. Statement must be made in a period between ten weeks after the beginning, and six weeks before, the end of the relevant six-month period.
DTR 4.3.4	<ul style="list-style-type: none"> The interim management statement must contain information that covers the period between the beginning of the relevant six-month period and the date of publication of the statement.
DTR 4.3.5	<p>IMS must provide:</p> <ul style="list-style-type: none"> An explanation of material events and transactions that have taken place during the relevant period and their impact on the financial position of the issuer and its controlled undertakings; and A general description of the financial position and performance of the issuer and its controlled undertakings during the relevant period.

Observations

Companies with listed shares that do not already report quarterly are now required to prepare interim management statements (IMS). However, IMSs need not necessarily be made as at the quarter-end date.

- The directive provides a window of approximately 10 weeks during which an IMS must be published. For companies in most industries, our expectation is that any financial data included in an IMS will cover either the first quarter results or the cumulative third quarter results. Some companies in specific industries, for example retail companies, might choose a different period, for example the Christmas trading period, if traditionally this period has been reported on.
- While any financial data will cover a period prior to publication of the IMS, any material events or transactions up to the date of publication, will need to be covered in the narrative.
- The content requirements of an IMS are not extensive.
- The FSA has stated that it would like a market-led solution to develop in this area; accordingly no detailed rules on prescriptive content have been set.
- There is no specific requirement for numerical data and issuers may be able to meet the requirements through narrative explanation. In practice we believe this may be difficult to achieve without the inclusion of selected key operating statistics – however, this does not mean the inclusion of a condensed quarterly profit and loss account.
- In some sectors (especially retail), there is a practice of issuing trading statements or operating performance reports. Reports such as these, suitably adapted for the industry in question, may be an appropriate way of complying with DTR 4.3.5.
- By way of illustration, a retail company might provide, some or all of the following information:
 - **Material events and transactions** such as: refinancing; acquisitions or disposals; opening of new distribution centres or new stores; adoption of a new strategy, such as exiting or entering markets.
 - Narrative around **performance**, incorporating key operating statistics, such as: percentage change in total sales by segment; percentage change in like for like sales by segment. Some companies might opt to give more extensive disclosures, such as: progress against announced store opening, conversions to new formats; deflation or inflation in the supply chain, for example due to higher energy costs; extension of product range; number of customers served.
 - Narrative around **financial position**, such as: adequacy of financing in place to service acquisition plans or major store refurbishment plans; adequacy of working capital.

Half yearly reports

The rules for half-yearly reports apply to issuers whose shares (of any class) or retail debt securities (this excludes debt with a denomination of > €50,000, depository receipts and convertible securities) are admitted to trading and whose home state is the United Kingdom, as set out below:

Listing rule	Requirements
DTR 4.2.2	<ul style="list-style-type: none"> • An issuer must make public a half-yearly financial report covering the first six months of the financial year. • The half-yearly financial report must be made public as soon as possible, but no later than two months, after the end of the period to which the report relates. • An issuer must ensure that the half-yearly report remains available to the public for at least five years.
DTR 4.2.3	<p>Half-yearly report must include:</p> <ul style="list-style-type: none"> • A condensed set of financial statements; • An interim management report; and • Responsibility statements.
DTR 4.2.4 DTR 4.2.5	<ul style="list-style-type: none"> • If an issuer is required to prepare consolidated accounts, the condensed set of financial statements must be prepared in accordance with EU-adopted IAS 34 ('IAS 34') • Requirements are set out for issuers not required to prepare consolidated accounts (very similar to IAS 34). (NB: For companies reporting under UK GAAP, the ASB has issued a draft statement 'Half-Yearly Financial Reports'). • For those issuers not required to produce consolidated accounts, there is a transitional rule which delays the requirement to produce a six month income statement comparative for two years after 20 January 2007 (DTR 4.2.5(b)). <p>Illustrative half-yearly financial statements prepared in accordance with IAS 34 can be obtained from the PwC publications department at publications.uk@uk.pwc.com or tel: 020 7212 4838.</p>

Observations

This is a reduction from the previous 90 day deadline for the publication of a half-yearly report.

For further guidance, see following pages.

IAS 34's minimum disclosure requirements are quite extensive, in particular in respect of business combinations during the period: companies must disclose information relating to all material acquisitions, disposals, restructurings and discontinued operations. Companies disclosing segmental information in their annual reports must disclose segment revenue and result for their primary segment reporting format (be it business or geographical).

Balance sheet comparatives should be given for the last full financial year as well as for the comparative interim period. Income statement comparatives should be given for the comparative interim period, but comparatives for the last full financial year are not required. IAS 34 requires in addition a cumulative year-to-date income statement, with comparatives.

Under the new rules, the previous Listing Rules requirements relating to the format of the income statement have been withdrawn. In particular the requirement to disclose tax, showing UK, overseas and share of associated undertakings tax separately on the face of the income statement has been deleted.

Half yearly reports (continued)

Listing rule	Requirements
DTR 4.2.6	<p>The accounting policies and presentation applied to half-yearly figures must be consistent with those applied in the latest published annual accounts except where:</p> <ul style="list-style-type: none"> • The accounting policies and presentation are to be changed in the subsequent annual financial statements, in which case the new accounting policies and presentation should be followed and the changes and the reasons for the changes should be disclosed in the half-yearly report; or • The FSA otherwise agrees.
DTR 4.2.7	<p>Interim management report must include at least:</p> <ul style="list-style-type: none"> • An indication of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements; and • A description of the principal risks and uncertainties for the remaining six months of the financial year.
DTR 4.2.8	<p>An issuer of shares must disclose the following, as a minimum:</p> <ul style="list-style-type: none"> • Related parties transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period; and • Any changes in the related parties transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year. <p>NB: Different related party disclosure rules apply if an entity does not have to prepare consolidated accounts. See DTR 4.2.8(2).</p>
DTR 4.2.9	<ul style="list-style-type: none"> • If the half-yearly financial report has been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information, the audit report or review must be reproduced in full. • If the half-yearly financial report has not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information, an issuer must make a statement to this effect in its report.

Observations

- Expectation is that the types of events covered would be similar to those addressed in the IMS.
- The requirement to provide a description of principal risks is similar to that currently existing in the business review requirements of the Companies Act for an annual report. While no detailed guidance exists as to what constitutes 'principal risks' we can look to views expressed by the ASB relating to the business review requirement to describe principal risks. As the ASB point out, the key word is 'principal'. Therefore, the management report should include a description of those risks that directors focus on, rather than undifferentiated statements about risks in general. Accordingly, those risks that appear as simply boilerplate summaries of the risk environment would not be considered principal risks.

IAS 24 on related party disclosures applies at year end and requires extensive disclosure, even where related party transactions are regular in pattern and at arm's length. The interim disclosures, in contrast, focus on material effects and changes. Furthermore, IAS 34, paragraph 17, includes in its examples the kinds of disclosures required to be provided in half-yearly reports, related party transactions, thereby reinforcing this DTR requirement.

For companies following UK GAAP, there is no equivalent literature in the ASB's draft statement 'Half-Yearly Financial Reports'. However, we still expect that companies following UK GAAP will update their year end related party disclosures, focusing on material effects and changes, in their half-yearly report.

Half yearly reports (continued)

Listing rule	Requirements
DTR 4.2.10	<ul style="list-style-type: none"><li data-bbox="236 357 1093 381">• Responsibility statements must be made by the persons responsible within the issuer.<li data-bbox="236 389 1093 437">• The name and function of any person who makes a responsibility statement must be clearly indicated in the responsibility statement.* <p data-bbox="236 453 1093 501">For each person making a responsibility statement, the statement must confirm that to the best of his or her knowledge:</p> <ul style="list-style-type: none"><li data-bbox="236 517 1093 620">• The condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole;<li data-bbox="236 628 1093 676">• The interim management report includes a fair review of the important events, as well as a description of the principal risks and uncertainties; and<li data-bbox="236 684 1093 732">• For the issuer of shares, the interim management report includes a fair review of the related party disclosure requirements.

Observations

DTR 4.2.10 explains that the directors can satisfy the requirement to confirm that the condensed set of financial statements gives a **true and fair view** by including a statement that those financial statements have been prepared in accordance with:

- IAS 34; or
- For UK companies not using IFRS, pronouncements on interim reporting issued by the ASB; or
- For all other companies not using IFRS, a national accounting standard relating to interim reporting;

provided that the directors have reasonable grounds to be satisfied that those financial statements prepared in accordance with such a standard are not misleading.

Again, a similar requirement to provide a **'fair review'** already exists in the business review requirements for annual reports. Currently no detailed guidance exists as to what constitutes a 'fair review'. In the ASB's 'Review of narrative reporting by UK listed companies in 2006' published in January 2007, the ASB interpreted a fair review as:

- Description of the business and the external environment in which it operates; and
- Discussion on the objectives of the business and the strategies to achieve those objectives.

Reflecting the increased use of web-sites, the half-yearly report no longer needs to be either sent to shareholders or inserted as a paid advertisement in a national newspaper.

*If the responsibility statement is provided collectively by the board, the statement should cross refer to where the reader can obtain information with regard to the names and functions of each of the board members. Accordingly, if there have been no changes since the publication of the latest annual report, the responsibility statement could cross refer to the appropriate page numbers in the latest annual report.

Preliminary announcements (prelims)

The requirement to produce prelims is now voluntary (described as a ‘super equivalent’ as compared to the EU TD requirements).

Listing rule	Requirements
LR 9.7A	<p>Those who produce prelims must:</p> <ul style="list-style-type: none"><li data-bbox="236 392 796 416">• Publish them as soon as possible after board approval;<li data-bbox="236 427 788 451">• Agree the prelims with the auditors before publication;<li data-bbox="236 462 1053 512">• Present figures in a table that includes the same line items disclosed in half-yearly report;<li data-bbox="236 523 1046 547">• Use accounting policies consistent with those to be used in the annual accounts;<li data-bbox="236 558 796 582">• Disclose details of likely audit report modifications; and<li data-bbox="236 593 1003 643">• Include any significant additional information necessary to assess the results announced.

Observations

- While the Listing Rules relating to preliminary announcements have been amended to make the production of prelims voluntary, the actual rules relating to content are unchanged.
- Any company choosing to publish a prelim, for example to ensure the timely release of price sensitive information, must still follow FSA guidance on its preparation and publication as set out in the new Listing Rule 9.7A.
- We expect that most UK companies will continue to issue preliminary results announcements in advance of the annual report being finalised to satisfy the Market Abuse Directive on price sensitive information. Issuers are likely to struggle to publish full annual report and accounts on the same timetable that they can a preliminary announcement and we believe the market will continue to demand financial information on the typically shorter prelims timetable.

Annual reports

The rules for annual financial reports apply to issuers whose transferable securities (therefore includes any class of shares and retail debt) are admitted to trading and whose home state is the United Kingdom, as set out below:

Listing rule	Requirements
DTR 4.1.2	An issuer that is also admitted to the official list should consider its obligations under the Listing Rules in addition to the requirements in these rules.
DTR 4.1.3 DTR 4.1.4	<ul style="list-style-type: none"> • An issuer must make public its annual financial report at the latest four months after the end of each financial year. • An issuer must ensure that its annual financial report remains publicly available for at least five years.
DTR 4.1.5	<p>Annual financial report must include:</p> <ul style="list-style-type: none"> • The audited financial statements; • A management report; and • Responsibility statements.
DTR 4.1.6	<ul style="list-style-type: none"> • Consolidated accounts still required to be prepared in accordance with IFRS. • Single entity accounts must be prepared in accordance with the national law of the EEA state in which the issuer is incorporated. <p>NB: Entities not incorporated in an EEA state should refer to the transitional provisions.</p>
DTR 4.1.7(3)	The audit report, signed by the person or persons responsible for auditing the financial statements must be disclosed in full to the public together with the annual financial report.

Observations

This is a reduction from the previous deadline of six months and companies will need to ensure that they plan their reporting schedules accordingly.

With regard to further observations relating to management reports and responsibility statements, see the following pages.

Illustrative financial statements prepared in accordance with IFRS are available from the PwC publications department at: publications.uk@uk.pwc.com or tel: 020 7212 4838.

Annual reports (continued)

Listing rule	Requirements
DTR 4.1.8	Management report* to contain:
DTR 4.1.9	<ul style="list-style-type: none"> • A fair review of the issuer's business and a description of the principal risks and uncertainties facing the issuer.
DTR 4.1.11	<ul style="list-style-type: none"> • Review must be a balanced and comprehensive analysis of the development and performance of the business and the position of the issuer's business at the end of the year, consistent with the size and complexity of the business. • To the extent necessary, analysis using financial key performance indicators and other key performance indicators including information relating to environmental matters and employee matters. • References to and additional explanations of amounts included in the issuer's annual financial statements. <p>Must also give an indication of:</p> <ul style="list-style-type: none"> • Important events that have occurred since the end of the year; • The issuer's likely future development; • Activities in the field of research and development; • Information concerning acquisition of own shares; • Existence of branches; • Where material – financial risk management objectives and hedging policies; and • Issuer's exposure to price risk, credit risk, liquidity and cash flow risk.

*The DTR requirements for a 'management report' are mirrored by Companies Act requirements to provide a 'business review'.

Observations

PricewaterhouseCoopers believes that good quality narrative reporting is fundamental to a full understanding of business performance.

Accordingly, we believe that the preparation of a voluntary OFR in accordance with the recommendations of the ASB's 'Reporting Statement: Operating and Financial Review', published in January 2006, remains the most appropriate response for quoted companies to the requirements to publish a 'management report' (in the Listing Rules, which are the same as the requirements in the Companies Act to provide a 'business review'). This view is shared by a number of investor groups, including the ABI, as set out in their Position paper on narrative reporting issued in November 2006.

Further guidance can be found in our narrative reporting publications:

- Business review: illustrative examples
- Guide to forward-looking information
- Guide to key performance indicators

These guides can be found at: www.ofrnow.com

Annual reports (continued)

Listing rule	Requirements
DTR 4.1.12 DTR 4.1.13	<ul style="list-style-type: none"><li data-bbox="232 355 1087 379">• Responsibility statements must be made by the persons responsible within the issuer<li data-bbox="232 387 1076 440">• The name and function of any person who makes a responsibility statement must be clearly indicated in the responsibility statement.* <p data-bbox="232 451 1070 504">For each person making the responsibility statement, the statement must set out that to the best of his or her knowledge:</p> <ul style="list-style-type: none"><li data-bbox="232 515 1102 619">• The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole;<li data-bbox="232 627 1072 735">• The management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and<li data-bbox="232 743 1081 796">• The issuer is responsible for all information drawn up and made public in accordance with this section.

Observations

While the directors have experience providing responsibility statements, the responsibility statements now required in relation to the annual financial reports under the TD are new.

Directors already have a responsibility to provide financial statements prepared in accordance with applicable accounting standards, giving a true and fair view (Section 393 Companies Act 2006). Accordingly, this new requirement simply means that directors need to make a positive statement to that effect.

However, as stated with regard to half-yearly reports, no detailed guidance currently exists as to what constitutes a 'fair review', nor what constitutes 'principal risks', although we can look to how similar requirements to publish a 'business review' have been interpreted. In the ASB's 'Review of narrative reporting by UK listed companies in 2006' published in January 2007, the ASB interpreted a fair review as:

- Description of the business and the external environment in which it operates; and
- Discussion on the objectives of the business and the strategies to achieve those objectives.

The ASB also noted in their January 2007 publication that 'companies need to assess carefully what are their principal risks and uncertainties, and report on those'. This is consistent with our firm view, that the key word is 'principal'. Accordingly, the management report should include a description of those risks that directors focus on, rather than undifferentiated statements about risks in general. Similarly, those risks that appear as simply boilerplate summaries of the risk environment would not be considered principal risks.

*As noted in relation to half-yearly responsibility statements, if the responsibility statement is provided collectively by the board, the statement should cross refer to where the reader can obtain information with regard to the names and functions of each of the board members. Accordingly, the year end responsibility statement should cross refer to the appropriate page numbers in the annual report.

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