

PRELIMINARY  
ANNOUNCEMENTS



ACCOUNTING  
STANDARDS  
BOARD

## PRELIMINARY ANNOUNCEMENTS

This Statement is designed as a formulation and development of best practice; it is intended to have persuasive rather than mandatory force and is not an accounting standard. In the interests of good financial reporting its use is commended by the Financial Reporting Council, the Hundred Group of Finance Directors, the London Stock Exchange and the Irish Stock Exchange.



ACCOUNTING  
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## **FOREWORD BY THE FINANCIAL REPORTING COUNCIL**

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The Financial Reporting Council (FRC) recognises that, for listed companies, preliminary announcements play a key part in the annual financial reporting cycle, being the first public communication of companies' full-year results and year-end financial position. Preliminary announcements are relied upon to provide timely, sufficient and accurate information to ensure an orderly and efficient market.

Preliminary announcements form one of the focal points for investor interest, primarily because they confirm or update market expectations. Because of this, many companies are choosing to include more information in their preliminary announcements than is strictly required under the London Stock Exchange's Listing Rules—so that they convey the essential thrust of the full financial statements and the operating and financial review. This policy ensures that price-sensitive information is properly disseminated to the market and can therefore be openly discussed at analysts' briefings, which for many companies are playing an increasingly significant role in the public explanation of their performance and financial position.

The FRC believes that the Accounting Standards Board's Statement provides valuable guidance for directors wishing to embrace best practice when preparing their preliminary announcements. The FRC therefore welcomes the Board's Statement and encourages directors of all listed companies, and other such organisations as prepare preliminary announcements, to adopt its recommendations.

*Sydney Lipworth*

Sir Sydney Lipworth QC  
Chairman, Financial Reporting Council  
July 1998

## INTRODUCTION

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In the UK preliminary announcements are a requirement of the Listing Rules of the London Stock Exchange, under which listed companies are required to notify the Exchange of their preliminary statement of annual results and dividends (generally known as the preliminary announcement) without delay after board approval.\* The Exchange requires companies to include in their preliminary announcement at least the items required by it for a half-yearly report (ie interim report), as well as any significant information necessary for the purpose of assessing the results being announced.

Preliminary announcements are companies' primary vehicle for the first public communication of their full-year results and year-end financial position to the markets. As such they often contain more information than the minimum required by the Exchange. This Statement provides voluntary guidance, which is intended to supplement the mandatory requirements of the Exchange, in respect of preliminary announcements.

The objective of the Statement is to improve the timeliness, quality, relevance and consistency of preliminary announcements within the constraints of reliability. Compliance with the Statement would both promote best practice within the context of the present reporting environment and increase comparability between preliminary announcements and previously published accounts.

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\* *A similar position exists in the Republic of Ireland, since the Irish Stock Exchange has the same Listing Rules as the London Stock Exchange. All references to the Listing Rules of the London Stock Exchange should be taken as also including those of the Irish Stock Exchange.*

Interim reports and preliminary announcements have much in common. They both communicate new information about the company's financial performance and position to the market, fulfilling confirmatory and predictive functions, although at different stages in the annual reporting cycle. The contents of interim reports and preliminary announcements, therefore, are likely to be similar. Accordingly, this Statement builds on the Statement of best practice 'Interim Reports' recently issued by the Accounting Standards Board.

Discussions about the role of preliminary announcements naturally lead to questions about their interaction with other year-end financial reports (ie the full report and accounts and summary financial statements). Indeed, comments on the exposure draft of this Statement included suggestions for reforming the year-end reporting package.

These ideas and the wider issues connected with the year-end financial reporting structure as a whole are being explored further by the Board, with the help of its working party. This is intended to be a relatively long-term project to allow time for debate and future consultations on the overall reporting regime and for changes in practice to become accepted. In this context, the Board notes and welcomes the Government's announcement in March 1998 of its review of company law.

### ***Scope***

The Statement recommends principles for the preparation of preliminary announcements which are intended to apply to all entities that are required by the Exchange to issue preliminary statements of annual results.



## **PRELIMINARY ANNOUNCEMENTS**

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### ***Role of the preliminary announcement***

- 1 As the first external communication by companies of their financial performance and position for the financial year, the preliminary announcement plays a key part in the reporting cycle. It enables the market to assess whether the company's annual results have met, exceeded or fallen short of expectations.
- 2 To be of value in updating the market's knowledge of a company, preliminary announcements must be issued on a timely basis. Timely publication also helps to minimise the possibility of insider dealing.
- 3 The information in the preliminary announcement must be reliable and sufficient to permit an immediate, informed assessment of the company's overall performance.

### ***Distribution***

- 4 Preliminary announcements tend to be targeted at financial analysts and institutional shareholders, as the persons or organisations most likely to influence a company's share price.
- 5 Under the Listing Rules of the Exchange, listed companies must notify the Exchange of their preliminary announcements. In turn, the Exchange disseminates the information given to it by electronic means using its Regulatory News Service.
- 6 It is not mandatory for preliminary announcements to be sent to shareholders; in practice, often only financial analysts and institutional shareholders receive them. Other shareholders are less likely to be in a position to take advantage of the information on a timely basis. However, in principle, to be equitable, all shareholders should be entitled, on request, to have access to the preliminary announcement

as soon as it becomes available, although it should be noted that information required by the Exchange must not be given to another party before it has been notified to the Exchange.

- 7 Receiving a preliminary announcement after the market has reacted to that information is of limited use. In practical terms, apart from press advertisements, information can be made available to a wider audience contemporaneously, and at the earliest possible moment that it becomes available, only through the use of electronic means (eg the Internet). Companies are therefore strongly encouraged to make further use of electronic means as a way of disseminating financial information, and in particular the preliminary announcement, to a wider audience.
- 8 Notwithstanding the emerging use of the Internet, companies are encouraged to provide some means to ensure that all shareholders can, if they wish, readily obtain a copy of the preliminary announcement as soon as possible after its issue. There are various different methods (as well as electronic means) for achieving this and companies should consider and adopt methods that are appropriate to their shareholder base. Examples include:
  - press advertisements containing the essential details of the preliminary announcement
  - pre-registration schemes (for example with reply cards that could be sent out with interim reports)
  - publicising an address or telephone number by which shareholders can obtain copies of the announcement
  - notifying shareholders (eg with the last interim report of the period) of the exact date that the announcement is expected to be issued, so that they can take appropriate action to receive the preliminary announcement if they choose to do so.

Some of the above arrangements may be particularly useful for shareholders in companies whose results are not reported in detail in the press.

### ***Timescale***

- 9 The benefits of providing the market with early notification of the annual results need to be balanced against the practical problems of collecting and processing information at an acceptable cost and with the same reliability as is required of the full financial statements. With this balance in mind, companies should consider ways of accelerating their year-end reporting timetable, so that they can issue their preliminary announcement as soon as possible after the year-end. Whilst recognising that individual circumstances may make it impracticable for some companies to achieve, the Board nevertheless encourages companies to issue their preliminary announcements within 60 days of the year-end.
- 10 Furthermore, companies should issue the full report and accounts (and the summary financial statement, if prepared) as soon as practicable after the preliminary announcement has been issued.

### ***Reliability***

- 11 To ensure reliability, the Exchange requires the company's auditors to agree with the release of the preliminary announcement. Therefore the directors should publish the preliminary announcement only when it has been approved by the board and agreement, as required by the Listing Rules, has been obtained from the auditors.\* In addition, if the auditors' report on the full financial statements is likely to be qualified, the Listing Rules require details of the nature of the qualification to be given in the preliminary announcement.

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\* Further guidance for auditors has been issued by the Auditing Practices Board in Bulletin 1998/7 'The auditors' association with preliminary announcements'.

- 12 There is an expectation that the information in a preliminary announcement will be consistent with that in the audited financial statements. To achieve this:
- (a) the audit of the financial statements should be complete or at least at an advanced stage at the date of the preliminary announcement.
  - (b) all the figures appearing in the preliminary announcement should agree with the figures in the audited financial statements or in the draft financial statements on which the audit is at an advanced stage.
  - (c) the other information and commentary in the preliminary announcement should be consistent with the figures in the preliminary announcement and with the audited or draft financial statements.
- 13 The guidance in paragraph 12 above balances the need for timeliness and reliability. The overriding consideration is that the information in the preliminary announcement should be reliable and not subject to later alterations. The risk of later changes to the figures in the preliminary announcement is not completely extinguished unless the preliminary announcement is issued at the same time that the full financial statements are approved by the directors and the auditors have signed their opinion on them.
- 14 Against this there lies the need for the timely publication of price-sensitive information once it is available, as evidenced in the Exchange's Listing Rules that the preliminary announcement must be notified to the Exchange without delay after board approval. It is accepted practice, therefore, that, where the reliability of the information in the announcement is not compromised, the main figures and highlights from the financial statements are issued as the preliminary announcement when the audit is at an advanced stage (ie when any outstanding audit matters are unlikely to have a material impact on the financial statements or disclosures in the preliminary announcement), but before the audit report on the financial statements has been signed.

- 15 Section 240(3)(c) of the Companies Act 1985<sup>\*</sup> requires companies to make a statement whether the company's auditors have made an audit report on the statutory accounts dealing with any financial year with which the non-statutory accounts (ie the preliminary announcement, in this case) purport to deal. To prevent misunderstandings about whether the underlying financial statements have been reported upon by the auditors, it would also be helpful if the preliminary announcement clearly stated that the audit report on the full financial statements has yet to be signed, if that is the case.

***Accounting policies and prior year adjustments***

- 16 The accounting policies and presentation of figures in preliminary announcements should be consistent with those in the full financial statements, that have yet to be published.
- 17 Preliminary announcements should include a statement that, subject to specified exceptions, they are prepared on the basis of the accounting policies as set out in the most recently published set of annual financial statements. Preliminary announcements are often reviewed in conjunction with the previous year's financial statements and therefore the accounting policies need to be stated and explained only where they differ from those adopted in the previous year's annual financial statements.
- 18 Following a change in accounting policy, the amounts for the current and prior years should be stated on the basis of the new policies, consistently with the annual financial statements. The cumulative effect of the policy change on opening reserves (ie at the beginning of the financial year)

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<sup>\*</sup> *The equivalent legislation in Northern Ireland is Article 248(3)(c) in Part VIII of the Companies (Northern Ireland) Order 1986 and in the Republic of Ireland is section 19(2)(c) of the Companies (Amendment) Act 1986.*

should be disclosed at the foot of the statement of total recognised gains and losses of the year. Similar disclosures should be made in respect of other prior year adjustments arising from the discovery of fundamental errors. A description should be given to help users understand the nature of each change or adjustment.

### *Content*

- 19 Under the Listing Rules of the Exchange, a preliminary announcement must contain profit and loss information and any significant information necessary for the purpose of assessing the results being announced. Present practice, however, indicates a trend towards lengthier preliminary announcements and the disclosure of much more information than the minimum required by the Exchange.
- 20 The disclosure of more detailed information in preliminary announcements is driven by both demands from financial analysts and a desire on the part of companies to communicate effectively and efficiently with the market.
- 21 In addition, companies are keen to ensure that all price-sensitive information likely to be given at analysts' briefings is included in the preliminary announcement. By giving analysts more information, companies are also safeguarding against misunderstandings and misinterpretation of the information in the preliminary announcement, which would otherwise be detected only at a later date when the full report and accounts are published.
- 22 An informed assessment of financial position and performance requires comparison of information from the profit and loss account, statement of total recognised gains and losses, balance sheet and cash flow statement together with a narrative commentary that explains the primary statements in the context of events and trends since the previous annual report and accounts and the previous interim report.

- 23 It is therefore recommended that a preliminary announcement should include a narrative commentary, a summarised profit and loss account, a statement of total recognised gains and losses, a summarised balance sheet and a summarised cash flow statement.
- 24 Sufficient supplementary information should be given, where helpful, given the nature of the company's business, and as the directors see fit, to permit an understanding of the significant items contained within the primary statements. For example, in certain cases it may be useful to analyse fixed assets into component parts, provide more detail about the company's borrowings, or state the equity and non-equity interests in shareholders' funds, in accordance with FRS 4 'Capital Instruments'.
- 25 Significant events and trends mentioned in the commentary should be supported by the underlying figures given either on the face of the primary statements or by way of note.
- 26 The information should be presented in a succinct manner and should be consistent with that in the yet to be published full report and accounts and comparable with previously published reports.

### ***Management commentary***

- 27 An important feature of a preliminary announcement is a balanced narrative commentary that explains the reasons for significant movements in key indicators and indicates perceived trends within the business. The management commentary should enable users to appreciate the main factors influencing the company's performance during the financial year and its position at the year-end. For example, gross margins are an important factor in the success of retailing businesses and should be adequately disclosed and explained in such cases.

- 28 Attention should also be drawn to events and changes within the year that are likely to have a significant effect on the succeeding year despite having had relatively little impact in the current year.
- 29 The commentary is not intended to be as comprehensive as an operating and financial review (OFR). However, management should consider whether key issues normally referred to in the OFR should be included within the preliminary announcement (albeit in less detail and focusing on areas of change) in order to provide a balanced view and help users gain a better understanding of the company's business.
- 30 The commentary should describe the nature of any seasonal activity and, together with other disclosures, provide adequate information for the performance of the business and its financial position at the end of the year to be assessed.
- 31 As well as referring to trading performance, the commentary should draw attention to a summarised balance sheet and a cash flow statement and should highlight and explain significant changes since the last annual financial statements and interim report, particularly regarding movements in working capital, liquidity and net debt, that are likely to be of value to users in their assessment of the business.
- 32 The commentary and/or notes to the preliminary announcement should explain any other matter that the directors think would help users to understand the report. This would include, for example, where relevant:



- acquisitions and disposals of major fixed assets or investments during the year
- changes in contingencies, commitments and off balance sheet financial instruments\* since the previous year-end and/or half year-end
- material changes in capital structure or financing
- events arising after the end of the year
- the effect of foreign exchange movements during the year
- the impact of revised actuarial valuations on pension costs.

### ***Final interim period***

- 33** The market normally tends to react only to new information arising from the final interim period (ie the second half or, if quarterly reporting is adopted, the fourth quarter of the year) that has not been previously reported upon. However, the preliminary announcement and the annual results have traditionally focused on the results for the year, generally without presenting or discussing the results for the final interim period of the year. This means that the results for this period are subsumed within those for the year and not generally reported to shareholders.
- 34** It is, therefore, particularly important that the salient events and features of the final interim period are referred to and explained as part of the management commentary.

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\* The Board is reviewing the accounting treatment of off balance sheet financial instruments as part of its project on derivatives and other financial instruments.

- 35 Given the importance attached by users to the most current information, including adequate management commentary thereon, preparers are encouraged to comment specifically on the final interim period's results in the preliminary announcement. Separate presentation of the final interim period figures, together with their corresponding amounts, is also encouraged to the extent necessary to support the commentary and to facilitate an understanding of current performance. The extent of information on the final interim period will vary from company to company—in some cases a reference to the key figures in the narrative commentary will be sufficient. This may entail the disclosure and explanation of significant changes to previously reported interim figures for the current year (which would occur only if the change qualified as a prior period adjustment) and of significant changes in estimates of amounts in previously reported interim figures (which are recognised in the final interim period).

***Profit and loss account***

- 36 A preliminary announcement should include a summarised profit and loss account that includes at least the following information where relevant (with separate identification of significant amounts relating to associates and joint ventures):
- Turnover
  - Operating profit or loss
  - Interest payable less interest receivable (net)
  - Profit or loss on ordinary activities before tax
  - Tax on profit or loss on ordinary activities
  - Profit or loss on ordinary activities after tax
  - Minority interests
  - Profit or loss for the period
  - Dividends paid and proposed.

*Acquisitions and discontinued operations*

- 37 Turnover and operating profit of acquisitions and discontinued operations (as defined in FRS 3 'Reporting Financial Performance') should be disclosed separately on the face of the profit and loss account in the period in accordance with FRS 3.

*Segmental information*

- 38 Segmental analysis of trading performance is often crucial to understanding the performance of a company or group. Therefore, where significant, segmental information should be disclosed in the preliminary announcement, for business and/or geographical classifications (using the same classifications as given in the full report and accounts for the year) as follows:
- segment turnover, distinguishing inter-segment sales if significant
  - segment profit or loss on the same basis as in the annual financial statements—normally profit or loss before accounting for interest, taxation and minority interests.

*Taxation*

- 39 Sufficient information should be given to understand any significant changes in the effective tax rate from the prior year. It may be necessary to analyse the tax charge into its significant components (eg UK and overseas tax; and/or current and deferred tax).

*Exceptional items*

- 40 Exceptional items should be disclosed in the preliminary announcement, either on the face of the profit and loss account or in a note in accordance with FRS 3, together with an adequate description.

*Earnings per share*

- 41 The Exchange requires listed companies to disclose earnings per share expressed as pence per share. Basic and diluted earnings per share should, therefore, be calculated and disclosed in the same manner as in the full financial statements. Companies that choose to present in their annual financial statements additional amounts per share based on another level of earnings should present them also in their preliminary announcements, in accordance with FRS 3.

***Statement of total recognised gains and losses***

- 42 A statement of total recognised gains and losses should be included where material gains or losses, other than profit or loss for the financial year as reported in the profit and loss account, are recognised in the period.
- 43 A reconciliation of movements in shareholders' funds should be included in the preliminary announcement only where movements other than those in the statement of total recognised gains and losses need to be explained.

***Balance sheet***

- 44 A summarised balance sheet should highlight significant movements in key indicators of the company's financial position. For consistency, similar classifications to those used in the annual financial statements should be adopted. It is recommended that, for example, a Schedule 4 company or Schedule 4A\* group should give at least the following balance sheet information:

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\* In Great Britain, Schedule 4 or 4A to the Companies Act 1985; in Northern Ireland, Schedule 4 or 4A to the Companies (Northern Ireland) Order 1986; in the Republic of Ireland, the Schedule to the Companies (Amendment) Act 1986 and the Schedule to the European Communities (Companies: Group Accounts) Regulations 1992.

- Fixed assets
- Current assets
  - Stocks
  - Debtors
  - Cash at bank and in hand
  - Other current assets
- Creditors: amounts falling due within one year
- Net current assets (liabilities)
- Total assets less current liabilities
- Creditors: amounts falling due after more than one year
- Provisions for liabilities and charges
- Capital and reserves
- Minority interests.

### ***Cash flow statement***

45 Cash flow information helps users to assess the company's liquidity, viability and financial adaptability. Therefore, total amounts for the categories of cash flows specified by FRS 1 (Revised 1996) 'Cash Flow Statements' should include, at least, the following headings:

- Net cash inflow/outflow from operating activities
- Dividends received from joint ventures and associates
- Returns on investments and servicing of finance
- Taxation
- Capital expenditure and financial investment
- Acquisitions and disposals
- Equity dividends paid
- Management of liquid resources
- Financing
- Increase/decrease in cash.

- 46 A reconciliation of operating profit to operating cash flow should be given in sufficient detail for users to appreciate its chief components. A reconciliation should also be given of the movement of cash in the period to the movement in net debt, as required by FRS 1 (Revised 1996), including the effect of movements on short-term and long-term borrowings, cash and other components of net debt, unless disclosed elsewhere in the preliminary announcement.

### *Comparative figures*

- 47 Comparative figures for the summarised profit and loss account, the statement of total recognised gains and losses, the summarised balance sheet and the summarised cash flow statement should be presented for the previous full financial year.

### *Other disclosures*

- 48 Subject to the limited exceptions noted in this Statement, disclosures demanded by Financial Reporting Standards and Statements of Standard Accounting Practice are not generally required in the presentation of preliminary announcements.
- 49 The preliminary announcement should state:
- the period covered by the report
  - the date on which it is approved by the board of directors.
- 50 In Great Britain, the preliminary announcement should contain a statement that satisfies the provisions of section 240 of the Companies Act 1985<sup>\*</sup> regarding the publication of non-statutory accounts.

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<sup>\*</sup> The equivalent legislation in Northern Ireland is Article 248 in Part VIII of the Companies (Northern Ireland) Order 1986 and in the Republic of Ireland is section 19 of the Companies (Amendment) Act 1986.

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