

2008

February

*The Auditor's Association
with Preliminary
Announcements made in
Accordance with the
Requirements of the
UK and Irish Listing Rules*

2008/2

BULLETIN

The Auditing Practices
Board

THE AUDITING PRACTICES BOARD LIMITED

The Auditing Practices Board Limited, which is part of the Financial Reporting Council, prepares for use within the United Kingdom and the Republic of Ireland:

- Standards and guidance for auditing;
- Standards and guidance for reviews of interim financial information performed by the auditor of the entity;
- Standards and guidance for the work of reporting accountants in connection with investment circulars; and
- Standards and guidance for auditor's and reporting accountant's integrity, objectivity and independence,

with the objective of enhancing public confidence in the audit process and the quality and relevance of audit services in the public interest.

The Auditing Practices Board Limited discharges its responsibilities through a Board ('the APB') comprising individuals who are eligible for appointment as company auditors, and those who are not so eligible. Those who are eligible for appointment as company auditors may not exceed 40% of the APB by number.

Neither the Auditing Practices Board Limited nor the APB accepts any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this Bulletin or arising from any omission from it.

The purpose of Bulletins issued by the APB is to provide auditors and, where relevant, reporting accountants, with timely guidance on new and emerging issues. They are persuasive rather than prescriptive. However, they are indicative of good practice, even though they may be developed without the full process of consultation and exposure used for Auditing Standards.

This Bulletin will supersede Bulletin 2004/1 "The auditors' association with preliminary announcements" when the rules of the United Kingdom Listing Authority or the Irish Stock Exchange that implement the Transparency Directive apply to a preliminary announcement. The timing of the application of these rules to the preliminary announcements of companies will differ dependent on the start date of their financial year.

THE AUDITING PRACTICES BOARD

THE AUDITOR'S ASSOCIATION WITH PRELIMINARY ANNOUNCEMENTS MADE IN ACCORDANCE WITH THE REQUIREMENTS OF THE UK AND IRISH LISTING RULES

Contents	Paragraphs
Introduction	1 - 9
Listing Rule requirements	10 - 11
Companies Act requirements	12
Terms of engagement	13 - 16
Procedures	17 - 32
Communication of agreement	33 - 35
<i>Appendices</i>	
<i>1 Illustrative example letter to directors indicating auditor's agreement with preliminary announcement</i>	
<i>2 Illustrative example terms of engagement; audit completed</i>	
<i>3 Illustrative example terms of engagement; audit not completed</i>	
<i>4 United Kingdom Listing Authority's summary of the Committee of European Securities Regulators "Recommendation on the use of alternative performance measures"</i>	

INTRODUCTION

1. This Bulletin provides updated guidance for the auditor concerning its responsibilities with regard to preliminary announcements¹. The updated Bulletin:
 - (a) reflects the change in the Listing Rules to move from a mandatory to a permissive regime for the publication of preliminary announcements;
 - (b) reflects the change in the Listing Rules to require preliminary announcements to give details of any likely modification (rather than qualification) of the auditor's report required to be included with the annual financial report;
 - (c) reflects the introduction of International Standards on Auditing (ISAs) (UK and Ireland); and
 - (d) continues to emphasise the need for the auditor to consider the way in which alternative performance measures and management commentary are presented in preliminary announcements before agreeing to their release.
2. In this Bulletin the term "Preliminary Announcement" encompasses:
 - (a) the disclosures required to be made by United Kingdom Listing Authority (UKLA) Listing Rule 9.7A.1R and Irish Stock Exchange (ISE) Listing Rule 6.7.1; and
 - (b) other additional information (highlights, Chairman's Statement, narrative disclosures, management commentary, press release etc) that is released to a Regulatory Information Service² as part of a preliminary announcement.

Any presentation to analysts, trading statement, interim management statement or half-yearly financial report is not included within the definition of preliminary announcement.

3. If a company decides to make a preliminary announcement it will be the first public communication of that company's full year results and year-end financial position. Preliminary announcements form one of the focal points for investor interest, primarily because they confirm or update market expectations. Because of this the auditor of a listed company has an important role to play in the process leading to the orderly release of preliminary announcements.
4. Both the content and the preparation of any preliminary announcement are the responsibility of the company's directors. The directors of companies having equities on

1 In the Listing Rules preliminary announcements are described as "preliminary statements of annual results".

2 Regulatory Information Service is the term used for any organisation through which the Listing Rules require listed companies to disseminate price sensitive information. In the Republic of Ireland all price sensitive information must be sent to the Company Announcements Office of the ISE.

the Official List are required by the Listing Rules to have agreed the preliminary announcement with the auditor prior to publication (UKLA Listing Rule 9.7A.1R (2): ISE Listing Rule 6.7.1 (2)).

5. The Listing Rules do not indicate what form the agreement with the auditor should take, or the extent of work expected of the auditor before the auditor gives its agreement. This Bulletin provides guidance on the procedures that would normally be carried out by the auditor and on communicating the outcome of such procedures to the directors.
6. Many companies provide more information in their preliminary announcement than the minimum requirements of the Listing Rules. In the opinion of the APB it is neither practical nor desirable for the auditor to agree to anything less than the entire content of the preliminary announcement.
7. There is an expectation that the information in a preliminary announcement will be consistent with that in the audited financial statements. 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 auditor has signed the auditor's report on them. However, it has also been the accepted practice of some companies to issue the preliminary announcement, with their auditor's agreement, when the audit is at an "advanced stage" but before the auditor's report on the financial statements has been signed. This Bulletin provides guidance on interpreting the expression "advanced stage".
8. Although the APB would not wish to prevent the auditor from agreeing to the release of preliminary announcements before the auditor's report has been signed there is, in such circumstances, an unavoidable risk that the company may wish to revise its preliminary announcement in the light of audit findings or other developments arising between the preliminary announcement being issued and the completion of the audit.
9. There is no requirement for a preliminary announcement to include an auditor's report. In the view of the APB this is appropriate, as it is unlikely that a communication, that contains both a clear expression of opinion and sets out the information necessary for a proper understanding of that opinion, can be developed without producing a report of excessive length and complexity; which would be out of place in the context of the preliminary announcement as a whole. However, to avoid possible misunderstanding and to make explicit their agreement to the preliminary announcement the auditor issues a letter to the company signifying its agreement (see Appendix 1).

Listing Rule requirements

10. Under UKLA Listing Rule 9.7A.1R (1): ISE Listing Rule 6.7.1 (1) a company that prepares a preliminary announcement must publish it as soon as possible after it has been approved by the Board. The preliminary announcement must:

- (a) be agreed with the company's auditor prior to publication;
 - (b) show the figures in the form of a table, including the items required for a half-yearly report, consistent with the presentation to be adopted in the annual accounts for that financial year;
 - (c) give details of the nature of any likely modification that may be contained in the auditor's report required to be included with the annual financial report; and
 - (d) include any significant additional information necessary for the purpose of assessing the results being announced.
11. In accordance with UKLA Listing Rule 9.7A.3 G: ISE Listing Rule 6.7.2 the Listing Authority³ may authorise the omission from any preliminary announcement of information required by UKLA Listing Rule 9.7A.1 R: ISE Listing Rule 6.7.1 if it considers that disclosure of such information would be contrary to the public interest or seriously detrimental to the listed company, provided that such omission would not be likely to mislead the public with regard to facts and circumstances, knowledge of which is essential for the assessment of the shares.

Companies Act requirements

12. In the United Kingdom, preliminary announcements⁴ constitute non-statutory accounts under section 435 of the Companies Act 2006⁵ (CA 2006) and must include a statement indicating:

3 In the UK the term "Listing Authority" refers to the United Kingdom Listing Authority of the Financial Services Authority ("FSA") acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000. In the Republic of Ireland, the ISE is the competent authority for the purposes of the European Communities (Admission to Listing and Miscellaneous Provisions) Regulations 2007 (S.I. No.286 of 2007).

4 In the Republic of Ireland, a preliminary announcement made by a single entity constitutes abbreviated accounts under section 19 of the Companies (Amendment) Act, 1986. A preliminary announcement made by a group constitutes abbreviated group accounts under Regulation 40 of the European Communities (Companies: Group Accounts) Regulations, 1992. This states that where a parent undertaking publishes abbreviated group accounts relating to any financial year, it shall also publish a statement indicating:

- (a) that the abbreviated group accounts are not the group accounts, copies of which are required by law to be annexed to the annual return;
- (b) whether the copies of the group accounts so required to be annexed have in fact been so annexed;
- (c) whether the auditors have made a report under section 193 of the Companies Act, 1990 in respect of the group accounts which relate to any financial year with which the abbreviated group accounts purport to deal; and
- (d) whether the report of the auditors contained any qualifications.

Where a company publishes abbreviated accounts, it shall not publish with those accounts any such report of the auditors as is mentioned in (c) above. The statement required for a single entity is similar.

5 The equivalent section in the Companies Act 1985 is section 240.

- (a) that they are not the company's statutory accounts;
- (b) whether statutory accounts dealing with any financial year with which the non-statutory accounts purport to deal have been delivered to the registrar of companies;
- (c) whether the auditor has reported on the statutory accounts for any such year; and
- (d) if so whether the auditor's report:
 - (i) was qualified or unqualified or included a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; or
 - (ii) contained a statement under section 498(2) (accounting records or returns inadequate or accounts or directors' remuneration report not agreeing with records and returns), or section 498(3) (failure to obtain necessary information and explanations)⁶.

Terms of engagement

13. It is in the interests of both the auditor and the company that the auditor's role in respect of the preliminary announcement is set out in writing; typically by including relevant paragraphs in the audit engagement letter. To avoid misunderstandings the engagement letter describes the auditor's understanding of the process of "agreeing" the preliminary announcement.
14. In circumstances where the auditor is to agree to a preliminary announcement based on financial statements on which its audit is not complete the engagement letter includes cautionary language to the effect that there is an unavoidable risk that the company may wish to revise its preliminary announcement in the light of audit findings or other developments occurring before the completion of the audit.
15. Matters that may be dealt with in the engagement letter include:
 - (a) the responsibility of the directors for the preparation of any preliminary announcement;
 - (b) the fact that the auditor will conduct its work in accordance with this Bulletin;
 - (c) a statement as to whether the auditor believes it is management's intention that the preliminary announcement will be based on audited financial statements or on draft financial statements upon which the auditor has not issued a report;
 - (d) a statement that the auditor will issue a letter confirming its agreement to the preliminary announcement; and
 - (e) a statement explaining the inherent limitations of the auditor's work.

⁶ The equivalent sections in the Companies Act 1985 are sections 237(2) and 237(3).

16. Examples of suitable paragraphs for inclusion in a letter of engagement are given in Appendix 2 for circumstances where the preliminary announcement is to be based on audited financial statements and in Appendix 3 for circumstances where the preliminary announcement is to be based on draft financial statements.

Procedures

Planning

17. Where the preliminary announcement is to be based on draft financial statements the company's timetable should allow the auditor to have completed the audit other than for those matters set out in paragraph 21 below.

Preliminary announcements based on audited financial statements

18. There is an expectation on the part of users that the information in a preliminary announcement will be consistent with that in the audited financial statements. The only way of achieving absolute certainty of this is for the audit of the financial statements to have been completed and the contents of the preliminary announcement to have been extracted from audited financial statements that had been approved and signed by the directors and upon which the auditor has signed the auditor's report.

Preliminary announcements based on draft financial statements

19. Companies may wish to issue their preliminary announcement before the audit is complete. There are additional risks for directors in these circumstances if further information comes to light as a result of the auditor's procedures that the directors decide should be reflected in the financial statements and gives rise to the need for a revised announcement by the company. Before agreeing to the release of the preliminary announcement, therefore, the directors will need to ensure they are satisfied that the information it contains will be consistent with the information that will be contained in the audited financial statements.
20. The auditor will need to be satisfied that any matters outstanding with respect to the audit will be unlikely to result in changes to the information contained in the preliminary announcement. This means that the audit of the financial statements must be at an advanced stage and that, subject only to unforeseen events, the auditor expects to be in a position to issue the auditor's report on the financial statements incorporating the amounts upon which the preliminary announcement is based, and know what that auditor's report will state.
21. This means completing the audit, including the engagement quality control review as described in paragraphs 38 to 40 of ISA (UK and Ireland) 220 "Quality control for audits of historical financial information", subject only to the following:
 - (a) clearing outstanding audit matters which the auditor is satisfied are unlikely to have a material impact on the financial statements or disclosures insofar as they affect the preliminary announcement;

- (b) completing audit procedures on the detail of note disclosures to the financial statements that will not have a material impact on the primary financial statements and completing the auditor's reading of "other information" in the annual report, in accordance with ISA (UK and Ireland) 720 "Other information in documents containing audited financial statements";
 - (c) updating the subsequent events review to cover the period between the issue of the preliminary announcement and the date of the auditor's report on the financial statements; and
 - (d) obtaining final signed written representations from management and establishing that the financial statements have been reviewed and approved by the directors.
22. In advance of the preliminary announcement the auditor discusses with management the representations that the auditor will be likely to require in order to issue its report on the financial statements. If management expresses reservations about its ability or willingness to make such representations the auditor does not agree to the preliminary announcement.

All preliminary announcements

23. The following procedures will normally be carried out by the auditor in relation to the preliminary announcement itself regardless of whether it is based on draft financial statements or extracted from audited financial statements:
- (a) checking that the figures in the preliminary announcement covering the full year have been accurately extracted from the audited or draft financial statements; and reflect the presentation to be adopted in the audited financial statements. For example, any summarisation should not change the order in which items are presented where this is specified by law or accounting standards;
 - (b) considering whether the information (including the management commentary) is consistent with other expected contents of the annual report of which the auditor is aware; and
 - (c) considering whether the financial information in the preliminary announcement is misstated. A misstatement exists when the information is stated incorrectly or presented in a misleading manner. A misstatement may arise, for example, as a result of an omission of a significant change of accounting policy disclosed, or due to be disclosed, in the audited financial statements.
24. The auditor considers whether the preliminary announcement includes a statement by directors as required by section 435⁷ of CA 2006⁸ (see paragraph 12) and whether the

7 The equivalent section in the Companies Act 1985 is section 240.

8 See footnote 4 for the equivalent legislation in the Republic of Ireland.

preliminary announcement includes the minimum information required by UKLA Listing Rule 9.7A.1: ISE Listing Rule 6.7.1 (see paragraph 10).

Alternative performance measures

25. Regulators recognise that in some circumstances the presentation of alternative performance measures (APMs)⁹ and associated narrative explanations with the statutory results may help shareholders understand better the financial performance of a company. However, regulators are concerned that in other instances such APMs have the potential to be misleading¹⁰ and shareholders may sometimes be misinformed by the manner in which APMs are included in preliminary announcements with which the auditor is associated. In those circumstances the APB believes that the potential for APMs to be misleading is considerable when:
- (a) inappropriate prominence is given to the APMs;
 - (b) there is no description of the APMs;
 - (c) APMs resemble defined performance measures but do not actually have the characteristics of the defined measures; and
 - (d) where relevant, the APMs are not reconciled to the statutory financial information.

Appendix 4 is the UKLA's summary of a recommendation published by the Committee of European Securities Regulators (CESR) on the use of APMs.

26. In this context where the preliminary announcement includes APMs, before agreeing to its release, the auditor considers whether:
- (a) appropriate prominence is given to statutory financial information and related narrative explanations compared to the prominence given to APMs and their related narrative explanations;
 - (b) APMs are reconciled, where appropriate, to the statutory financial information and sufficient prominence is given to that reconciliation;
 - (c) APMs are clearly and accurately described; and

9 Alternative performance measures include the adjustment of statutory financial information to, for example:

- Exclude certain items to give alternative earnings numbers eg earnings before interest, tax, depreciation and amortisation (EBITDA).
- Exclude certain business segments or activities.
- Reflect significant non-adjusting post balance sheet events eg disposals or acquisitions.

10 UKLA Listing Rule 1.3.3R and ISE Listing Rule 1.3.3 require that "An issuer must take all reasonable care to ensure that any information it notifies to a Regulatory Information Service or makes available through the FSA/ISE is not misleading, false or deceptive and does not omit anything likely to affect the import of the information."

(d) APMs are not otherwise misleading in the form and context in which they appear.

If the auditor does not believe that the preliminary announcement satisfies these conditions, it seeks to resolve the issues arising with the directors. If it is unable to resolve the issues the auditor considers whether to withhold its consent to the release of the announcement.

Management commentary

27. An important feature of preliminary announcements is a management commentary on the company's performance during the year and its position at the year-end. Such management commentary may include comments on the final interim period in the preliminary announcement and separate presentation of the final interim period figures to the extent this is necessary to support the management commentary. The extent of information on the final interim period will vary from company to company and in some cases this may only consist of a reference to the key figures in the management commentary.
28. The auditor reads the management commentary, any other narrative disclosures and any final interim period figures and considers whether they are in conflict with the information that it has obtained in the course of the audit. If the auditor becomes aware of any apparent inconsistencies with information obtained during the audit or with the draft financial statements, it seeks to resolve them with the directors. If it is unable to resolve the matters the auditor withholds its consent to the publication of the preliminary announcement.
29. In the case of a preliminary announcement based on audited financial statements, the auditor will read the text of any Chairman's Statement, business review or similar document to be included in the annual report from which the management commentary in the preliminary announcement will usually be derived. For a preliminary announcement based on draft financial statements, this will be done on the latest draft of such documents that are available.

Directors' approval of the preliminary announcement

30. The auditor does not agree to the preliminary announcement until its entire content has been formally approved by the board or by a duly authorised committee¹¹ of the board.

11 The Combined Code states that one of the main roles and responsibilities of the audit committee is "to monitor the integrity of the financial statements of the company, and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them"(Combined Code provision C.3.2).

Modification of the auditor's report

31. The Listing Rules require that, if the auditor's report (on the financial statements) is likely to be modified, the preliminary announcement should give details of the nature of the modification. In doing this, care should be taken to ensure compliance with section 435¹² of CA 2006¹³ which states that an auditor's report on the statutory accounts may not be published with non-statutory accounts.
32. Where reference is made in a preliminary announcement to an actual or possible qualified opinion or emphasis of matter, the directors should give adequate prominence to that information in the announcement and the auditor should be satisfied in this regard. If the auditor has concerns about the appropriateness of the wording of a statement referring to a modified report it is encouraged to seek legal advice.

Communication of agreement

33. The APB encourages the auditor to make explicit its agreement to the issue of the preliminary announcement by sending a letter to the directors. An example of such a letter is given in Appendix 1. Similarly, if the auditor is not in agreement with the content of the preliminary announcement, it communicates this to the directors by sending them a letter setting out the reasons for its disagreement, advising the directors that the preliminary announcement should not be published.
34. The auditor may become aware that a company has released a preliminary announcement without first obtaining its agreement. There may be a number of reasons for this ranging from innocent oversight on the part of the directors to the directors knowingly releasing a preliminary announcement with which the auditor disagrees. The action that the auditor takes depends on the particular circumstances. In circumstances where a preliminary announcement is inadvertently released without the auditor's knowledge, but with which the auditor does in fact agree, the auditor may wish to remind the directors of their obligation under the Listing Rules to have obtained the auditor's agreement.
35. However, at the other end of the spectrum, where the auditor becomes aware that the directors have released an announcement with which it disagrees, it takes legal advice with a view to notifying the Listing Authority of the fact that it had not agreed to the announcement.

12 The equivalent section in the Companies Act 1985 is section 240.

13 See footnote 4 for the equivalent legislation in the Republic of Ireland.

ILLUSTRATIVE EXAMPLE LETTER TO DIRECTORS INDICATING AUDITOR'S AGREEMENT WITH PRELIMINARY ANNOUNCEMENT

Dear Sirs

XYZ plc: preliminary announcement of results for year ended [...]

In accordance with the terms of our engagement letter dated [], we have reviewed the attached proposed preliminary announcement of XYZ plc for the year ended []. Our work was conducted having regard to Bulletin 2008/2 "The auditor's association with preliminary announcements made in accordance with the requirements of the UK and Irish listing rules" issued by the Auditing Practices Board. As directors you have accepted responsibility for preparing and issuing the preliminary announcement.

Our responsibility is solely to give our agreement to the preliminary announcement having carried out the procedures specified in the Bulletin as providing a basis for such agreement. In this regard we agree to the preliminary announcement being notified to [a Regulatory Information Service] [and/or the Company Announcements Office of the Irish Stock Exchange, as appropriate].

[As you are aware we are not in a position to sign our auditor's report on the annual financial statements as they have not yet been approved by the directors and we have not yet ... [insert significant procedures that are yet to be completed, for example completing the subsequent events review and obtaining final signed written representations from directors ...]. Consequently there can be no absolute certainty that we will be in a position to issue an unmodified audit report on financial statements consistent with the results and financial position reported in the preliminary announcement. However, at the present time, we are not aware of any matters that may give rise to a modification to our report. In the event that such matters do come to our attention we will inform you immediately.]

Yours faithfully

ILLUSTRATIVE EXAMPLE TERMS OF ENGAGEMENT; AUDIT COMPLETED

Extract from Letter of Engagement

The Listing Rules require that “a preliminary statement¹ of annual results must be agreed with the company’s auditor prior to publication”. As directors of the company, you are responsible for preparing and issuing any preliminary announcement and ensuring that we agree to its release.

We undertake to review the preliminary announcement having regard to Bulletin 2008/2 “The auditor’s association with preliminary announcements made in accordance with the requirements of the UK and Irish listing rules” issued by the Auditing Practices Board. Accordingly, our review will be limited to checking the accuracy of extraction of the financial information in the preliminary announcement from the audited financial statements of the company for that year, considering whether any “alternative performance measures” and associated narrative explanations may be misleading and reading the management commentary, including any comments on, or separate presentation of, the final interim period figures, and considering whether it is in conflict with the information that we obtained in the course of our audit.

You will provide us with such information and explanations as we consider necessary for the purposes of our work. We shall request sight of the preliminary announcement in sufficient time to enable us to complete our work. The Board/committee of the Board will formally approve the preliminary announcement before we agree to it.

ILLUSTRATIVE EXAMPLE TERMS OF ENGAGEMENT; AUDIT NOT COMPLETED

Extract from Letter of Engagement

The Listing Rules require that “a preliminary statement¹ of annual results must be agreed with the company’s auditor prior to publication”. As directors of the company, you are responsible for preparing and issuing any preliminary announcement and ensuring that we agree to its release.

We undertake to review the preliminary announcement having regard to Bulletin 2008/2 “The auditor’s association with preliminary announcements made in accordance with the requirements of the UK and Irish listing rules” issued by the Auditing Practices Board. Accordingly, our review will be limited to checking the accuracy of extraction of the financial information in the preliminary announcement from the latest available draft financial statements of the company for that year, considering whether any “alternative performance measures” and associated narrative explanations may be misleading and reading the management commentary, including any comments on, or separate presentation of, the final interim period figures, and considering whether it is in conflict with the information that we have obtained in the course of our audit.

You will provide us with such information and explanations as we consider necessary for the purposes of our work. We shall request sight of the preliminary announcement in sufficient time to enable us to complete our work. The Board/committee of the Board will formally approve the preliminary announcement before we agree to it. You will also make available to us the proposed text of the company’s annual report.

We will not agree to the release of the preliminary announcement until the audit is complete subject only to the following:

- (a) clearing outstanding audit matters which we are satisfied are unlikely to have a material impact on the financial statements or disclosures insofar as they affect the preliminary announcement;
- (b) completing audit procedures on the detail of note disclosures to the financial statements that will not have a material impact on the primary financial statements and completing our reading of other information in the annual report, in accordance with ISA (UK and Ireland) 720 “Other information in documents containing audited financial statements”;
- (c) updating the subsequent events review to cover the period between the date of the preliminary announcement and the date of our auditor’s report on the financial statements; and

- (d) obtaining final signed written representations from management and establishing that the financial statements have been reviewed and approved by the directors.

The scope of our work will be necessarily limited in that, we will only be able to check the consistency of the preliminary announcement with draft financial statements on which our audit is incomplete. Accordingly, we shall not, at that stage, know whether further adjustments may be required to those draft financial statements. Consequently, there is an unavoidable risk that the company may wish to revise its preliminary announcement in the light of audit findings or other developments occurring between the preliminary announcement being notified to [a Regulatory Information Service] [and/or the Company Announcements Office of the Irish Stock Exchange, as appropriate] and the completion of the audit.

In the event that we disagree with the release of the preliminary announcement we will send you a letter setting out the reasons why.

UNITED KINGDOM LISTING AUTHORITY'S SUMMARY OF THE CESR "RECOMMENDATION ON THE USE OF ALTERNATIVE PERFORMANCE MEASURES"

In List! 12 of February 2006 the UKLA summarised the key points of a recommendation on the use of APMs issued by CESR as follows:

1. Under the IAS Framework, there are four qualitative characteristics that make the information provided in financial statements useful to users: understandability, relevance, reliability and comparability. CESR believes that issuers should follow these principles when preparing APMs.
2. Issuers should define the terminology used and the basis of calculation adopted (ie defining the components included in an APM). Clear disclosure is key to the understandability.
3. Where possible issuers should present APMs only in combination with defined measures (ie GAAP measures). Furthermore, issuers should explain the differences between both measures.
4. Comparatives should be provided for any APM presented.
5. APMs should be presented consistently over time.
6. To ensure that investors are not misled, CESR recommends that APMs should not be presented with greater prominence than defined GAAP measures. Where APMs are derived from audited financial statements and resemble defined performance measures but do not actually have the characteristics of the defined measures, CESR recommends that defined measures should have greater prominence than the APMs.

In our (ie the UKLA) view the CESR recommendation represents best practice for the disclosure of APMs and we would encourage issuers to follow the recommendation.

NOTICE TO READERS

© The Auditing Practices Board Limited

This document has been obtained from the website of the Financial Reporting Council (FRC) and its subsidiary Boards, which includes the Auditing Practices Board (APB). Use of the website is subject to the WEBSITE TERMS OF USE, which may be viewed in a separate section of the website. Readers should be aware that although the FRC and its subsidiary Boards seek to ensure the accuracy of information on the website, no guarantee or warranty is given or implied that such information is free from error or suitable for any given purpose: the published hard copy alone constitutes the definitive text.



CODE: UP/APBD-BI8213

Further copies, £6.00, post-free, can be obtained from:

***FRC Publications
145 London Road
Kingston upon Thames
Surrey
KT2 6SR***

***Telephone: 020 8247 1264
Fax: 020 8247 1124
E-mail: customerservices@cch.co.uk
or ordered online at: www.frcpublications.com***