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Considering new rules and practice in interim reporting

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Contents

Acronyms explained

AIM	Alternative Investment Market.
APB	Auditing Practices Board.
ASB	Accounting Standards Board.
ASB 1997 Statement	ASB Statement on interim reports, which was issued in 1997 as a statement of best practice.
ASB ED Statement	Current exposure draft of a revised ASB Statement on half-yearly financial reports, updating the requirements to be consistent with the DTR and IAS 34.
DTR	Disclosure and Transparency Rules.
ED	Exposure Draft.
EPS	Earnings Per Share.
GAAP	Generally Accepted Accounting Practice.
IAS(s)	International Accounting Standard(s).
IASB	International Accounting Standards Board.
IFRIC	Title of interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.
IFRS(s)	International Financial Reporting Standard(s).
IMR	Interim Management Report, which forms part of a half-yearly financial report.
IMS	Interim Management Statement.
ISRE 2410	International Standard for Review Engagements (UK and Ireland) 2410 on 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' which has been proposed by the APB.
LR	Listing Rule(s).
LSE	London Stock Exchange.
PSM	Professional Securities Market, which was set up by the LSE in response to IFRS and the Prospectus Directive. The PSM is a non-regulated market for listed debt of any denomination.
TOD	EU Transparency Obligations Directive.
UKLA	UK Listing Authority.

Executive summary

For the last two years, the emphasis has been on providing more information in existing reports. Consequently, as Deloitte reported in October 2006, the average number of pages in a listed company's annual report in 2006 was 85 compared to 71 in 2005. 2007 will see change in this trend. Instead of the rules simply calling for more information in existing reports, the cry will be more information and more reports.

The principal cause of the current changes is the implementation of the EU Transparency Obligations Directive (TOD) through amendments to the UK Listing Authority's rules. The impact of the TOD includes:

- requiring fully listed companies to issue interim management statements (IMS) twice a year;
- amending half-yearly reports so that they comply with IAS 34 on interim financial reporting;
- bringing forward the deadlines for reports so that half-yearly reports now must be issued within two calendar months of the period end and annual reports within four months; and
- directors having to report explicitly that financial statements give a true and fair view and narrative reports provide a fair review of the performance and position of the business.

This publication looks at how these changes will affect British companies by comparing the new requirements with present practice in half-yearly and other reports as measured in a survey of current practice. It also looks at how reporting practice has changed by comparing the results of this survey with four previous surveys published in 2005, 2002, 1999 and 1995.

The findings are, in short, that most companies will need to do much to comply with the new rules. In particular:

- only 54% of companies currently publish their interim reports within 60 days of the period end. With the TOD introducing a deadline of two months almost half of listed companies will have to bring forward their reporting deadlines;
- the four months publication deadline for annual reports should be more easily met. Deloitte research indicates that only 7% of companies failed to publish within this timescale;
- while nine companies claimed early adoption of IAS 34 on interim financial reprting, only one of these demonstrably complied with all its disclosure requirements. Compliance with this standard, which will be required for all consolidated financial statements, will increase disclosure particularly on segmental results and business combinations; and
- 78% of the survey companies currently provide some form of reporting outwith the cycle of annual and half-yearly reports. In that respect, the new IMS may not appear too much of a burden. However, at present only 34% of companies reported within the prescribed periods for an IMS. Furthermore, only 14% of companies would have met the content requirements for an IMS, which are to explain the material events and transactions during the period and their impact on the financial position of the group and to describe generally the financial position and performance of the group during the period under discussion. While the IMS is expected to be only a relatively short narrative statement, clearly the significant majority of companies will have to change their processes and deadlines to ensure that the new requirements are met.

So the theme for 2007 is going to be more disclosure more often. Will all then be clear? Or, will this reporting in a more regimented fashion simply lead to more bland reporting rather than focussed commentary as appropriate?

New rules in UK periodic reporting

This section provides an overview of the new requirements for periodic financial reporting for a UK listed company for periods beginning on or after 20 January 2007. The new rules emanate mainly from the UK Listing Authority (UKLA) in its Disclosure and Transparency Rules (DTR), which implement the recent changes arising from the EU Transparency Obligations Directive (TOD). New publications from the Accounting Standards Board (ASB) and the Auditing Practices Board (APB) are also considered.

The EU Transparency Obligations Directive (TOD)

During 2006, the UKLA consulted on the implementation of the TOD in the UK. The directive, which seeks to enhance transparency through an EU-wide framework, has been inserted into the Disclosure Rules sourcebook of the UKLA and is now called the 'Disclosure and Transparency Rules' (DTR). These new rules amend the existing Listing Rules.

The DTR specifically deal with periodic financial reporting (chapter 4 of the DTR), including annual financial reports, half-yearly financial reports and interim management statements (IMS). The DTR also include rules on major shareholdings notification (chapter 5 of the DTR) and the dissemination of regulated information (chapter 6 of the DTR). These latter areas are not discussed in detail herein. The UKLA has provided further information in its December 2006 newsletter, List!, which is available on www.fsa.gov.uk/pubs/ukla/list_dec06.pdf.

Periodic financial reporting

One of the main aims of the TOD is to improve the quality, quantity and timeliness of periodic financial information provided by companies to ensure investor confidence in financial markets. The implementation of the DTR results in the following:

- shorter reporting deadlines for annual and half-yearly financial reports;
- more requirements on the content of periodic financial reports; and
- additional periodic financial reporting for many companies through the introduction of the IMS.

The following chart illustrates the main content of each periodic financial report and its timing for a company with a financial year from 1 February 2007 to 31 January 2008.

- First IMS to be published between 12 April 2007 and 19 June 2007, consisting of short statements on performance, position and material events and transactions.
- Half-yearly financial report for the period 1 February to 31 July 2007 to be published by 30 September 2007 containing:
  - Condensed set of financial statements
  - Interim management report (IMR)
  - Responsibility statement.
- Second IMS to be published between 9 October 2007 and 20 December 2007.
- Voluntary preliminary announcement.
- Annual financial report to 31 January 2008 to be published by 31 May 2008 containing:
  - Audited financial statements
  - Management report
  - New responsibility statement.

Applying the DTR

DTR 4 on periodic financial reporting applies directly to companies "whose transferable securities are admitted to trading and whose home state is the United Kingdom". This means that UK companies which have shares and/or debt listed on a regulated market are within the scope of the DTR.

DTR 4.4 contains an exemption from the rules on periodic financial reporting for public sector companies and for companies which have only listed wholesale debt[1]. Therefore, the DTR requirements set out in the following sections apply to debt-only companies with retail debt[2] listed on a regulated market. Other debt-only companies such as all Professional Securities Market (PSM)[3] companies and all wholesale debt-only companies are outside the scope of the DTR or exempted, except that the rules in DTR 6.3 dealing with the dissemination of regulated information apply to all debt-only companies, regardless of whether they are listed on a regulated market or the PSM (LR 17.3.9B).

1 Debt with a denomination per unit of at least €50,000 (or an equivalent amount).

2 Debt that is not wholesale debt (denomination per unit of less than €50,000 or an equivalent amount).

3 The PSM is a non-regulated market on which companies can list debt of any denomination. It is listed for the purpose of the Listing Rules.

AIM companies and companies admitted to trading on PLUS (previously OFEX) are not listed on a regulated market and hence are not required to comply with the DTR on periodic financial reporting. But other areas of the DTR, such as the rules on major shareholding notifications (DTR 5) apply to companies admitted to trading on AIM and PLUS. The UKLA newsletter, List! December 2006, contains more information on the rules contained in DTR 5.

Q1 I am listed on the PSM – how am I affected by the TOD?
Companies with debt listed on the PSM are admitted to the Official List, but the PSM is not a regulated market. The periodic reporting requirements of the TOD apply only to companies with securities listed on a regulated market. In implementing the TOD, the UKLA has not widened the scope of the DTR. Therefore, the DTR on periodic reporting do not apply to companies with only debt listed on the PSM.

However, the Listing Rules (LR 17) include the requirement for debt-only companies to prepare audited annual financial statements and publish those financial statements within six months of the year end. These LR requirements apply to debt-only companies not following DTR 4 on periodic reporting.

Companies with debt listed on the main market may want to consider moving to the PSM to avoid the impact of the DTR on periodic financial reporting, especially if the company has retail debt listed on the main market (see Q3). Moving to the PSM is free and does not require the preparation of listing particulars. But companies should consult with their sponsors prior to such a move.

Other areas of the DTR, such as the rules on the dissemination of regulated information in DTR 6 apply to companies listed on the PSM.

Q2 I have wholesale debt listed – how do the changes impact me?
Generally speaking, companies with listed wholesale debt are not impacted by the DTR on periodic reporting. Wholesale debt listed on the main market (which is regulated) is within the scope of DTR 4, but DTR 4.4 exempts companies with exclusively wholesale debt from all the requirements on periodic financial reporting. Wholesale debt listed on the PSM is not within the scope of the DTR as the PSM is not a regulated market.

However, the Listing Rules (LR 17) require debt-only companies not following DTR 4 to produce and publish audited annual financial statements within six months of the year end.

Q3 I have retail debt listed – how do the changes impact me?
For companies with listed retail debt, the impact of the DTR will depend on the market on which the retail debt is listed. If a company has retail debt listed on the PSM, the DTR 4 requirements do not apply (see Q1).

If a company has retail debt listed on the main market, it falls within the scope of DTR 4. Such companies are probably the group of companies most affected by the implementation of the DTR. The DTR do not provide any exemptions from the requirements on periodic financial reporting for retail debt. Therefore, companies with retail debt on the main market will now be required to prepare half-yearly financial reports for the first time. They would also have to comply with the more detailed and stringent reporting requirements for annual reports in the same way as companies with shares listed on the main market. However, the IMS requirements only apply to companies with listed shares on a regulated market and hence do not affect companies with retail debt only.

Q4 I have preference shares listed on the main market – am I caught?
Companies with preference shares listed on the main market are within the scope of DTR 4. This is also reiterated by new rule LR 9.1.2A which states that companies with listed preference shares should follow the DTR in the same way as debt-only companies. DTR 4.4 provides an exemption from the IMS requirements for companies with listed preference shares.

Q5 What are the requirements for AIM companies?
The AIM market is not a regulated market and companies admitted to trading on AIM are not on the Official List. Therefore, AIM companies are not within the scope of the DTR 4 requirements and are not considered "listed" for the purpose of the Listing Rules. But other areas of the DTR, such as the rules on major shareholding notifications in DTR 5, apply to companies admitted to trading on AIM.

The AIM rules, which were last updated during 2006, include specific requirements for AIM companies in respect of annual reports and half-yearly financial reports. Please refer to Q8 and Q10 for more information on the detailed requirements.

Annual financial reports

The DTR on annual financial reports apply to companies with securities admitted to trading on a regulated market. DTR 4.4 exempts public sector companies and companies which have only wholesale debt listed from the rules on annual financial reports.

The DTR define the minimum content of an annual financial report as the audited financial statements, a management report and a responsibility statement (DTR 4.1.5).

The DTR bring no new rules on the audited financial statements. For companies that are required to prepare consolidated financial statements, the DTR require the consolidated financial statements to be prepared in accordance with IFRS. The company only accounts of the parent as well as single company accounts should be prepared in accordance with national law (that is UK GAAP or IFRS as permitted by the Companies Act 1985). The financial statements must include the audit report in full.

These requirements reflect those already incorporated into the Companies Act 1985 and the 2002 IAS Regulation, which came into effect for periods beginning on or after 1 January 2005.

The management report required by the DTR effectively represents the requirements for a business review already contained in section 234ZZB of the Companies Act 1985, which became effective for periods beginning on or after 1 April 2005.

s234ZZB Directors' report: business review
(also management report content in DTR 4.1.8 – 4.1.10)

(1) The directors' report for a financial year must contain:

(a) a fair review of the business of the company; and

(b) a description of the principal risks and uncertainties facing the company.

(2) The review required is a balanced and comprehensive analysis of:

(a) the development and performance of the business of the company during the financial year; and

(b) the position of the company at the end of that year, consistent with the size and complexity of the business.

(3) The review must, to the extent necessary for an understanding of the development, performance or position of the business of the company, include:

(a) analysis using financial key performance indicators; and

(b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.

(4) The review must, where appropriate, include references to, and additional explanations of, amounts included in the annual accounts of the company.

(5) In this section, "key performance indicators" means factors by reference to which the development, performance or position of the business of the company can be measured effectively.

In addition to the s234ZZB requirements above, DTR 4.1.11 states that the management report must give an indication of:

- any important post balance sheet events;
- the likely future development of the company/group;
- any activities in the field of R&D;
- the acquisition of own shares;
- the existence of branches; and
- in relation to the use of financial instruments, the financial risk management objectives and policies, including the company's policy for hedging each major type of forecast transaction for which hedge accounting is used and the exposure to price, credit, liquidity and cash flow risk where this is material for the assessment of the assets, liabilities, financial position and profit or loss of the company/group.

These requirements are already in the Companies Act 1985 in Schedule 7 'Matters to be dealt with in directors' report' which became effective for periods beginning on or after 1 January 2005. However, the Companies Act 1985 requirement to give information about the existence of branches is limited to those branches outside the UK. Therefore, the disclosures to be given in the DTR management report go beyond those required under UK law.

The DTR introduce the requirement for a statement to be made by the "persons responsible within the issuer". The responsibility statement should include the name and function of any person making a statement. The persons responsible would usually be the directors of the company, rather than one individual. It is expected that only one person would be required physically to sign the responsibility statement and would sign on behalf of the board of directors. Ultimately, it is for each company to decide which persons are responsible.

Each person making a responsibility statement must confirm that "to the best of his or her knowledge:

- 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; and
- 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".

Directors' liability for disclosures
Following pressure from companies, their representative bodies and some institutional investors, the Companies Act 2006 contains section 463 providing directors with some protection from liability for disclosures made in, inter alia, the directors' report. This is extended to include the IMR in half-yearly reports. This new section is now in force.

Under this new protection, a director is held liable only to the company itself (although existing civil or criminal offences are unchanged). Such liability exists only if the director knew that a statement was untrue or misleading, or was reckless as to whether this was the case. For an omission from the relevant report, liability arises only if he or she knew that the omission was "dishonest concealment of a material fact".

Publication of annual financial reports
The DTR require companies to publish their annual financial reports within four calendar months of the financial year end. This is shorter than the six months deadline previously given by the Listing Rules. Following their publication, annual financial reports have to remain publicly available online for at least five years.

The recent Deloitte survey, 'Write to reason', showed that 7% of the companies surveyed failed to approve and publish their annual report within 120 days.

This suggests that the shorter deadline for publication imposed by the DTR will mean that some companies will have to speed up their year end reporting process to comply with the new requirements. Companies should work with their auditors to amend reporting timetables to fit in with their new deadline.

General provisions regarding the dissemination of regulated information, such as the requirement to communicate to as wide a public as possible and as soon as possible are contained in DTR 6.3. For annual financial reports, the information required to be disseminated by way of a Regulated Information Services (RIS) provider is that which would be required in a half-yearly financial report (see below). Such information must be communicated in unedited full text. The announcement should refer to the website on which the annual financial report is made available. This could be the company's website or a third party website on which the annual financial report can be downloaded.

The DTR allow a purely electronic form of communication. This is supported by the Companies Act 2006 which now defaults to electronic communication provided shareholders have been asked in writing for their approval. The Companies Act 2006 electronic communication rules are effective for financial years beginning on or after 20 January 2007. In any case, shareholders retain their right to request hard copies.

A section 240 statement indicating that the information published does not represent statutory accounts should be included in the dissemination announcement, unless the annual financial report is disseminated in full unedited text.

The rules regarding the dissemination of regulated information also apply to debt-only companies that are otherwise scoped out or exempted from the DTR, such as companies listed on PSM or wholesale debt-only companies.

Preliminary announcements

Preliminary announcements for annual financial reports are now optional for periods beginning on or after 20 January 2007. The previous requirements in LR 9.7 (including the requirement to publish a preliminary announcement within 120 days) were deleted and have been replaced with a new rule, LR 9.7A. If a company chooses to produce a preliminary announcement, LR 9.7A sets out the requirements and these are largely unchanged. For example, the optional preliminary announcement should be published as soon as possible after approval by the board, be agreed with the auditors, include details of any likely modification of the audit report and disclose the items required for a half-yearly report. The optional preliminary announcement has to be disseminated in full text and should contain a section 240 statement indicating that the information published does not represent statutory accounts.

Companies still need to provide and communicate a statement of dividends, including details such as the amount payable per share and the payment date, as soon as possible after the board has approved any dividend decision. Such a dividend statement can be combined with a preliminary announcement where the company chooses to produce one.

Q6 Should I continue to prepare a preliminary announcement?

Preliminary announcements are now voluntary. If a company chooses to prepare a preliminary announcement, the requirements in LR 9.7A need to be met.

Preparing a preliminary announcement (either unaudited or audited) may still be of benefit or necessity to companies in complying with Listing requirements where there is a time delay:

- between the annual audit being substantially complete and the annual accounts being approved; and/or
- between the annual accounts being approved and the accounts being published,

including where dividend decisions are made in those periods, which need to be communicated to the market.

Q7 What are the annual report rules for debt-only companies on the PSM?

As the PSM is not a regulated market, the requirements of DTR 4 do not apply to companies listed there. But, the Listing Rules require in chapter LR 17 that debt-only companies prepare audited annual financial statements and publish those accounts within six months of the year end.

Because the PSM is not in the remit of the IAS Regulation, IFRS is not mandatory and companies can continue to report under UK GAAP.

Q8 What are the relevant annual reporting requirements for AIM companies?

AIM companies are not within the scope of DTR 4 on periodic financial reporting. The AIM rules govern the minimum requirements for financial reporting.

AIM companies are required to publish their annual financial statements within six months of the year end. Also, for periods beginning on or after 1 January 2007, AIM companies that are required to prepare consolidated accounts will have to prepare their group accounts in accordance with IFRS. Companies not preparing group accounts continue to have a choice between UK GAAP and IFRS.

Half-yearly financial reports

The DTR on half-yearly financial reports apply to companies which have shares or debt listed on a regulated market. DTR 4.4 contains some exemptions from the requirements to produce a half-yearly financial report for:

- public sector companies;
- companies with wholesale debt only;
- credit institutions with listed debt only, if the total nominal amount of all listed debt is less than €100m and if the credit institution has not published a prospectus in accordance with the prospectus directive;

- companies already existing on 31 December 2003 with exclusively listed debt unconditionally and irrevocably guaranteed by the company's home member state or a regional or local authority of that state;
- companies with listed convertible securities only; and
- companies with listed depositary receipts.

The Listing Rules do not alter these exemptions. The main change is for companies with retail debt listed on the main market, which are now required to prepare half-yearly financial reports.

A half-yearly financial report should cover the first six months of the financial year. It should contain at least a condensed set of financial statements, an interim management report (IMR) and a responsibility statement (DTR 4.2.3).

Companies preparing consolidated accounts in accordance with the EU Seventh Directive (incorporated into UK company law) are now required to prepare their half-yearly condensed set of financial statements in accordance with IAS 34 'Interim Financial Reporting'. An overview of the impact of IAS 34 is provided below.

Impact of IAS 34

IAS 34 'Interim Financial Reporting' prescribes the minimum content of an interim financial report. It outlines the recognition and measurement principles which are to be followed in interim financial statements. IAS 34 applies to all interim reports, including quarterly reports, if such reports are described as complying with IAS 34. Consequently, in this section reference is made to "interim reports" rather than "half-yearly reports".

Generally, the requirements of IAS 34 are more onerous than those previously included in the Listing Rules or those in the AIM rules. Some, but not all, requirements from the Listing Rules are included in IAS 34, but IAS 34 also contains various additional requirements. Many of those requirements are already recommended by the ASB Statement, but the detailed requirements differ in some areas.

For example, IAS 34 requires that companies include full year comparatives for the balance sheet in their interim report, but it does not require balance sheet comparatives for the corresponding period in the preceding financial year.

The disclosures required by IAS 34 are more extensive than those generally provided by companies at present. Examples include the requirement to disclose segmental revenue and results for the group's primary segments and to provide the disclosures required by IFRS 3 for any business combinations that occur during the relevant period. A detailed disclosure checklist, containing all disclosure and presentation requirements of IAS 34, is included in Appendix II.

Appendix I includes a model half-yearly financial report in accordance with IAS 34 and the DTR for the six months ended 31 July 2007. In addition, detailed guidance on IAS 34, including examples and interpretative material, is contained in Appendix V.

For companies that are not required to prepare consolidated accounts and therefore are not required to follow IAS 34, the DTR prescribe the minimum content for condensed financial statements as set out below.

Minimum content for non-IAS 34 condensed financial statements

Companies not complying with IAS 34 should include in their condensed set of financial statements at least a condensed balance sheet, a condensed profit and loss account and explanatory notes on these condensed financial statements.

The condensed balance sheet and the condensed profit and loss account should:

- be prepared using the same principles for recognition and measurement as in the annual financial report; and
- show each of the headings and subtotals included in the company's most recent annual financial statements. Additional line items should be included if their omission would result in giving a misleading view.

The half-yearly financial information contained in the condensed financial statements must include comparatives as follows:

- the comparative balance sheet as at the immediate preceding financial year end; and
- the comparative profit and loss account for the comparable period in the preceding financial year. The DTR delay the requirement for comparatives in the condensed profit and loss account by two years, that is for periods beginning on or after 20 January 2009. However, in practice this exemption could not be taken by UK companies as comparatives are required by IAS 34 and the ASB Statement, compliance with which is required to give a true and fair view in the half-yearly financial report (see below).

The explanatory notes in the condensed financial statements should contain sufficient information to enable a user to compare the condensed half-yearly financial statements with the annual financial statements. Also, sufficient information and explanations should be included to aid the understanding of any material changes in amounts and any developments in the half year.

DTR 4.2.6 sets out the general requirement that condensed half-yearly financial statements (both IAS 34 and non-IAS 34) should be based on the accounting policies and presentation that are consistent with those in the latest published annual accounts. Where the accounting policies and presentation are to be changed in the subsequent annual financial statements, the new accounting policies and presentation should be followed in the condensed set of financial statements. Such changes and the reason for the changes are to be disclosed in the condensed half-yearly financial statements.

If the condensed set of financial statements has been audited or reviewed in line with Auditing Practices Board (APB) guidance, the audit report or review report must be included in the condensed financial statements in full. If no audit or review has been performed, the condensed set of financial statements should include a statement to this effect.

The DTR require that a half-yearly financial report contains an interim management report (IMR) which includes as a minimum:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed financial statements; and
- a description of the principal risks and uncertainties for the remaining six months of the financial year.

For companies with listed shares, DTR 4.2.8 requires the following additional information on related party transactions to be included in the IMR:

- related party transactions that have taken place in the first six months of the financial year which had a material effect on the financial position or performance of the company/group; and
- any changes in the related party transactions described in the latest annual report which could have a material effect on the financial position or performance of the group in the first six months of the financial year.

These disclosure requirements seem strange. The first requirement appears to result in less disclosure than in the annual financial report, whereas the second disclosure point could be read to be quite onerous and go beyond that required in the annual financial report. It is unclear how this second disclosure requirement will be interpreted in practice.

Companies with listed shares which are not required to prepare consolidated accounts, and therefore do not prepare their half-yearly financial report in accordance with IAS 34, are required to disclose as a minimum:

- any transactions entered into with related parties by the company;
- the amount of such transactions;
- the nature of the related party relationship; and
- other information about the transactions necessary for an understanding of the financial position of the issuer;

if those related party transactions are material and if they have not been carried out under normal market conditions, that is at arms length. The information disclosed may be aggregated according to the nature of the transactions, unless separate disclosure is necessary for an understanding of the financial position of the company.

Although the rules for non-IFRS companies seem to require only disclosure of non-arm's length transactions, in practice this would result in a split between related party transactions that are at arm's length and those that are not. This is likely to be testing. Sufficient evidence would be required for a company to conclude that a related party transaction was carried out at arm's length. On this basis it is likely to be easier for UK companies to give full related party disclosure as required by FRS 8 'Related Party Disclosures'.

Similar to the rules for annual financial reports, DTR 4.2.10 requires companies to provide a responsibility statement in their half-yearly financial reports. Such a statement must be made by the persons responsible within the company (usually the directors). The responsibility statement should include the name and function of any person making a statement. It is expected that only one person would be required physically to sign the responsibility statement, and sign on behalf of the board of directors. Ultimately, it is for each company to decide which persons are considered responsible within the company.

Each person making a responsibility statement must confirm that to the best of his or her knowledge:

- 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 company, or the undertakings included in the consolidation as a whole;
- the interim management report includes a fair review of the information required by DTR 4.2.7 (indication of important events and their impact, and description of principal risks and uncertainties for the remaining six months of the financial year); and
- in the case of a company with listed shares, the interim management report includes a fair review of the information required on related party transactions.

Similar directors' liability provisions as those for annual financial reports also apply in this area.

"True and fair" in the context of half-yearly financial reports

In its consultation on the implementation of the TOD, the UKLA discussed the "true and fair" requirement for half-yearly financial reports. The UKLA recognises that "true and fair" has a different meaning in the context of half-yearly financial reports and condensed financial statements compared to annual reports. Consequently, the UKLA clarified in its Policy Statement PS06/11on the Implementation of the Transparency Directive (October 2006) that the requirement to provide a true and fair view in half-yearly financial reports is satisfied by a statement in accordance with DTR 4.2.10(4) (see below). The UKLA further clarified in that Policy Statement that this decision has no effect on the interpretation of the true and fair view for annual accounts.

DTR 4.2.10(4) establishes that the requirement to confirm that the condensed set of financial statements gives a true and fair view will be satisfied if the responsibility statement includes a confirmation that the condensed 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.

In all cases, the above applies provided the person making the statement has reasonable grounds to be satisfied that the condensed set of financial statements prepared in accordance with such a standard is not misleading. The December 2006 edition of List! states that a further explicit statement confirming that the condensed financial statements give a true and fair view is not necessary.

ASB draft Statement 'Half-Yearly Financial Reports'
In light of the DTR requirement for UK companies not using IFRS to confirm compliance with the ASB Statement on interim reports, the ASB is currently revising its 1997 Statement 'Interim Reports' and is publishing an exposure draft of a Statement on 'Half-Yearly Financial Reports'.

The draft Statement seeks to ensure consistency with all major aspects of IAS 34 and the DTR and to avoid conflicting guidance. In revising the 1997 Statement, the wording is updated to ensure consistent language is used between the draft Statement, IAS 34 and the DTR. For example, "interim report" is changed to "half-yearly financial report". Otherwise, the intention is to keep changes to a minimum.

The draft Statement, although not mandatory by definition, becomes effectively mandatory for companies within the scope of the DTR not using IFRS. This follows from the true and fair requirement for non-IFRS companies to confirm compliance with pronouncements by the ASB.

Publication

Companies should publish their half-yearly financial reports within two calendar months of the end of the six month period to which it relates. This compares to 90 days previously allowed for publication by the Listing Rules. As required for annual financial reports, half-yearly financial reports have to remain publicly available online for at least five years.

Note that the publication deadline under the DTR are calendar months – hence the deadline could be from 59 days (31 December period end) to 62 days (30 June period end).

The half-yearly financial report must be disseminated in unedited full text. But it is no longer required that companies publish their half-yearly financial report in a national newspaper or send it to their shareholders. Online communication is sufficient.

Q9 I am a retail company with 13 four week periods. How does the reporting deadline apply to me?

Many companies in the retail and other sectors prepare financial information based on 13 four week periods instead of calendar months. This results in uneven periods for the half year reporting. Retail companies commonly report on the first 24 or 28 weeks of the financial year, instead of the first six months of the financial year. It is unclear from the UKLA rules, whether 24 or 28 week periods are permitted in half-yearly financial reports and it remains to be seen how practice develops in this area.

The DTR require that the half-yearly financial report should be made public no later than two months after the end of the period to which it relates. Therefore, a retail company preparing its half-yearly financial report for the 28 weeks ending 11 August 2007 should publish it by no later than 11 October 2007.

Q10 What are the half-yearly reporting requirements for AIM companies?

AIM companies are not within the scope of the DTR on periodic financial reporting. Hence the above requirements for half-yearly financial reports do not apply.

The AIM rules require that AIM companies publish a half-yearly financial report in respect of the first six month of each financial year. The half-yearly financial report must be published within three months of the period end. The information contained in the half-yearly report of an AIM company should include as a minimum:

- a balance sheet;
- an income statement;
- a cashflow statement; and
- comparative figures for the corresponding period in the preceding financial year.

The AIM rules also require that the half-yearly report is presented and prepared in a form that is consistent with the subsequent annual financial statements of the company. This extends to taking into account the accounting policies that will apply to the subsequent annual financial statements. Where the half-yearly report has been audited, a statement to this effect should be included.

AIM companies required to prepare consolidated financial statements have to prepare their group accounts in accordance with IFRS for periods beginning on or after 1 January 2007. The question arises, whether in their half-yearly reports AIM companies should follow IAS 34. The AIM rules do not contain an explicit requirement to that regard. As the AIM rules require consistent accounting policies, presentation and preparation in the half-yearly report compared to the subsequent annual report, AIM companies reporting under IFRS should prepare their half-yearly reports using accounting policies and measurement consistent with IFRS.

Compliance with IAS 34 is not required, but companies can apply IAS 34 voluntarily.

Q11 I am listed on the PSM – what do I need to do at the half-yearly reporting date?
PSM companies are not required to prepare half-yearly financial reports. They are not within the scope of the DTR on periodic financial reporting and the Listing Rules do not require any interim financial reporting by debt-only companies not caught by DTR 4.

Q12 I have wholesale debt listed – which half-yearly requirements do I need to follow?
Exclusively wholesale debt companies are not required to prepare half-yearly financial reports.

Wholesale debt listed on the main market is specifically exempted by the DTR from its requirements on periodic financial reporting and wholesale debt listed on the PSM is outside the scope of the DTR 4 rules.

Q13 I have retail debt listed on the main market – which half-yearly requirements do I need to follow?
Companies with retail debt listed on the main market are within the scope of the DTR on periodic financial reporting. The DTR do not contain any exemptions for retail debt. Therefore the requirements for half-yearly financial reports in DTR 4.2 apply to retail debt companies on the main market in the same way as for companies with listed shares. This is new for retail debt companies, as they previously were not required to report financial information outwith the annual financial report.

Q14 I am a stand-alone company, preparing accounts in accordance with IFRS. Do I need to comply with IAS 34?
The DTR and UKLA guidance is not entirely clear in this area. DTR 4.2.4 only mandates IAS 34 in half-yearly financial reports for companies that are required to prepare consolidated financial statements in accordance with the Seventh Directive. Therefore, companies not required to prepare group accounts which nevertheless chose to adopt IFRS would not be required to adopt IAS 34.

DTR 4.2.10 states that the requirement to confirm a true and fair view in the responsibility statement is satisfied by "including a statement that the condensed set of financial statements have been prepared in accordance with:

(a) IAS 34; or

(b) for UK issuers not using IFRS, pronouncements on interim reporting issued by the Accounting Standards Board [...]".

The reverse of (b) is that UK companies using IFRS should apply IAS 34 to give a true and fair view in the half-yearly report. This is also reiterated by the UKLA newsletter, List! December 2006, which states that "issuers using IFRS for their annual accounts [...] will be required to produce half-yearly reports in accordance with IAS 34 on Interim Financial Reporting".

Therefore, it is strongly recommended that single companies reporting under IFRS adopt IAS 34 in their half-yearly financial reports.

Q15 Do the DTR change the basic rules on auditors reviewing half-yearly reports?
Under the DTR, companies can still choose whether or not to have their half-yearly report reviewed by their auditors. However, they must now either publish the review report if the auditors have performed a review or state explicitly where this is not the case.

Q16 How does proposed ISRE 2410 change the work of the auditor at the half year?
The Auditing Practices Board (APB) issued an exposure draft of proposed International Standard for Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' (ISRE 2410) on 9 January 2007. Once issued as a final standard, auditors asked to perform a review on half-yearly reports under the DTR will apply ISRE 2410 instead of the existing APB Bulletin 1999/4.

The new standard will not be a major change from the current APB Bulletin 1999/4. There is only a small increase in the list of procedures to be carried out. The only change in scope identified by the APB is to require more work on agreeing the financial information back to underlying accounting records and the consideration of consolidation journals.

Another ISRE 2410 change will be in the timing of work to be carried out by the auditors. ISRE 2410 requires that auditors update their understanding of the company and its internal controls as part of their review. This may mean that work traditionally done close to the year end is performed earlier in the year, particularly where systems have changed between the previous year end and the half year date.

The biggest impact on the amount of review work will come from the increased length of the half-yearly report from the adoption of IAS 34 and the need for auditors to review these disclosures.

Interim Management Statements (IMS)

The DTR on IMS apply only to companies which have shares listed on a regulated market. DTR 4.4 contains some exemptions from the requirements to produce an IMS for:

- public sector companies;
- companies with listed convertible securities only;
- companies with listed preference shares only; and
- companies with listed depositary receipts.

Companies that publish quarterly reports, in accordance with national legislation, in accordance with the rules of a regulated market or voluntarily, do not have to produce a separate IMS. The quarterly report is taken to satisfy the requirements for an IMS (DTR 4.3.6).

Each IMS must contain information covering the period from the beginning of the relevant six month period up until the date of publication of the statement.

The IMS must provide:

- an explanation of material events and transactions that have taken place during the relevant period and their impact on the financial position of the company/group; and
- a general description of the financial position and performance of the company/group during the relevant period.

In essence, the purpose of the IMS is to give stakeholders a brief update on events since the last annual or half-yearly financial report and how the company is developing.

A company must publish one interim management statement in each six month period of the financial year. This means one IMS during the first six months and another IMS during the second six months of the financial year.

The IMS must be made in a period between ten weeks from the beginning, and six weeks before the end, of the relevant six month period. For example, a company with a 31 January 2008 year end is required to publish its first IMS between 12 April 2007 and 19 June 2007. The second IMS is due between 9 October 2007 and 20 December 2007.

The UKLA was asked to provide further information about what an IMS should contain and how the UKLA seeks to enforce the IMS in practice. Information and further details have been published in the UKLA newsletter, List! December 2006, some of which has been incorporated below.

Q17 What is the minimum content of the IMS?
Other than the general requirements set out above, there is no detailed guidance on the content of the IMS. Items and events included in the IMS should not be generic. The content of the IMS should be company-specific and tailored to the specific market requirements. The UKLA reiterates that the content of the IMS should be market-led, based on discussions between preparers and users. Companies should use their professional judgement to decide whether something is important and should be reported in the IMS.

Q18 Does the IMS need to include financial data?
There is no explicit requirement for the IMS to contain financial information. However, the content of an IMS will depend on the facts and circumstances for each company and the markets in which it operates. The nature, scale and complexity of the transactions and events within the company will determine the content of the IMS and the manner in which they are best reported. Where major events and transactions, their impact on the financial position as well as a general description of financial position and performance can be provided in a meaningful way without using financial data, a purely narrative statement may be sufficient.

Q19 Am I now required to produce a quarterly report?
It is not expected that, in preparing an IMS, companies need to look at requirements for quarterly reporting. The UKLA confirms this in its December 2006 edition of List!. It reports that it is "...our expectation that IMS would be less demanding than producing quarterly reports. We would not expect issuers to apply the conventions currently required for annual and interim reporting".

Q20 I already produce quarterly reports. Do these have to comply with IAS 34?
There are no explicit requirements in either the DTR or other UKLA guidance that requires quarterly reports to be prepared in accordance with IAS 34. IAS 34 applies to all forms of interim reporting but only to the extent that these reports purport to comply with the standard. Therefore, unless a company wishes to state compliance with IAS 34, the standard does not apply to quarterly reports.

Q21 How is the UKLA going to enforce the IMS?
The UKLA has indicated that it intends to adopt a risk-based approach to enforcing the IMS regime. This will take into account the high-level nature of the rules on interim management statements and their openness to interpretation. The UKLA is planning to review market practice in approximately 18 to 24 months with a view to providing further guidance if necessary.

Q22 Do auditors review the IMS?
The UKLA does not require any auditor involvement in interim management statements. However directors may wish to consider whether there are any areas or processes on which their auditors should carry out specific agreed-upon procedures.

In summary
The table opposite summarises the application of the requirements on periodic financial reporting in DTR 4 to UK companies, together with other requirements arising from the Listing Rules and AIM rules. The table does not cover the requirements for non-UK companies listed in the UK. The table also does not include requirements which may arise from other sources.

Periodic financial reporting – Application of DTR 4

Type of company	Annual financial reports (DTR 4.1)	Half-yearly financial reports (DTR 4.2)	Interim management statements (DTR 4.3)	Other
Ordinary shares listed on main market	✓	✓	✓	
Preference shares listed on main market	✓	✓	Exempt	
Shares admitted to trading on AIM	X (but required under AIM rules)	X (but required under AIM rules)	X	AIM rules
Retail debt listed on main market	✓	✓	X	
Retail debt listed on PSM	X (but required under LR 17)	X	X	LR 17
Wholesale debt listed on main market	Exempt (but required under LR 17)	Exempt	Exempt	LR 17
Wholesale debt listed on PSM	X (but required under LR 17)	X	X	LR 17

How companies are reporting

Survey objectives

The main objectives of this survey were to consider:

- what information companies provide in their half-yearly reports;
- how promptly companies are reporting and the extent to which half-yearly reports are made available electronically;
- the number of companies disclosing compliance with IAS 34 'Interim Financial Reporting'; and
- how the findings on current corporate interim reporting compare to the results of previous surveys undertaken in 2004, 2002, 1999 and 1995.

The survey was conducted by obtaining the half-yearly reports of 100 listed companies announcing half year results in 2006. To track trends over time, the sample is, as far as possible, consistent with that selected in previous surveys. Due to takeovers, mergers and delistings, 21 of the companies surveyed in 2004 are no longer fully listed. In addition, two companies did not publish half-yearly reports within the timescale of the 2006 survey. For these reasons, only 77 companies in the 2004 survey were also surveyed in 2006.

23 additional companies were selected for the 2006 survey, based on market capitalisation, to provide a final sample stratified into three categories: companies within the top 350 companies by market capitalisation, companies ranked from 351-808 and companies within the smallest 350 by market capitalisation.

Not surprisingly, the top 350 showed the highest level of consistency with the 2004 survey, with only two replacement companies required. The remaining new companies were split evenly between the mid tier and smallest companies.

Of the companies selected for the 2006 sample, 82 reported under IFRS (15 for the first time) and 18 single entity investment trusts continued to report under UK GAAP.

The mechanics of reporting

The demands of stakeholders and regulators for faster, more comprehensive reporting continue to drive developments in company reporting, including at interim dates. Therefore, the survey examined to what extent companies meet these demands, including:

- the speed of publication of half-yearly reports;
- the extent of additional reporting;
- the involvement of auditors in preparing half-yearly reports;
- the level of e-reporting; and
- the visual style and extent of the half-yearly report.

Speed of reporting

The Listing Rules require companies to report their half-yearly results within 90 days of the period end, with the ASB Statement recommending reporting within 60 days. In a letter to chief executives in October 2004, the UKLA announced relaxation of the 90 day limit to the EU limit of 120 days for first time IFRS reporters.

Sampled companies took on average 57 days to report (2004: 55 days). None of the 15 first time IFRS reporters within the sample took advantage of the relaxation in reporting deadline, with the only company breaching the 90 day limit being an existing IFRS reporter announcing its half-yearly results 91 days after the period end. In fact, there was little difference in the average time to report for first time IFRS reporters, with an average of 56 days to report compared to 57 days for the sample as a whole.

54 companies met the ASB recommended timetable of 60 days compared to 62 companies in 2004. This slight slowing in reporting may be partly due to the additional demands of reporting under IFRS. It also suggests a challenge for almost half of companies when the requirements of the Disclosure and Transparency Rules (DTR) reduce the regulatory reporting deadline to two calendar months.

Additional reporting

The DTR, which will be in force for periods beginning on or after 20 January 2007, require listed companies to issue at least one interim management statement (IMS) in each half of the financial year, containing:

- an explanation of material events and transactions during the period and their impact on the financial position of the group; and
- a general description of the financial position and performance of the group during the period under discussion.

This additional reporting should fall between ten weeks into and six weeks from the end of the relevant half year period.

78 of the companies sampled provided some form of reporting outside of annual and half-yearly reports, of which 34 fell within the prescribed period for an IMS.

Of these 34 companies, eight prepared quarterly reports and 14 investment trusts provided monthly updates, with the remaining 12 companies providing relatively brief sales or portfolio updates.

The 44 other reports consisted primarily of pre-close trading updates at full or half year dates (29 companies) and ad hoc reports on significant events or transactions.

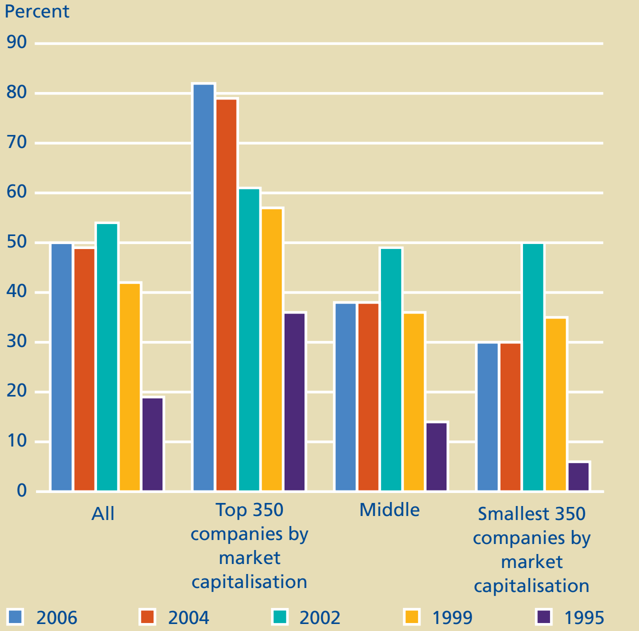
Regarding the content of additional reporting, only 14 companies would have met the IMS requirements. This suggests that the requirements of the DTR will impose an additional reporting burden on the majority of listed companies.

The auditors' involvement

The level of auditor involvement in half-yearly reporting has remained steady compared to the 2004 sample, with 50 (2004: 49) half-yearly reports reviewed by auditors.

Figure 1 summarises the extent of auditor involvement for each group of companies in each survey to date.

Figure 1: How does auditor involvement compare to previous years?



Auditor involvement continues to be more widespread amongst the larger companies sampled, with smaller companies considerably less likely to receive a formal review report from their auditors.

Of the 50 companies with no review opinion, only seven stated explicitly that the half-yearly information had neither been audited nor reviewed. This disclosure is already recommended by the ASB Statement and in future the DTR will require companies to make a statement where the half-yearly report has neither been audited nor reviewed. This additional disclosure requirement, together with the requirement for a statement of responsibility by individuals within the company may lead to a higher level of involvement by auditors in future half-yearly reports.

E-reporting

While the Listing Rules require a company to "send the half-yearly report to the holders of its listed securities; or insert the half-yearly report, as a paid advertisement, in at least one national newspaper", many companies also choose to make information available to investors on the Internet.

99 of the companies sampled either had their own website or were included on the website of their investment group, with 85 of these companies making the half-yearly report available for download from the website. This level of e-reporting shows the increased importance of the Internet since the 2004 survey, when 90 companies surveyed had a website and 80 of those companies made their half year report downloadable.

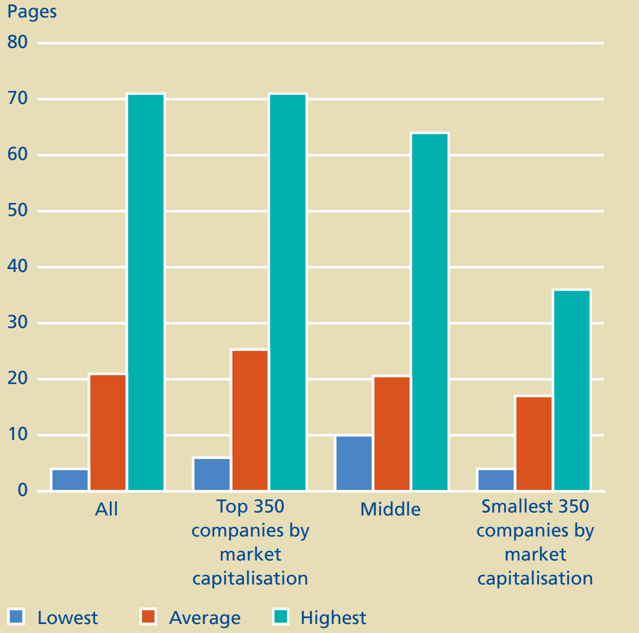
In addition, 38 companies made available online either a webcast or analyst slides of the half year presentation to accompany their half-yearly report.

Visual style and extent

The style and extent of half-yearly reports ranged from glossy documents, similar to a mini-annual report and up to 71 pages in length, to typescript documents of as little as four pages.

Figure 2 shows the average length of half-yearly reports for each category of companies and the range of lengths. Perhaps unsurprisingly, the longer half-yearly reports tend to be produced by the larger companies.

Figure 2: How many pages does an average half-yearly report contain, and what is the range?



Half-yearly reports appear to be increasing in length over time. In the 2004 survey, the average length was 13 pages, rising to 21 pages in 2006. This 2006 average is slightly inflated due to the additional, one-off transitional information in the 15 companies adopting IFRS for the first time. However, even after allowing for this effect the average length of half-yearly reports in the 2006 sample was 20 pages, an average increase of seven pages from 2004.

The explanatory narrative

The Listing Rules require half-yearly reports to contain "an explanatory statement including:

- any significant information enabling investors to make an informed assessment of the trend of the group's activities and profit or loss;
- information of any special factor which has influenced the group's activities and the profit or loss during the period in question;
- enough information to enable a comparison to be made with the corresponding period of the preceding financial year; and
- to the extent possible, a reference to the group's prospects in the current financial year".

In addition, the ASB Statement gives guidance on the content of management commentary in half-yearly reports. It recommends comment on the following areas:

- information on perceived trends – giving a balanced narrative that explains the reasons for significant movements in key indicators; and
- movements in working capital, liquidity and net debt – giving a meaningful analysis of the treasury position of the company.

This section examines discussion of these matters as follows:

- the author of the commentary;
- its length;
- its content; and
- further requirements of the DTR.

Who makes the commentary?

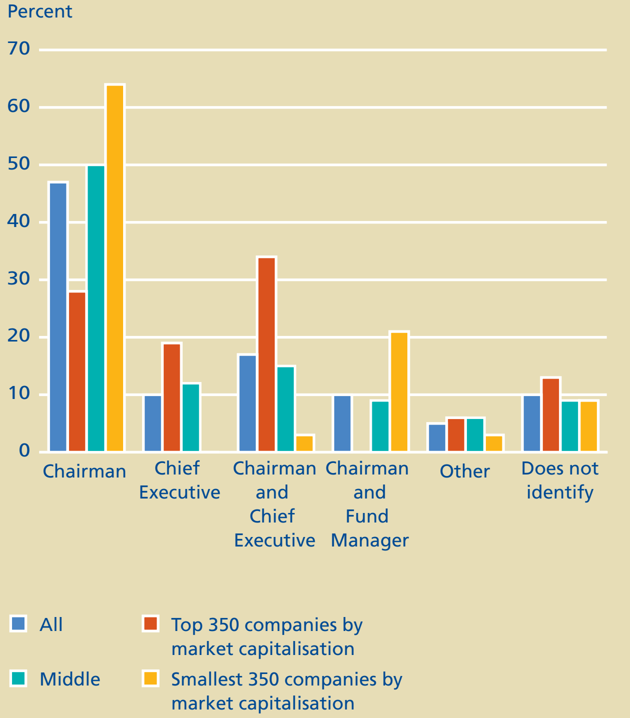
The author(s) of the commentary varied throughout the sample of companies. Overall, the Chairman remained the most likely person to comment, having at least some clear involvement in the explanatory narrative of 77 companies surveyed.

The results show that:

- in 47 cases, the Chairman was the only named contributor to the explanatory narrative, with the Chief Executive providing the full commentary in only ten cases;
- in 11 instances, separate statements from the Chairman and the Chief Executive were presented, whilst in another six cases a joint Chairman and Chief Executive's statement was prepared;
- ten of the 28 investment trusts included within the sample included statements by both the Chairman and Fund Manager, with one trust including only a Fund Manager's statement;
- two companies included a statement from the Finance Director along with those from the Chairman and Chief Executive;
- one company included statements from the Chief Executive and Finance Director, but not from the Chairman;
- another company included statements from the Chairman and Chief Executive along with two other named directors (the Engineering and Exploration Directors);
- ten companies provided some form of explanatory narrative but no author was identified; and
- one company within the top 350 provided highlights but no explanatory commentary as such.

These results are summarised in Figure 3.

Figure 3: Who makes the commentary?



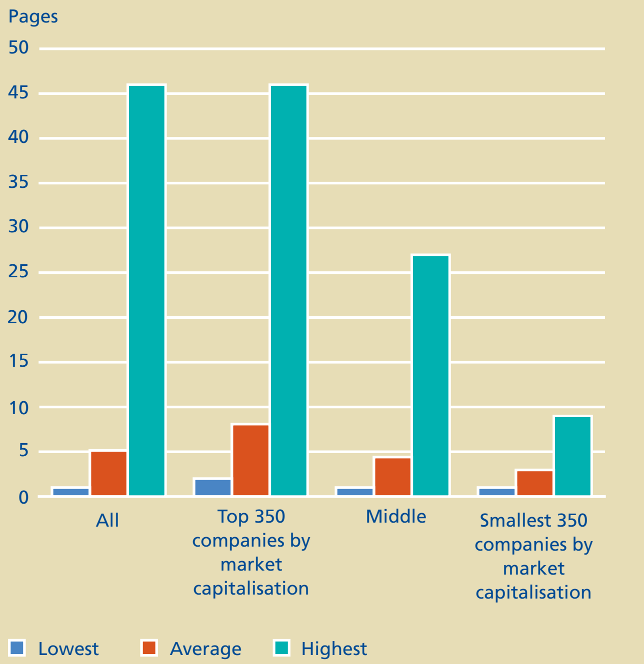
This is another area impacted by the DTR which require a confirmatory statement from those responsible, stating clearly the names and functions of those taking responsibility for the report.

Length of the commentary

The length of the narrative provided varied enormously, with the number of pages of narrative (taken as discursive information only, excluding highlights pages and additional numerical data outside the financial statements) ranging from one to 46.

Figure 4 shows the average number of pages of explanatory commentary for each group of companies, together with the range of lengths.

Figure 4: How long is the explanatory commentary?



In general, the larger companies gave lengthier commentaries, with an average of eight pages compared to five pages for the middle tier companies and three for the smallest companies. However, the spread of lengths show that some smaller companies gave extensive reviews of performance in the period.

Content of the commentary

The content and quality of the commentary provided were found to be as varied as its length.

All 99 (excluding the one company which just gave highlights) of the companies giving an explanatory commentary mentioned the significant events and trends in the period, although only 73 of these extended the discussion to reflect the impact of these events on the financial position and performance of the company. 82 companies also sought to provide more useful information by placing the significant events or trends noted into the context of the industry or the general economy. This supports the ASB Statement's recommendation that information in half-yearly reports should facilitate comparison between like companies.

The quality of comments made in this area ranged from incisive analysis on the company's activities and the industry in which it operates to bland comments on the trading in the period.

More detailed and enlightening comments on trading and the economic environment included these.

"The current level of performance is in line with expectations, but we know that we still have much to do, particularly in our […] division where challenging trading conditions, compounded by hot weather and a major fire, produced a disappointing performance."

"In the Retail sector generally market conditions remain demanding as retailer profit pressures combined with new space releases slow rental growth and increase tenant demand for rental incentives. Nevertheless, annualised rental growth for the sector as a whole is currently some 2.8%. The majority of […]'s portfolio has been positioned in areas of above average customer demand with limited new supply of space. Hence we believe our rental growth and prospects to be above average for the sector."

One area where the level of reporting appears to have developed since the 2004 survey is the financial or treasury review. 55 companies provided some form of financial review, compared to 41 companies in 2004. There also appeared to be an appreciable improvement in the quality of this element of commentary with a higher proportion of companies extending the analysis to give a meaningful, added value financial review or treasury analysis.

Further requirements of the DTR

The DTR will require narrative statements to cover some further areas and, in surveying current half-yearly reporting, the level to which companies are already following this information was examined.

The further requirements are to disclose:

- a description of the principal risks and uncertainties for the remaining six months; and
- material related party transactions in the interim period and any material changes in the related party transactions described in the last annual report.

82 companies gave some indication of the outlook for the full year. However, many were quite bland or gave only a positive outlook with no discussion of the risks potentially impacting future performance.

Examples of such statements follow.

"We have enjoyed a particularly strong first half of the year, and with a good second half in prospect we expect to report significant growth for the year as a whole."

"The Directors expect the Company to achieve a satisfactory result for the financial period of eighteen months."

40 companies gave a more comprehensive statement, including discussion of potential downside risks.

"We have been notified by our raw material suppliers of their intent to increase prices again in September. Those suppliers who are not fully integrated back to the wellhead are being squeezed by the increase in ethylene costs. It remains to be seen if these feedstock costs will come down with the oil price or retain a link to the even more volatile gas price. As demand for feedstock for plastic products continues to grow in the Far East, we cannot expect any relief from these prices until new ethylene capacity comes on-stream and this may take years rather than months."

Only three companies gave any explicit disclosure on related party transactions and although it cannot be assumed that all companies had material related party transactions in the period, this suggests that the DTR will require more companies to make further disclosures in this area.

The following comment was enjoyable.

"Where there has been a change which remains debatable, is the excessive proliferation of regulation and interference in every aspect of the industry. Some of course good and some less so but what is for sure is that the sheer complexity is time consuming and puts up the costs enormously. In earlier decades aspirations ran to being a doctor or a lawyer, nowadays you might aspire to be a Brussels based environmental consultant instead!"

Comments such as:

"We will do our best to keep the presentation of our financial statements to shareholders as straightforward as possible despite the complex new rules."

and

"stocks (or "inventories" as we are now required to call them under IFRS)"

suggest that the adoption of the international financial reporting framework has not been warmly received in all quarters at all times.

The accounting information

The requirements for accounting information to be provided in half-yearly reports are set out in the Listing Rules, with additional recommendations and best practice contained within the ASB Statement 'Interim Reports'. Adoption of IAS 34 'Interim Financial Reporting' is currently voluntary, but will be mandatory for IFRS reporters following the implementation of the DTR.

This section examines:

- the accounting information provided; and
- the level of voluntary compliance with IAS 34.

Accounting information provided

Balance sheet

The Listing Rules require the half-yearly report to include a balance sheet. 96 of the companies surveyed complied with this requirement. The remaining four companies produced only a net assets statement titled "balance sheet".

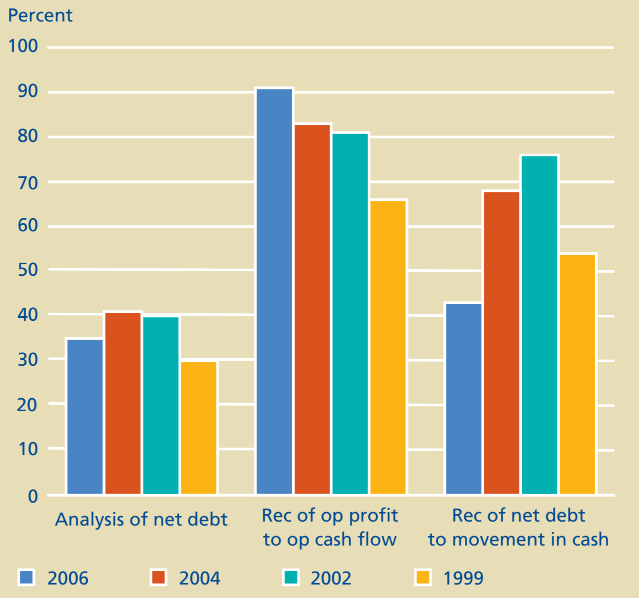
Cash flow information

As required by the Listing Rules, all companies surveyed presented a cash flow statement containing, at a minimum, the required headings from IAS 7 or, for UK GAAP reporters, FRS 1.

The inclusion in the half-yearly report of associated notes (analysis of net debt, reconciliation of net debt to movement in cash and reconciliation of operating profit to operating cash flow) was more variable. This information is recommended by the ASB Statement but is not required by the Listing Rules.

Figure 5 shows the number of companies providing these notes compared to previous surveys.

Figure 5: What additional cash flow information is given?



The inclusion of a reconciliation of operating profit to operating cash flow remained popular for the companies sampled and has increased compared to previous surveys. The instances of the other items has decreased significantly since 2004. This is likely to be due to the adoption of IFRS as IAS 7 requires only a reconciliation of profit to operating cash flows, but not the other items, in annual reports.

Considering that 82 of the companies surveyed were now reporting under IFRS, the level of voluntary disclosure of the analysis of net debt and reconciliation of net debt to movements in cash was still high. This indicates that the information required under UK GAAP is still considered useful by a high proportion of IFRS reporters.

Other performance statements

99% of the IFRS reporters included within the sample presented a Statement of Recognised Income and Expense (SORIE) or a Statement of Changes in Equity (SOCE). Seven companies presented both a SORIE and a SOCE as primary statements, which would not be in compliance with IAS 1.

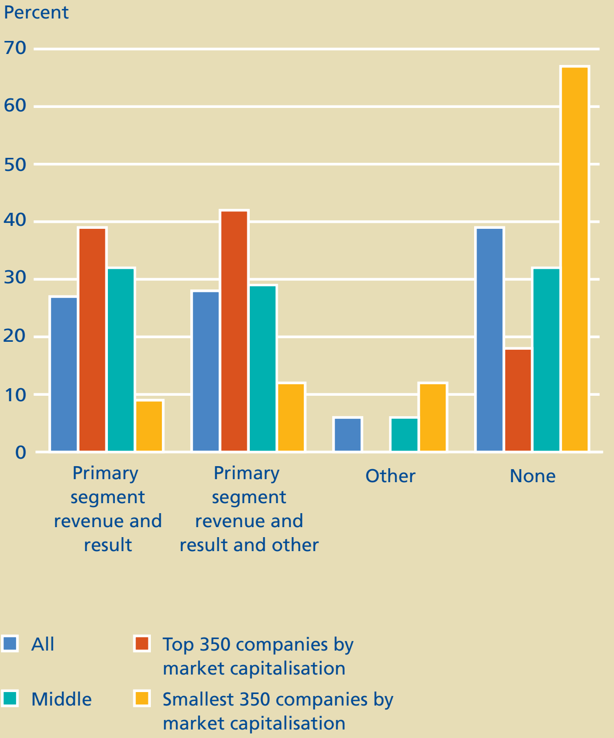
None of the UK GAAP reporters presented a Statement of Total Recognised Gains and Losses (STRGL), although 61% of these companies gave an explicit statement that a STRGL was not required. The 18 UK GAAP reporters were all investment trusts and all gave separate income statement disclosure for Revenue and Capital items as recommended by the Association of Investment Companies.

Segmental information

The Listing Rules do not require segmental information to be provided. However, the ASB Statement recommends segmental information for turnover and profit or loss and, once mandatory, IAS 34 will require disclosure of segment revenue and segment result for each primary segment.

Figure 6 shows the level of segmental information given by each category of companies.

Figure 6: What segmental information is given?



The level of segmental analysis remained highest for the largest companies, with 82% of this group providing at least an analysis of primary segment revenue and result – the level of disclosure which will be required by IAS 34. This may be partly due to larger companies being more likely to have distinct segments as well as a higher proportion of single segment investment trusts sitting within the smallest company category.

The other information presented in addition to primary segment revenue and result included assets and liabilities by primary segment, revenue and result by secondary segment and sector specific information such as claims ratio and losses on operating derivatives by primary segment. Three companies gave extensive disclosures of revenue and profit by secondary segment and other items by primary segment, coming close to the requirements under IAS 14 for full year segmental analysis.

Earnings per share information

The Listing Rules require that companies present "earnings per share expressed as pence per share".

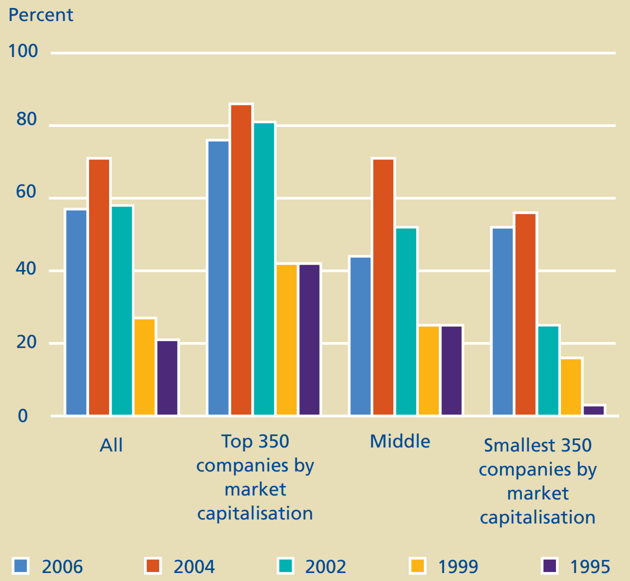
All companies sampled complied with this requirement, with 57% of companies choosing to present an alternative earnings per share measure along with the required basic and diluted earnings per share figures.

Of the 57 companies presenting alternative (or "adjusted") earnings per share measures, 38 companies presented this information in the notes to the half-yearly report, four on the face of the income statement and 15 both in the notes and on the face of the income statement.

If the four companies presenting alternative earnings per share information only on the face of the income statement repeated this presentation in their annual reports, they would not be in compliance with the requirements of IAS 33.

Figure 7 shows how many companies provided alternative EPS information in each survey.

Figure 7: How does presentation of alternative EPS compare to previous years?



This data shows a reduction in the level of reporting of alternative EPS from the 2004 sample to the overall level reported in 2002. This may be partly as a result of increased awareness of the need for care in the use of proforma measures in financial reporting.

Comparatives

The Listing Rules require that companies present comparative data "for the corresponding period in the preceding financial year".

In the 2004 sample, five companies failed to comply with this requirement by not providing balance sheet comparatives for the corresponding period in the previous financial year. Encouragingly, no companies in the 2006 sample repeated this non-compliance.

The ASB Statement also recommends presentation of full year comparative figures. 94% of companies provided comparatives as at the previous year end for all primary statements, with the remaining 6% presenting full year numbers only for the balance sheet.

IAS 34 requires comparatives for all primary statements as at the corresponding interim date in the preceding financial year, except for the balance sheet for which comparatives are required as at the previous year end. Hence all companies in the sample would be in compliance with IAS 34 in this respect.

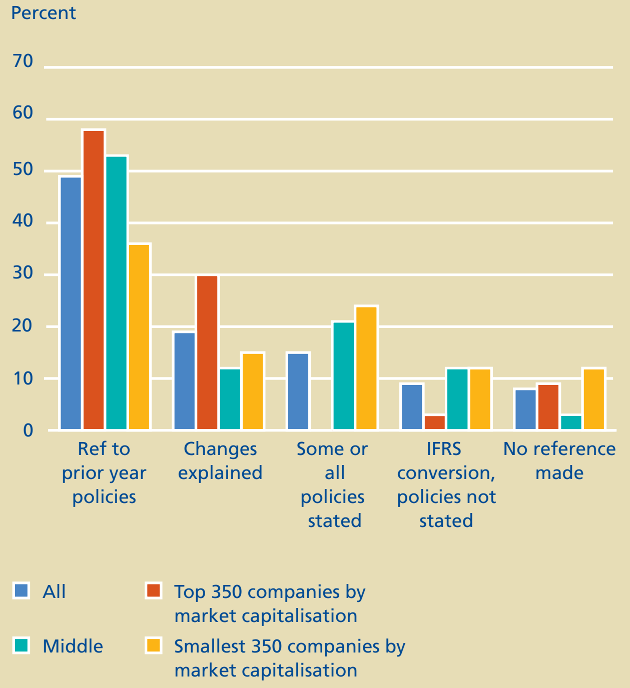
86% of companies provided the statement required by section 240 of the Companies Act 1985 (applying to both IFRS and UK GAAP reporters) when extracts from statutory financial statements are published (2004: 80%). 7% made some attempt at this statement (2004: 16%), but omitted some of the requirements of section 240 – most commonly the requirement to state explicitly that the full year comparatives do not represent statutory accounts. The remaining 7% of companies did not provide any such statement even though full year comparatives were included in the half-yearly report. This is disappointing compared to only two companies in the 2004 survey, that were required to but did not give the section 240 statement.

Accounting policies

The Listing Rules require that where accounting policies are to be changed in subsequent annual financial statements, "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".

Figure 8 shows the level of disclosures of accounting policies in the 2006 survey.

Figure 8: What disclosure of accounting policies is given?



This data shows that 92% of companies made some reference to accounting policies within the half-yearly report (2004: 90%). Overall, this shows a good level of disclosure of accounting policies.

One area where the quality of information provided differed between companies was the disclosure of accounting policies on first time adoption of IFRS. Of the 15 companies applying IFRS for the first time in their half-yearly report:

- six companies disclosed full accounting policies under IFRS, together with an IFRS 1 note showing the numerical impact of transition;
- four companies referred readers to a separate announcement and had no IFRS 1 note to show either the size or nature of GAAP differences;
- a further three companies referred readers to a separate, non-statutory announcement of IFRS accounting policies but did include an IFRS 1 note with explanations of the changes;
- one company referred to a separate announcement and included an IFRS 1 note. However, no information was given on accounting policy differences other than note references to the separate announcement; and
- one company stated that there were no material differences and full IFRS information would be given at the year end.

It is interesting to note that there was no correlation between the size of the companies and the quality of their disclosures in this area.

Retirement benefits

A significant development in financial reporting since the 2004 survey has been the recognition on balance sheets of retirement benefit obligations (either under IAS 19 or FRS 17). In 2004, only 14 companies had adopted FRS 17 in full. In the current sample, all 54 companies with a defined benefit pension scheme had recognised a deficit on the balance sheet.

The extent and quality of the information provided in this area varied.

Three potential areas for disclosure on retirement benefit obligations were examined:

- the gross values of scheme assets and liabilities and the actuarial assumptions underpinning these values;
- the elements of the retirement benefit cost in the period; and
- discussion of the movements in the scheme deficit, future plans and risk relating to the scheme.

For the purposes of the analysis below, companies without a defined benefit scheme were excluded from the sample.

- 13% of companies with a defined benefit scheme disclosed the value of the scheme assets and liabilities, 7% disclosed the related actuarial assumptions and 4% disclosed both;
- 15% of companies split the retirement benefit cost for the period into its component parts; and
- 35% of companies included some level of discussion on the status of the scheme, either in the explanatory narrative or the notes to the half-yearly report, with 22% giving an added value analysis covering issues such as developments in actuarial assumptions and plans for future funding of the scheme. It was noted that several companies with significant actuarial gains or losses in the period included no discussion of how this arose in either the explanatory narrative or the notes to the accounts.

Added value discussion points in this area follow.

“In March 2006, in advance of the triennial valuation for two of the Group’s UK defined benefit pension schemes, the Group agreed a funding programme to address the deficits associated with these schemes. This programme included making a one off contribution totalling £[ ]m to the schemes in March 2006. It is anticipated that additional contributions of c.£[ ]m will be made over the following five years.”

“The Group’s UK defined benefit pension plan was closed to new entrants in 2004 and the equivalent US plans were closed to new entrants in January 2006. Plans are currently being finalised to freeze the accruals for existing members of the US plans with effect from January 2007. Future pension benefit will be provided through a defined contribution arrangement.”

These results show potential areas for improvement in reporting of what may be, for many companies, a significant and enduring risk area.

It was not always possible to ascertain the level to which defined benefit scheme assets and liabilities were reassessed at the half year. However, 70% of companies with a defined benefit scheme recognised an actuarial gain or loss, confirming some assessment had taken place.

Three cases were noted where a company’s pension deficit had remained unchanged from the year end in both the current and previous interim periods, despite significant actuarial movements and differences between contributions and current service charge in the full year accounts. This suggests that the pension cost in the interim period has been taken to be equal to the contributions paid.

On adoption of IAS 34, further guidance on the calculation of pension cost in half-yearly reports will become effective:

“Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the previous financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-time events.” (IAS 34 Appendix B8)

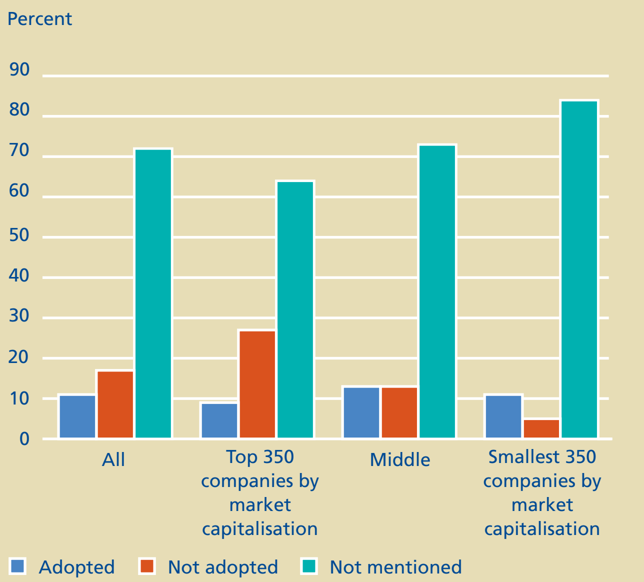
This treatment is likely to result in at least some movements in a pension deficit between year end and half year, as it is rare for the actuarially determined pension cost rate to equal exactly the contributions paid in the period. This suggests that at least three companies may need to amend their half-yearly pensions reporting.

Compliance with IAS 34

IAS 34 will not become mandatory until the DTR come into force. However, a number of companies have chosen to state compliance with this standard in their 2006 half-yearly reports.

Figure 9 shows the level of stated compliance with IAS 34 amongst IFRS reporters.

Figure 9: What level of compliance with IAS 34 is claimed amongst IFRS reporters?



In total, nine companies (11% of IFRS reporters) claimed compliance with IAS 34.

Paragraph 16 of IAS 34 gives detail on the explanatory notes to be included in a half-yearly report. Inclusion of these disclosures in the nine companies claiming compliance is detailed below.

- Eight of the nine companies disclosed unusual or material items within the explanatory notes, although the quality of explanations varied.
- Six companies provided information about the nature and amount of changes in estimates reported in prior periods.
- Six companies provided information about transactions in debt and equity securities.
- Six companies gave information about dividends paid.
- Five of the nine companies gave some information on changes in the composition of the group in the period.
- Three companies gave information about material subsequent events or stated that there were none.
- Two companies gave comments about the seasonality or cyclicality of interim operations. Included within the companies giving no such comment were a car dealer and an importer of agricultural products, companies for which a level of seasonality might be expected.
- Of the four companies adopting IAS 34 who had made an acquisition in the period, two made the IFRS 3 disclosures required by IAS 34, one only disclosed a fair value table relating to the acquisition and one gave no disclosures.
- Two companies gave details of changes in contingent liabilities in the period, with a further company stating explicitly that there had been no changes.

Overall, it was clear in only one of the nine cases that the requirements for explanatory notes in IAS 34 had been fully met. While it cannot be assumed that all companies will require disclosure in all areas, this suggests that full compliance with IAS 34 may present challenges for a number of companies.

Appendix I

Model half-yearly financial report

Delto plc

Half-yearly financial report
31 July 2007

This model half-yearly financial report was developed to illustrate the typical disclosures which will be required of a UK listed company with subsidiaries and associates for periods beginning on or after 20 January 2007. This model half-yearly financial report for the six months to 31 July 2007 is prepared in accordance with IAS 34 and the Transparency Obligations Directive which has been incorporated into the UKLA Disclosure and Transparency Rules (DTR) and which replaces Listing Rule 9.9. The model half-yearly financial report does not contain a complete set of financial statements and presumes the group has elected to present a condensed set of financial statements, which is typical of a current British half-yearly financial report.

The model half-yearly financial report contains an illustrative interim management report in compliance with the DTR. The illustrative interim management report was developed to provide good examples of typical disclosures.

The model half-yearly financial report is based on standards in issue as at 31 December 2006 which are expected to be effective for years beginning on 1 January 2007. In particular, IFRS 8 'Operating Segments' is not adopted as it is not required until 2009. There may be changes to standards which become effective in 2007 which differ from those expected at the time of preparation. In addition, the interpretation of IFRS will continue to evolve over time.

The wording used in the model half-yearly financial report is purely illustrative and in practice will need to be modified to reflect the circumstances of a group and its business. In places, the model half-yearly financial report includes illustrative examples. It may contain internal inconsistencies.

Delto plc

Half-yearly financial report 2007

Contents

Delto plc

Responsibility statement

DTR 4.2.10 (3) + (4) We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34;

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

DTR 4.2.11 By order of the Board[1]

	[Signature]	[Signature]
	Chief Executive Officer	Chief Financial Officer
DTR 4.2.10 (2)	[Name of signatory]	[Name of signatory]
	[Date]	[Date]

1 Based on recent roundtable discussions, only one person has physically to sign the responsibility statement in accordance with the DTR, on behalf of those responsible, i.e. the Board of Directors. However, it is for each entity to decide who and how many of those responsible should sign the responsibility statement. In the above model responsibility statement, both the signatures of the CEO and the CFO are given.

Delto plc

Interim management report

To the members of Delto plc

[Insert suitable wording to the effect that the interim management report has been prepared solely to provide additional information to shareholders as a body to assess the Company's strategies and the potential for those strategies to succeed, and that the interim management report should not be relied on by any other party or for any other purpose.]

[Insert suitable wording to clarify that the interim management report contains forward-looking statements and that these statements:

- have been made by the directors in good faith based on the information available to them up to the time of their approval of this report; and
- should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking information.]

This interim management report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Delto plc and its subsidiary undertakings when viewed as a whole.

Operations

Delto plc manufactures innovative, high quality products for the [ ] and [ ] industries. These products are used by our customers in a variety of systems which perform functions such as [ ] and [ ]. Our product portfolio includes lines such as the [Product X] range and the [Product Y] range and our key brands include [ ], [ ] and [ ]. We are a global player in our market, with the majority of our operations in [Activity A], [Activity B] and [Activity C] being in [A Land], [B Land], [C Land] and [D Land].

In [A Land], our biggest single market in both revenue and profit terms, the economic environment over the past six months has been relatively stable, with a continued high level of growth of _% in the first six months. In the rest of Europe, growth has been lower at an average of _% for the first six months of the current financial year and this rate of growth is not expected to change significantly in the remaining six months of the financial year. In [D Land], the economy continued to strengthen, albeit at a lower pace than in the previous financial year.

Long-term strategy and business objectives

In our most recent annual report, we reported Delto's strategy for accelerating growth and creating real shareholder value, and outlined the key elements to that strategy.

In the first six months of the current financial year, we have made significant progress on the key elements of our strategy. We have gained market share in [A Land] of our [Product X] market. We have invested £_million (2006: £_million) in our core products and have launched a number of new products during the period, including [Product X1] and [Product X2]. Further new products are nearing completion and are due to be launched over the next 12 months. We also acquired [name of company] to grow our market strength in [Activity C] and have restructured this part of the business following the acquisition to consolidate our positions in this market.

Delto plc

Interim management report (continued)

DTR 4.2.7 (1) **Results for the six months ended 31 July 2007**

A summary of the key financial results is set out in the table below.

Key financials	**Revenue**		**Gross margin**		**Underlying operating profit***	
Six months ended 31 July	**2007 £'000**	**2006 £'000**	**2007 %**	**2006 %**	**2007 £'000**	**2006 £'000**
By business						
[Activity A]						
[Activity B]						
[Activity C]						
[Discontinued**]						
Group total						
By location						
[A Land]						
[B Land]						
[C Land]						
[D Land]						
Group total						

* Underlying operating profit is profit before interest, tax and one-off items and is reconciled to the financial information as follows:

Six months ended 31 July	**2007 £'000**	**2006 £'000**
Operating profit per financial information		
Exchange differences		
Goodwill impairment		
Underlying operating profit		

** [Operation W] has been disposed of during the period and has been presented as discontinued operations in the financial information.

Revenue

Total group revenue was up _% on the six months ended 31 July 2006 to £_million, with growth achieved in [Activity A] (_%) and [Activity B] (_%) but a decline of _% in [Activity C]. Excluding the net impact of foreign currency effects (£-_million), acquisitions (£_million) and disposals (£-_million), revenue on a like-for-like basis was higher by _% at £_million.

Eliminating the effect of currency movements, revenue growth was strong. The Group sees market share as a key performance indicator as it allows us to assess how the Group is growing in relation to its competitors. During the current period, we achieved a market share of _% which was up from _% at the previous year end. However, growth in the first six months of the current financial year was not as high as previously expected due to the fall in sales of [Product Y] as well as price pressures across Europe.

Delto plc

Interim management report (continued)

During the period, we have invested £_million (2006: £_million) in our core products and have launched a number of new products, including [Product X1] and [Product X2]. Those new products contributed revenue of £_million during the period. Further new products are nearing completion and are due to be launched over the next 12 to 18 months.

In our last annual report, we anticipated the replacement of [Product X] with its updated version during the first quarter of the current financial year. However, as reported to you in our Interim Management Statement, published on 14 May 2007, the replacement of [Product X] globally was delayed when the regulator [ ] imposed further testing requirements on the new version. This impacted our [Activity B] business with sales of the [Product X] range down _% from the same period in 2006 to £_million. The launch of the replacement product is now expected to occur in the fourth quarter of the current financial year.

Gross margin and underlying operating profit

Good comparable unit sales growth during the six month period was impacted to an extent by price pressures so that overall the gross margin declined to _% (2006: _%) with gross profit of £_million.

Group operating profit for the six months ended 31 July 2007 was £_million, _% ahead of the comparative period in the previous financial year (£_million).

Despite a decline in gross margin percentage in the current period by _ percentage points to _%, underlying operating profit before interest, tax and one-off items increased by £_million to £_million.

Using a constant currency basis, [Activity A] and [Activity B] achieved a growth in profit of _% and _% respectively. The growth in [Activity A] was partly attributable to the acquisition of [name of company] towards the end of the previous financial year, which had an immediate effect on our market share. A small loss was made in [Activity C] due to weaker sales and continuing delays in the integration of several small acquisitions made in previous financial years in [D Land].

Dividend and dividend policy

In line with the Group's dividend policy, the Board has approved an interim dividend of _p (2006: _p) on [date after 31 July 2007], which will be paid on [date].

Net debt

The Group has net debt of £_million (31 January 2007: £_million). During the half year, additional loans of £_million were drawn down. The Group continues to be able to borrow at competitive rates and therefore currently deems this to be the most effective means of raising finance. The acquisition of [name of company] has therefore been partly funded by debt financing.

Cash flow

Net cash inflow from operating activities for the six months ended 31 July 2007 was £_million, £_million below the comparative period in 2006. Higher trading profit for the Group was offset by higher cash outflows in support of our ongoing restructuring programme and higher than normal sales in the last two weeks of the period.

Post balance sheet events

On [date] the premises of [name of subsidiary] were seriously damaged by fire. Insurance claims have been put in hand but the cost of refurbishment is currently expected to exceed these by £_million.

Change in accounting policies

In the current financial year, the Group will adopt International Financial Reporting Standard 7 'Financial instruments: Disclosures' (IFRS 7) for the first time. As IFRS 7 is a disclosure standard, there is no impact of that change in accounting policy on the half-yearly financial report. Full details of the change will be disclosed in our annual report for the year ended 31 January 2008.

DTR 4.2.8 (1a+b)

Related party transactions

Related party transactions are disclosed in note 22 to the condensed set of financial statements.

There have been no material changes in the related party transactions described in the last annual report.

Delto plc

Interim management report (continued)

DTR 4.2.7 (2)

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results.

Competitor risk

The Group operates in a highly competitive market with significant product innovations. We are subject to the threat of our competitors launching new products in our markets (including the updating of their existing product lines) before we make corresponding updates and developments to our own range. This could render our products out-of-date and could result in rapid loss of market share. To reduce this risk, we undertake market research to ensure that our own products continue to meet the needs of our customers and we invest heavily in new product development to ensure that we have products at various stages of the product life cycle.

Competitor risk also manifests itself in price pressures which are usually experienced in the more developed markets. This results not only in downward pressure on our gross margins, but also in the risk that our products are not considered to represent value-for-money. Our sales teams therefore monitor market prices on an ongoing basis and we have delegated full responsibility for pricing to local management for orders less than a total value of £_million. Our bonus scheme for sales employees includes an element based on gross margin percentage achieved as well as one based on sales volume.

Commercial relationships

The Group benefits from close commercial relationships with a number of key customers and suppliers. Damage to or loss of any of these relationships could have a direct and detrimental effect on the Group's results and, as some of these relationships span several markets, the impact of losing one relationship could be material to the Group as a whole. To manage this risk, the Group hosts local supplier and customer reviews to ensure that we continue to meet their respective needs.

Foreign exchange

The Group has significant operations outside the UK and as such is exposed to movements in exchange rates. To protect cash flows against the high level of exchange risk, the Group enters into forward exchange contracts to hedge foreign exchange exposures arising on forecast receipts and payments.

Future outlook

While the external commercial environment is expected to remain competitive in the rest of 2007/08, we have good momentum across Europe and we believe that we have now taken the necessary actions, and put in place processes, to implement the required restructuring in [Activity B].

We expect continued price pressure from our competitors, particularly in our more mature markets in Europe. This will push gross margins downwards, a trend that is likely to continue for the next two to three years until the current consolidation activity in the market slows. We anticipate that, despite our efficient manufacturing process, our margins in Europe in the remaining six months of the financial year will decline. We expect continued sales growth in unit terms for the year as a whole and are now aiming to launch our new [Product X] towards the end of the financial year.

[Address of registered office]
By order of the Board,

[Signature]	[Signature]
Chief Executive Officer	Chief Financial Officer
[Name of signatory]	[Name of signatory]
[Date[2]]	[Date]

DTR 4.2.2 (2)

2 The interim financial report must be made public as soon as possible, but no later than two months after the end of the six month period.

Delto plc

Report on Review of Condensed Set of Financial Statements of Delto plc

DTR 4.2.9 **Introduction**[3]

We have reviewed the accompanying condensed consolidated balance sheet of Delto plc as of 31 July 2007 and the related condensed consolidated statements of income, recognised income and expense and the cash flows and the related notes 1 to 22 for the six months then ended. Management is responsible for the preparation and presentation of this condensed set of financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on this condensed set of financial statements based on our review.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of the condensed set of financial statements consists of making enquiries, principally of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed set of financial statements is not prepared, in all material respects, in accordance with IAS 34.

[Signature]
Deloitte & Touche LLP
Chartered Accountants
[Address]
[Date]

Notes: A review does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

3 The independent review report is based on the proposed ISRE (UK and Ireland) 2410 as published by the APB. The phrase "condensed set of financial statements" is used for consistency purposes in preference to the phrase "interim financial information".

Delto plc

Condensed consolidated income statement
Six months ended 31 July 2007

		Note	Six months ended 31 July 2007 £'000	Six months ended 31 July 2006 £'000	Year ended 31 January 2007[4] £'000
IAS 34.10					
	Continuing operations				
IAS 1.81	Revenue	3			
	Cost of sales				
	Gross profit				
	Other operating income				
	Distribution costs				
	Administrative expenses				
	Other operating expenses				
IAS 1.81	Share of results of associates				
IAS 1.86	Restructuring costs	6			
	Operating profit				
	Investment revenue				
	Other gains and losses				
IAS 1.81	Finance costs				
	Profit before tax				
IAS 1.81	Tax	7			
	Profit for the period from continuing operations				
	Discontinued operations				
IAS 1.81	Loss for the period from discontinued operations	8			
IAS 1.81	**Profit for the period**				
IAS 1.82	Attributable to:				
	Equity holders of the parent				
	Minority interest				
IAS 33.66,	**Earnings per share**				
IAS 34.11	From continuing operations				
	Basic	10			
	Diluted	10			
	From continuing and discontinued operations				
	Basic	10			
	Diluted	10			

4 Although not required by IAS 34, the comparative figures for the preceding year end and the related notes have been included on a voluntary basis.

Delto plc

Condensed consolidated statement of recognised income and expense Six months ended 31 July 2007

IAS 34.10
IAS 1.96

	Six months ended 31 July 2007 £'000	Six months ended 31 July 2006 £'000	Year ended 31 January 2007[5] £'000
Gains/(losses) on revaluation of properties			
Gains/(losses) on revaluation of available-for-sale investments taken to equity			
Gains/(losses) on cash flow hedges			
Exchange differences on translation of foreign operations			
Actuarial gains/(losses) on defined benefit pension schemes			
Tax on items taken directly to equity			
Net income recognised directly in equity			
Transfers			
Transferred to profit or loss on sale of available-for-sale investments			
Transferred to profit or loss on cash flow hedges			
Transferred to the initial carrying amount of non-financial hedged items on cash flow hedges			
Tax on items transferred from equity			
Profit for the period			
Total recognised income and expense for the period			
Attributable to:			
Equity holders of the parent			
Minority interests			

5 Although not required by IAS 34, the comparative figures for the preceding year end and the related notes have been included on a voluntary basis.

Delto plc

Condensed consolidated balance sheet
31 July 2007

IAS 34.10		Note	31 July 2007 £'000	31 July 2006[6] £'000	31 January 2007[7] £'000
	Non-current assets				
	Goodwill				
IAS 1.68	Other intangible assets				
IAS 1.68	Property, plant and equipment	11			
IAS 1.68	Investment property				
IAS 1.68	Interests in associates				
	Available-for-sale investments				
	Finance lease receivables				
IAS 1.70	Deferred tax asset				
	Current assets				
IAS 1.68	Inventories				
	Trading investments				
	Finance lease receivables				
IAS 1.68	Trade and other receivables				
IAS 1.68	Cash and cash equivalents	17			
	Derivative financial instruments				
IAS 1.68A	Assets classified as held for sale	15			
	Total assets				
	Current liabilities				
IAS 1.68	Trade and other payables				
IAS 1.68	Current tax liabilities				
	Obligations under finance leases				
	Bank overdrafts and loans	12			
IAS 1.68	Provisions				
	Derivative financial instruments				
IAS 1.68A	Liabilities directly associated with assets classified as held for sale	15			
	Net current assets				

6 Although not required by IAS 34, the comparative amounts at 31 July 2006 and the related notes have been included on a voluntary basis.

7 IAS 34 (20(a)) requires the balance sheet to include comparatives as of the end of the preceding financial year.

Delto plc

Condensed consolidated balance sheet (continued)
31 July 2007

		Note	31 July 2007 £'000	31 July 2006[8] £'000	31 January 2007[9] £'000
	Non-current assets				
	Bank loans	12			
	Convertible loan notes				
IAS 1.69	Retirement benefit obligations	20			
IAS 1.68	Deferred tax liabilities				
IAS 1.68	Long-term provisions				
	Obligations under finance leases				
	Liability for share based payments				
	Total liabilities				
	Net assets				
	Equity				
	Share capital	13			
	Share premium account				
	Revaluation reserves				
	Own shares				
	Equity reserve				
	Hedging and translation reserves				
	Retained earnings				
IAS 1.68	**Equity attributable to equity holders of the parent**				
IAS 1.68	**Minority interest**				
	Total equity				

8 Although not required by IAS 34, the comparative amounts at 31 July 2006 and the related notes have been included on a voluntary basis.

9 IAS 34 (20(a)) requires the balance sheet to include comparatives as of the end of the preceding financial year.

Delto plc

Condensed consolidated cash flow statement
Six months ended 31 July 2007

			Six months ended 31 July		Year ended
			2007	2006	31 January 2007[10]
IAS 34.10		Note	£'000	£'000	£'000
IAS 7.10	**Net cash from operating activities**	17			
IAS 7.10	**Investing activities**				
	Interest received				
	Dividends received from associates				
	Dividends received from trading investments				
	Proceeds on disposal of trading investments				
	Proceeds on disposal of available-for-sale investments				
IAS 7.39	Disposal of subsidiary	14			
	Proceeds on disposal of property, plant and equipment				
	Purchases of property, plant and equipment				
	Acquisition of investment in an associate				
	Purchases of trading investments				
	Purchases of patents and trademarks				
	Expenditure on product development				
IAS 7.39	Acquisition of subsidiary	16			
	Net cash (used in)/from investing activities				
IAS 7.10	**Financing activities**				
	Dividends paid				
	Repayments of borrowings				
	Repayments of obligations under finance leases				
	Proceeds on issue of convertible loan notes				
	Proceeds on issue of shares				
	New bank loans raised				
	Increase/(decrease) in bank overdrafts				
	Net cash (used in)/from financing activities				
	Net increase/(decrease) in cash and cash equivalents				
	Cash and cash equivalents at beginning of period				
	Effect of foreign exchange rate changes				
	Cash and cash equivalents at end of period				

10 Although not required by IAS 34, the comparative figures for the preceding year end and the related notes have been included on a voluntary basis.

Delto plc

Notes to the condensed set of financial statements
Six months ended 31 July 2007

1. General information

The information for the year ended 31 January 2007 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

IAS 34.15

[IAS 34 is based on the presumption that anyone who reads the Group's half-yearly financial report will also have access to its most recent annual report. Therefore, it is generally not necessary to reproduce notes already reported in the most recent annual report. Instead, the notes to the half-yearly financial report should include sufficient information and explanations of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual report.]

2. Accounting policies

DTR 4.2.4 (1) and IAS 34.19

The condensed set of financial statements has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) and in accordance with IAS 34 'Interim Financial Reporting'.

DTR 4.2.6 and IAS 34.16(a)

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements, except for *[description of nature and effect of a change in accounting policy, presentation and or method of computation, and the reasons for the change].*

Change in accounting policies

In the current financial year, the Group will adopt International Financial Reporting Standard 7 'Financial instruments: Disclosures' (IFRS 7) for the first time. As IFRS 7 is a disclosure standard, there is no impact of that change in accounting policy on the half-yearly financial report. Full details of the change will be disclosed in our annual report for the year ended 31 January 2008.

IAS 34.16(g)

3. Business segments

For management purposes, the Group is currently organised into three operating divisions: [Activity A], [Activity B] and [Activity C]. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

[Activity A]

[Activity B]

[Activity C]

The Group was also previously involved in [Operation W]. That operation was discontinued with effect from [date] (see note 8).

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Notes to the condensed set of financial statements (continued)
Six months ended 31 July 2007

3. Business segments (continued)

Segment information about these businesses is presented below.

Six months ended 31 July 2007	[Activity A] £'000	[Activity B] £'000	[Activity C] £'000	Discontinued operations £'000	Eliminations £'000	Consolidated £'000
Revenue						
External sales				( )		
Inter-segment sales				( )	( )	
Total revenue				( )	( )	

Inter-segment sales are charged at prevailing market prices.

Result						
Segment result				( )	( )	
Unallocated corporate expenses						
Share of results of associates						
Operating profit						
Other gains and losses						
Investment revenues						
Finance costs						
Profit before tax						
Tax						
Profit for the period from discontinued operations						
Profit after tax and discontinued operations						

Discontinued operations

Discontinued operations had the following effect on the segment results of [Activity A], analysed into continuing and discontinued components.

Six months ended 31 July 2007	Discontinued £'000	Continuing £'000	[Activity A] £'000
Revenue			
External sales			
Inter-segment sales			
Total revenue			
Result			
Segment result			

The segment result from discontinued operations stated above is equal to the profit before tax from discontinued operations disclosed in note 8, which provides a reconciliation to the net loss from discontinued operations.

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Notes to the condensed set of financial statements (continued)
Six months ended 31 July 2007

3. Business segments (continued)

Six months ended 31 July 2006	[Activity A] £'000	[Activity B] £'000	[Activity C] £'000	Discontinued operations £'000	Eliminations £'000	Consolidated £'000
Revenue						
External sales				( )		
Inter-segment sales				( )	( )	
Total revenue				( )	( )	

Inter-segment sales are charged at prevailing market prices.

Result						
Segment result				( )	( )	
Unallocated corporate expenses						
Share of results of associates						
Operating profit						
Other gains and losses						
Investment revenues						
Finance costs						
Profit before tax						
Tax						
Profit for the period from discontinued operations						
Profit after tax and discontinued operations						

Discontinued operations

Discontinued operations had the following effect on the segment results of [Activity A], analysed into continuing and discontinued components.

Six months ended 31 July 2006 £'000	Discontinued £'000	Continuing £'000	[Activity A]
Revenue			
External sales			
Inter-segment sales			
Total revenue			
Result			
Segment result			

The segment result from discontinued operations stated above is equal to the profit before tax from discontinued operations disclosed in note 8, which provides a reconciliation to the net loss from discontinued operations.

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Notes to the condensed set of financial statements (continued)
Six months ended 31 July 2007

3. Business segments (continued)

Year ended 31 January 2007	[Activity A] £'000	[Activity B] £'000	[Activity C] £'000	Discontinued operations £'000	Eliminations £'000	Consolidated £'000
Revenue						
External sales				( )		
Inter-segment sales				( )	( )	
Total revenue				( )	( )	

Inter-segment sales are charged at prevailing market prices.

	[Activity A] £'000	[Activity B] £'000	[Activity C] £'000	Discontinued operations £'000	Eliminations £'000	Consolidated £'000
Result						
Segment result				( )	( )	
Unallocated corporate expenses						
Share of results of associates						
Operating profit						
Other gains and losses						
Investment revenues						
Finance costs						
Profit before tax						
Tax						
Profit for the period from discontinued operations						
Profit after tax and discontinued operations						

Discontinued operations

Discontinued operations had the following effect on the segment results of [Activity A], analysed into continuing and discontinued components.

Year ended 31 January 2007	Discontinued £'000	Continuing £'000	[Activity A] £'000
Revenue			
External sales			
Inter-segment sales			
Total revenue			
Result			
Segment result			

The segment result from discontinued operations stated above is equal to the profit before tax from discontinued operations disclosed in note 8, which provides a reconciliation to the net loss from discontinued operations.

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Notes to the condensed set of financial statements (continued)
Six months ended 31 July 2007

IAS 34.16(b) **4. Seasonality of [Product Z] sales**

Sales for [Product Z], which forms part of the Group's [Activity C] division, are more heavily weighted towards the second half of the calendar year, with approximately 70% of annual sales for [Product Z] occurring from July until December. Sales for [Product Z] during the period have increased slightly by _% compared to the corresponding period in the prior year, and total annual sales are expected to be in line with the Group's forecast.

IAS 34.16(d) **5. Write-down of inventories**

During the current period, exceptional write-downs of inventories of £_million have been charged to profit or loss in respect of inventories of [Product Y]. The write-down reduces the carrying amount of [Product Y] inventories to their net realisable value.

IAS 34.16(c) **6. Restructuring costs**

In [month] 2007, the Group disposed of [name of company] (see note 14). Certain of the non-core assets of the [Activity A] division were retained by the Group. In addition, the [ ] operations of the [Activity B] division were segregated from the manufacturing operations and retained by the Group. The assets retained were scrapped and an impairment loss recognised in respect of their previous carrying amount. To the extent that workers could not be redeployed, termination terms were agreed.

	Six months ended 31 July		Year ended
	2007	2006	31 January 2007
	£'000	£'000	£'000
Impairment loss recognised in respect of assets			
Redundancy costs			

7. Tax

Income tax for the six month period is charged at _% (six months ended 31 July 2006: _%; year ended 31 January 2007: _%), representing the best estimate of the average annual effective income tax rate expected for the full year, applied to the pre-tax income of the six month period.

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Notes to the condensed set of financial statements (continued)
Six months ended 31 July 2007

IAS 34.16(i)

8. Discontinued operations

On [date] 2007, the Group entered into a sale agreement to dispose of [name of company], which carried out all of the Group's [Activity D] operations. The disposal was made to generate cash flow for the expansion of the Group's other businesses. The disposal was completed on [date] 2007, on which date control of [name of company] passed to the acquirer.

The results of the discontinued operations which have been included in the consolidated income statement, were as follows:

	Period ended [date] 2007 £'000	Six months ended 31 July 2006 £'000	Year ended 31 January 2007 £'000
Revenue			
Expenses			
Profit before tax			
Attributable tax expense			
Loss on disposal of discontinued operations			
Attributable tax expense			
Net loss attributable to discontinued operations			

During the period, [name of company] contributed £_million (six months ended 31 July 2006: £_million; year ended 31 January 2007: £_million) to the Group's net operating cash flows, paid £_million (six months ended 31 July 2006: £_million; year ended 31 January 2007: £_million) in respect of investing activities and paid £_million (six months ended 31 July 2006: £_million; year ended 31 January 2007: £_million) in respect of financing activities.

A loss of £_million arose on the disposal of [name of company], being the proceeds of disposal less the carrying amount of the subsidiary's net assets and attributable goodwill.

The effect of discontinued operations on segment results is disclosed in note 3.

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Notes to the condensed set of financial statements (continued)
Six months ended 31 July 2007

IAS 34.16(f) **9. Dividends**

	Six months ended 31 July 2007 £'000	Six months ended 31 July 2006 £'000	Year ended 31 January 2007 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 January 2007 of _p (2006:_p) per share			
Interim dividend for the year ended 31 January 2007 of _p per share			
Proposed interim dividend for the year ended 31 January 2008 of _p (2007:_p) per share			
Proposed final dividend for the year ended 31 January 2007 of _p per share			

The proposed interim dividend was approved by the Board on [date after 31 July 2007] and has not been included as a liability as at 31 July 2007.

10. Earnings per share

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 31 July 2007 £'000	Six months ended 31 July 2006 £'000	Year ended 31 January 2007 £'000
Earnings			
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent			
Effect of dilutive potential ordinary shares:			
Interest on convertible loan notes (net of tax)			
Earnings for the purposes of diluted earnings per share			

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Notes to the condensed set of financial statements (continued)
Six months ended 31 July 2007

10. Earnings per share (continued)

From continuing and discontinued operations

	Six months ended 31 July 2007 No.	Six months ended 31 July 2006 No.	Year ended 31 January 2007 No.
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share			
Effect of dilutive potential ordinary shares:			
Share options			
Convertible loan notes			
Weighted average number of ordinary shares for the purposes of diluted earnings per share			

The denominators for the purposes of calculating both basic and diluted earnings per share have been adjusted to reflect the capitalisation issue in 2007.

From continuing operations

	Six months ended 31 July 2007 £'000	Six months ended 31 July 2006 £'000	Year ended 31 January 2007 £'000
Earnings			
Net profit attributable to equity holders of the parent			
Adjustments to exclude loss for the period from discontinued operations			
Earnings from continuing operations for the purpose of basic earnings per share excluding discontinued operations			
Effect of dilutive potential ordinary shares:			
Interest on convertible loan notes (net of tax)			
Earnings from continuing operations for the purpose of diluted earnings per share excluding discontinued operations			

The denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

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Notes to the condensed set of financial statements (continued)
Six months ended 31 July 2007

IAS 34.16(d) **11. Property, plant and equipment**

During the period, the Group spent approximately £_million on the final stage of construction of its new office premises and on additions to the manufacturing plant in [ ] to upgrade its manufacturing capabilities.

The Group also disposed of certain of its machinery and tools with carrying amounts of £_million for proceeds of £_million.

IAS 34.16(e) **12. Bank overdrafts and loans**

During the period, the Group obtained a new short-term bank loan amounting to £_million. The loan bears interest at market rates and is repayable within 1 year. The proceeds were used to meet short-term expenditure needs.

Additional loans of £_million were drawn down under the Group's existing loan facility partly to fund the acquisition of [name of company].

Repayments of other bank loans amounting to £_million were made during the period, in line with previously disclosed repayment terms.

IAS 34.16(e) **13. Share capital**

Share capital as at 31 July 2007 amounted to £_million. During the period, the Group issued _ shares as part of a capitalisation issue to its shareholders. The capitalisation issue increased the number of shares in issue from _ to _ without a corresponding change in resources.

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Notes to the condensed set of financial statements (continued)
Six months ended 31 July 2007

IAS 34.16(i)

14. Disposal of subsidiary

As referred to in note 8, on [date] 2007 the Group disposed of its interest in [name of subsidiary].

The net assets of [name of subsidiary] at the date of disposal, at 31 July 2006 and at 31 January 2007 were as follows:

	[Date] 2007 £'000	31 July 2006 £'000	31 January 2007 £'000
Property, plant and equipment			
Inventories			
Trade receivables			
Bank balances and cash			
Retirement benefit obligation			
Deferred tax liability			
Current tax liability			
Trade payables			
Bank overdraft			
Attributable goodwill			
Gain on disposal			
Total consideration			
Satisfied by:			
Cash			
Deferred consideration			

The deferred consideration will be settled in cash by the purchaser on or before [date].

The impact of [name of subsidiary] on the Group's results in the current and prior periods is disclosed in note 8.

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Notes to the condensed set of financial statements (continued)
Six months ended 31 July 2007

IAS 34.16(i) **15. Assets held for sale**

On [date] the board resolved to dispose of the Group's [ ] operations and negotiations with several interested parties have subsequently taken place. These operations, which are expected to be sold within 12 months, have been classified as a disposal group held for sale and presented separately in the balance sheet. The operations are included in [Activity C] in the segmental analysis in note 3. The proceeds of disposal are expected substantially to exceed the book value of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations as held for sale.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	31 July 2007 £'000	31 July 2006 £'000	31 January 2007 £'000
Goodwill			
Property, plant and equipment			
Inventories			
Trade and other receivables			
Cash and cash equivalents			
Total assets classified as held for sale			
Trade and other payables			
Tax liabilities			
Bank overdrafts and loans			
Total liabilities associated with assets classified as held for sale			
Net assets of disposal group			

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Notes to the condensed set of financial statements (continued)
Six months ended 31 July 2007

IAS 34.16(i)

16. Acquisition of subsidiary

On [date], the Group acquired 100 per cent of the issued share capital of [name of company] for cash consideration of £_million. [Name of company] is the parent company of a group of companies involved in [Activity C]. This transaction has been accounted for by the purchase method of accounting.

	Book value £'000	Fair value £'000
Net assets acquired:		
Property, plant and equipment		
Deferred tax assets		
Inventories		
Trade and other receivables		
Cash and cash equivalents		
Trade and other payables		
Current tax liabilities		
Bank loans		
Deferred tax liabilities		
Contingent liabilities		
[Specify other classes as necessary]		
Goodwill		
Total consideration		
Satisfied by:		
Cash		
Directly attributable costs		
[Describe other consideration]		
Net cash outflow arising on acquisition:		
Cash consideration		
Cash and cash equivalents acquired		

The goodwill arising on the acquisition of [name of company] is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

[Name of company] contributed £_million revenue and £_million to the Group's profit before tax for the period between the date of acquisition and 31 July 2007.

If the acquisition of [name of company] had been completed on the first day of the current period, Group revenues for the period would have been £_million and Group profit attributable to equity holders of the parent would have been £_million.

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Notes to the condensed set of financial statements (continued)
Six months ended 31 July 2007

17. Notes to the cash flow statement

	Six months ended 31 July 2007 £'000	Six months ended 31 July 2006 £'000	Year ended 31 January 2007 £'000
Profit for the year			
Adjustments for:			
Share of profit of associates			
Investment revenues			
Other gains and losses			
Finance costs			
Income tax expense			
Gain on disposal of discontinued operations			
Depreciation of property, plant and equipment			
Impairment loss on fixtures and equipment			
Amortisation of intangible assets			
Impairment of goodwill			
Negative goodwill released to income			
Share-based payment expense			
(Increase)/decrease in fair value of investment property			
Gain on disposal of property, plant and equipment			
Increase/(decrease) in provisions			
Operating cash flows before movements in working capital			
Decrease/(increase) in inventories			
Decrease/(increase) in receivables			
Increase/(decrease) in payables			
Cash generated by operations			
Income taxes paid			
Interest paid			
Net cash from operating activities			

Additions to fixtures and equipment during the period amounting to £_million were financed by new finance leases. Additions of £_million in the six months ended 31 July 2007 were acquired on deferred payment terms, and were settled in the current period.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

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Notes to the condensed set of financial statements (continued)
Six months ended 31 July 2007

IAS 34.16(j) **18. Contingent liabilities**

During the reporting period, a customer of the Group instigated proceedings against it for alleged defects in an electronic product which, it is claimed, were the cause of a major fire in the customer's premises on [date]. Total losses to the customer have been estimated at £_million and this amount is being claimed from the Group.

The Group's lawyers have advised that they do not consider that the suit has merit, and they have recommended that it be contested. No provision has been made in the condensed set of financial statements as the Group's management do not consider that there is any probable loss.

IAS 34.16(c) **19. Share based payments**

On [date] 2007, the Group re-priced certain of its outstanding share options. The strike price was reduced from [ ] to the then current market price of [ ]. The incremental fair value of £_ will be expensed over the remaining vesting period of two years. The Group used the inputs as previously published to measure the fair value of the share options immediately before and after the re-pricing.

IAS 34.16(d) **20. Defined benefit schemes**

The defined benefit obligation as at 31 July 2007 is calculated on a year-to-date basis, using the latest actuarial valuation as at 31 January 2007. There have not been any significant fluctuations or one-time events since that time that would require adjustment to the actuarial assumptions made at 31 January 2007.

The defined benefit plan assets have been updated to reflect their market value as at 31 July 2007. Differences between the expected return on assets and the actual return on assets have been recognised as an actuarial gain in the condensed consolidated statement of recognised income and expense in accordance with the Group's accounting policy.

IAS 34.16(h) **21. Events after the balance sheet date**

On [date] the premises of [name of subsidiary] were seriously damaged by fire. Insurance claims have been put in hand but the cost of refurbishment is currently expected to exceed these by £_million.

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Notes to the condensed set of financial statements (continued)
Six months ended 31 July 2007

IAS 34.17(j) **22. Related party transactions**

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the group and its associates are disclosed below.

Trading transactions

During the period, Group companies entered into the following transactions with related parties who are not members of the Group:

Six months ended 31 July	Sales of goods 2007 £'000	Purchase of goods 2007 £'000	Amounts owed by related parties 2007 £'000	Amounts owed to related parties 2007 £'000
X Holdings				
Associates				

Six months ended 31 July	Sales of goods 2006 £'000	Purchase of goods 2006 £'000	Amounts owed by related parties 2006 £'000	Amounts owed to related parties 2006 £'000
X Holdings				
Associates				

Year ended 31 January	Sales of goods 2007 £'000	Purchase of goods 2007 £'000	Amounts owed by related parties 2007 £'000	Amounts owed to related parties 2007 £'000
X Holdings				
Associates				

X Holdings is a related party of the Group because [give reason].

Sales of goods to related parties were made at the Group's usual list prices, less average discounts of _%. Purchases were made at market price, discounted to reflect the quantity of goods purchased and the relationships between the parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Appendix II

Half-yearly financial report disclosure checklist

This checklist contains the disclosure and reporting requirements for half-yearly financial reports for periods beginning on or after 20 January 2007. Consistent with the model half-yearly financial report in Appendix I, it notes the disclosures required by the Disclosure and Transparency Rules (DTR) for half-yearly financial reports and those required by IAS 34 'Interim Financial Reporting'. The checklist focuses on content and the mechanics of reporting. It does not discuss the basis of preparation or measurement, which are covered in detail in Appendix V.

The DTR requirements for half-yearly financial reports apply to all UK entities, whose shares or debt securities are admitted to trading on a regulated market[1]. Entities that have only wholesale debt[2] listed on a regulated market are exempted from the requirements on half-yearly financial reports. Other exemptions are available in section DTR 4.4 and those relating to half-yearly financial reports are included in section 1 of this checklist.

For periods beginning before 20 January 2007, please refer to our recent Corporate Governance publication 'Interim Report Disclosure Checklist', which is available in pdf format on www.deloitte.co.uk or from your Deloitte contact.

		Reference	Yes/No/n/a
1	**Exemptions from rules on half-yearly financial reports**		
1.1	Public sector issuers The rules on half-yearly financial reports (DTR 4.2) do not apply to a state, a regional or local authority of a state, a public international body of which at least one EEA State is a member, the ECB and EEAStates' national central banks.	DTR 4.4.1	
1.2	Debt issuers The rules on half-yearly financial reports (DTR 4.2) do not apply to an issuer that issues exclusively debt securities admitted to trading the denomination per unit of which is at least 50,000 Euros (or an equivalent amount).	DTR 4.4.2	
	The rules on half-yearly financial reports (DTR 4.2) do not apply to a credit institution whose shares are not admitted to trading and which has, in a continuous or repeated manner, only issued debt securities provided that: (a) the total nominal amount of all such debt securities remains below 100,000,000 Euros; and (b) the credit institution has not published a prospectus in accordance with the prospectus directive.	DTR 4.4.3	
	The rules on half-yearly financial reports do not apply to an issuer already existing on 31 December 2003 which exclusively issue debt securities unconditionally and irrevocably guaranteed by the issuer's Home Members State or by a regional or local authority of that state, on a regulated market.	DTR 4.4.4	

1 Regulated markets include the LSE main market, but exclude exchange regulated markets such as AIM and the Professional Securities Market.

2 Wholesale debt is defined as debt with a denomination per unit of at least €50,000 (or an equivalent amount).

		Reference	Yes/No/n/a
1.3	Issuers of convertible securities The rules on half-yearly financial reports (DTR 4.2) do not apply to an issuer of transferable securities convertible into shares.	DTR 4.4.5	
1.4	Issuers of depository receipts The rules on half-yearly financial reports (DTR 4.2) do not apply to an issuer of depository receipts.	DTR 4.4.7	
1.5	Non-EEA States – Equivalence An issuer whose registered office is a non-EEA state whose relevant laws are considered equivalent by the FSA is exempted from the rules on half-yearly financial reports (DTR 4.2).	DTR 4.4.8	
2	**Mechanics of reporting**		
2.1	An entity should make public a half-yearly financial report covering the first six months of the financial year.	DTR 4.2.2(1)	
2.2	The half-yearly financial report should be made public as soon as possible, but no later than two months, after the end of the period to which the report relates.	DTR 4.2.2(2)	
2.3	The half-yearly financial report should remain available to the public for at least five years.	DTR 4.2.2(3)	
2.4	The half-yearly financial report should include: (a) a condensed set of financial statements (see sections 3 and 4 below); (b) an interim management report (see section 5 below); and (c) responsibility statements (see section 6 below).	DTR 4.2.3	
3	**Condensed set of financial statements**	DTR 4.2.3(1)	
3.1	**If the entity is required to prepare consolidated accounts**, the condensed set of financial statements must be prepared in accordance with IAS 34 (see section 4 below).	DTR 4.2.4(1)	
3.2	**If the entity is not required to prepare consolidated accounts**, the condensed set of financial statements must contain, as a minimum the following: (a) a condensed balance sheet; (b) a condensed profit and loss account; and (c) explanatory notes on these accounts.	DTR 4.2.4(2)	
	The same principles for recognising and measuring as when preparing annual financial statements should be followed in preparing the condensed balance sheet and the condensed profit and loss account.	DTR 4.2.5(2)	
	The balance sheet and the profit and loss account should show each of the headings and subtotals included in the most recent annual financial statements of the entity	DTR 4.2.5(3)	
	Additional line items should be included if, as a result of their omission, the half-yearly financial statements would give a misleading view of the assets, liabilities, financial position and profit or loss of the entity.	DTR 4.2.5(3)	

		Reference	Yes/No/n/a
	Comparative information should be provided as follows: (a) comparative balance sheet as at the end of the immediate preceding financial year; and (b) from two years after 20 January 2007, comparative profit and loss account for the comparable period for the preceding financial year.	DTR 4.2.5(4)	
	Explanatory notes should include as a minimum: (a) sufficient information to ensure the comparability of the condensed half-yearly financial statements with the annual financial statements; and (b) sufficient information and explanations to ensure a user's proper understanding of any material changes in amounts and of any developments in the half-year period concerned, which are reflected in the balance sheet and the profit and loss account.	DTR 4.2.5(5)	
3.3	The accounting policies and presentation applied to half-yearly figures should be consistent with those applied in the latest published annual accounts, except where the accounting policies and presentation are to be changed in the subsequent annual financial statements.	DTR 4.2.6	
	Where the accounting policies and presentation are to be changed in the subsequent annual financial statements, the new accounting policies and presentation should be followed in the condensed half-yearly financial statements. The changes and the reasons for the changes should be disclosed.	DTR 4.2.6(1)	
3.4	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 report must be reproduced in full.	DTR 4.2.9(1)	
	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', the entity should make a statement to this effect in its report.	DTR 4.2.9(2)	
4	**IAS 34 'Interim financial reporting'** [Entities which are required to prepare consolidated accounts should prepare their condensed half-yearly financial statements in accordance with IAS 34. The requirements below are those that apply to condensed half-yearly financial statements. Should an entity chose to produce a complete set of half-yearly financial statements, the requirements of all IFRSs apply in the same way as for annual financial statements, including the disclosure requirements.]	DTR 4.2.4(1)	
4.1	An interim report should include, at a minimum, the following components: (a) a condensed income statement; (b) a condensed statement of changes in equity (SOCE) or a condensed statement of recognised income and expense (SORIE); (c) a condensed balance sheet; (d) a condensed cash flow statement; and (e) selected explanatory notes.	IAS 34.8	
4.2	A half-yearly financial report should be prepared on a consolidated basis if the entity's most recent annual financial statements were on consolidated statements.	IAS 34.14	

		Reference	Yes/No/n/a
	Condensed income statement		
4.3	At a minimum, each of the headings and subtotals included in the most recent annual financial statements should be included in the condensed income statement.	IAS 34.10	
	Additional line items or notes should be included if their omission would make the condensed half-yearly financial statements misleading.	IAS 34.10	
4.4	The nature and amount of items affecting net income that are unusual because of their nature, size or incidence, should be disclosed.	IAS 34.16(c)	
4.5	Basic and diluted earnings per share for the half year should be presented on the face of the condensed income statement.	IAS 34.11	
4.6	Income statements should be presented for the current interim period and cumulatively for the current financial year to date.	IAS 34.20(b)	
	Comparatives should be given for the comparable interim periods (current and year-to-date) of the preceding financial year.	IAS 34.20(b)	
4.7	Items of income and expense should be measured and recognised on a basis consistent with that used in the preparation of the annual financial statements (the year-to-date method).	IAS 34.28	
	Condensed statement of changes in equity		
4.8	Information about changes in equity arising from transactions with equity holders can be shown either on the face of the statement or in the notes. An entity should follow the same format for the statement of changes in equity as in its most recent annual financial statements.	IAS 34.13	
4.9	At a minimum, each of the headings and subtotals included in the most recent annual financial statements should be included in the condensed statement of changes in equity.	IAS 34.10	
	Additional line items or notes should be included if their omission would make the condensed half-yearly financial statements misleading.	IAS 34.10	
4.10	The nature and amount of items affecting equity that are unusual because of their nature, size or incidence, should be disclosed.	IAS 34.16(c)	
4.11	A statement showing changes in equity should be presented cumulatively for the current financial year to date.	IAS 34.20(c)	
	Comparatives should be given for the comparable year-to-date period of the preceding financial year.	IAS 34.20(c)	
4.12	Items of income and expense should be measured and recognised on a basis consistent with that used in the preparation of the annual financial statements (the year-to-date method).	IAS 34.28	
	Condensed balance sheet		
4.13	At a minimum, each of the headings and subtotals included in the most recent annual financial statements should be included in the condensed balance sheet.	IAS 34.10	
	Additional line items or notes should be included if their omission would make the condensed half-yearly financial statements misleading.	IAS 34.10	
4.14	The nature and amount of items affecting assets, liabilities and equity that are unusual because of their nature, size or incidence, should be disclosed.	IAS 34.16(c)	
4.15	A balance sheet should be presented as at the end of the current interim period.	IAS 34.20(a)	
	Comparatives should be given for the end at the preceding financial year.	IAS 34.20(a)	

		Reference	Yes/No/n/a
	Condensed cash flow statement		
4.16	At a minimum, each of the headings and subtotals included in the most recent annual financial statements should be included in the condensed cash flow statement.	IAS 34.10	
	Additional line items or notes should be included if their omission would make the condensed half-yearly financial statements misleading.	IAS 34.10	
4.17	The nature and amount of items affecting cash flows that are unusual because of their nature, size or incidence, should be disclosed.	IAS 34.16(c)	
4.18	A cash flow statement should be presented cumulatively for the current financial year to date.	IAS 34.20(d)	
	Comparatives should be given for the comparable year-to-date period in the preceding financial year.	IAS 34.20(d)	
	Selected explanatory and "other" notes		
4.19	The interim report is intended to provide an update on the latest complete set of annual financial statements. Accordingly it focuses on new activities, events, transactions and circumstances that are significant to an understanding of the changes in financial position and performance.	IAS 34.6 and 15	
4.20	The information in the notes should normally be reported on a financial year-to-date basis.	IAS 34.16	
4.21	A statement should be included that the same accounting policies and methods of computation are followed in the interim financial statements as in the most recent annual financial statements. If those policies or methods have been changed, include a description of the nature and effect of the change.	IAS 34.16(a)	
	Interim reports should be prepared using the same accounting policies and principles for recognising assets, liabilities, income and expense as applied in the latest published annual accounts, except where the accounting policies and principles are to be changed in the subsequent annual financial statements.	IAS 34.28 and 29	
	A change in accounting policy, other than one for which the transition is specified by a new Standard or Interpretation, shall be reflected by restating the financial statements of prior interim periods of the current financial year and the comparable interim periods of any prior financial years included.	IAS 34.43(a)	
4.22	Where full year comparatives are provided, a statement is required to satisfy section 240 of the Companies Act 1985 regarding the publication of non-statutory accounts, stating: (a) that the accounts are not the entity's statutory accounts; (b) whether statutory accounts, dealing with the financial year with which the non-statutory accounts purport to deal, have been delivered to the Registrar of Companies; (c) whether the auditors have made a report under section 235 on the entity's statutory accounts for any such financial year; and (d) whether this audit report was qualified or contained a statement under section 237(2) or 237(3) (i.e. the accounting records or returns were inadequate, or the accounts do not agree with records or returns, or there has been a failure to obtain necessary information and explanations). For example: The information for the year ended 31 January 2007 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.	CA s240	

		Reference	Yes/No/n/a
4.23	Explanatory comments about the seasonality or cyclicality of the interim operations should be given.	IAS 34.16(b)	
4.24	The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year should be disclosed. Additionally, changes in estimates of amounts reported in prior financial years should be disclosed, if those changes have a material effect in the current interim period.	IAS 34.16(d)	
4.25	Information about issuances, repurchases and repayments of debt and equity securities should be given.	IAS 34.16(e)	
4.26	Dividends paid (aggregate or per share) should be disclosed separately for ordinary shares and other shares.	IAS 34.16(f)	
4.27	Segment revenue and segment result for the entity's primary segments should be disclosed, if the entity is required to comply with IAS 14 'Segment Reporting' in its annual financial statements. Please note: IFRS 8 'Operating Segments', the recent IFRS issued by the IASB, includes consequential amendments to IAS 34.16(g). IFRS 8 and the consequential amendments to IAS 34 are effective for periods beginning on or after 1 January 2009. Early application is permitted. The amended paragraph is reproduced below.	IAS 34.16(g)	
	The entity shall disclose the following segment information, if the entity is required to comply with IFRS 8 Operating Segments in its annual financial statements: i. revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker; ii. intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker; iii. a measure of segment profit or loss; iv. total assets for which there has been a material change from the amount disclosed in the last annual financial statements; v. a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss; and vi. a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation.	IAS 34.16(g) amended	
4.28	Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period should be disclosed.	IAS 34.16(h)	

		Reference	Yes/No/n/a
4.29	The effect of changes in the composition of the entity during the interim period should be disclosed, including business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructurings and discontinued operations.	IAS 34.16(i)	
	For business combinations, the disclosures required by IFRS 3.66-73 should be given as follows:		
	An acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that were effected:	IFRS 3.66	
	(a) during the period; and		
	(b) after the balance sheet date but before the financial statements are authorised for issue.		
	Note: Paragraphs 67 to 71 of IFRS 3, as below, specify the minimum disclosures to satisfy the requirement in IFRS 3.66.		
	The entity shall disclose the following information for each business combination that was effected during the period (or in aggregate for business combinations effected during the reporting period that are individually immaterial):	IFRS 3.68	
	(a) the names and descriptions of the combining entities or businesses;	IFRS 3.67(a)	
	(b the acquisition date;	IFRS 3.67(b)	
	(c) the percentage of voting equity instruments acquired;	IFRS 3.67(c)	
	(d) the cost of the combination and a description of the components of that cost, including any costs directly attributable to the combination.	IFRS 3.67(d)	
	When equity instruments are issued or issuable as part of the cost, the following shall also be disclosed:		
	i. the number of equity instruments issued or issuable;		
	ii. the fair value of those instruments and the basis for determining that fair value;		
	iii. if a published price does not exist for the instruments at the date of exchange, the significant assumptions used to determine fair value shall be disclosed;		
	iv. if a published price exists at the date of exchange but was not used as the basis for determining the cost of the combination, the entity shall disclose:		
	• that fact;		
	• the reasons the published price was not used;		
	• the method and significant assumptions used to attribute a value to the equity instruments; and		
	• the aggregate amount of the difference between the value attributed to, and the published price of, the equity instruments;		
	(e) details of any operations the entity has decided to dispose of as a result of the combination;	IFRS 3.67(e)	
	(f) the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities; and:	IFRS 3.67(f)	
	i. the carrying amounts of each of those classes, determined in accordance with IFRSs, immediately before the combination, unless disclosure would be impracticable;		
	ii. if such disclosure would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case;		

	Reference	Yes/No/n/a
(g) the amount recognised in profit or loss relating to any excess of the entity's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost; and the line item in the income statement in which the excess is recognised;	IFRS 3.67(g)	
(h) a description of the factors that contributed to a cost that results in the recognition of goodwill, including:	IFRS 3.67(h)	
i. a description of each intangible asset that was not recognised separately from goodwill and an explanation of why the intangible asset's fair value could not be measured reliably; or		
ii. a description of the nature of the amount recognised in profit or loss relating to any excess of the entity's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost;		
(i) the amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period, unless disclosure would be impracticable.	IFRS 3.67(i)	
If such disclosure would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.		
If the initial accounting for a business combination that was effected during the period was determined only provisionally, the entity shall disclose that fact together with an explanation of why this is the case.	IFRS 3.69	
Unless impracticable, the entity shall disclose:	IFRS 3.70	
(a) the revenue of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of that period;		
(b) the profit or loss of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of the period.		
If disclosure of this information would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.		
Where practicable, the entity shall disclose the information required by IFRS 3.67 (see above) for each business combination effected after the balance sheet date but before the financial statements are authorised for issue.	IFRS 3.71	
If disclosure of any of that information would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.		
The entity shall disclose information that enables users of its financial statements to evaluate the financial effects of gains, losses, error corrections and other adjustments recognised in the current period that relate to business combinations that were effected in the current or in previous periods.	IFRS 3.72	
Note: IFRS 3.73, as below, specifies the minimum disclosures to satisfy the requirement in IFRS 3.72.		
The acquirer shall disclose the following information:		
(a) the amount and an explanation of any gain or loss recognised in the current period that:	IFRS 3.73(a)	
i. relates to the identifiable assets acquired or liabilities or contingent liabilities assumed in a business combination that was effected in the current or a previous period; and		
ii. is of such size, nature or incidence that disclosure is relevant to an understanding of the combined entity's financial performance;		

		Reference	Yes/No/n/a
	(b) if the initial accounting for a business combination that was effected in the immediately preceding period was determined only provisionally at the end of that period, the amounts and explanations of the adjustments to the provisional values recognised during the current period;	IFRS 3.73(b)	
	(c) the information about error corrections required to be disclosed by IAS 8 for any of the acquiree's identifiable assets, liabilities or contingent liabilities, or changes in the values assigned to those items, that the entity recognises during the current period in accordance with paragraphs 63 and 64.	IFRS 3.73(c)	
4.30	Changes in contingent liabilities or contingent assets since the last annual balance sheet date should be disclosed.	IAS 34.16(j)	
4.31	The compliance with IAS 34 should be stated.	IAS 34.19	
5	**Interim management report**	DTR 4.2.3(2)	
5.1	The interim management report should include at a minimum: (a) 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 (b) a description of the principal risks and uncertainties for the remaining six months of the financial year.	DTR 4.2.7	
5.2	**If the entity has listed shares**, the following information should be disclosed in the interim management report, as a minimum: (a) related party 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 group during the period; and (b) any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the group in first six months of the current financial year.	DTR 4.2.8(1)	
5.3	**If the entity has listed shares but is not required to prepare consolidated accounts**, it should disclose, as a minimum, any transactions which have been entered into with related parties by the entity, if such transactions are material and have not been concluded under normal market conditions. Information to be disclosed included the amount of such transactions, the nature of the related party relationship and other information about the transactions necessary for an understanding of the financial position of the entity.	DTR 4.2.8(2)	
	Information about such related party transactions may be aggregated according to their nature except where separate information is necessary for an understanding of the effects of related party transactions on the financial position of the entity.	DTR 4.2.8(3)	
6	**Responsibility statements**	DTR 4.2.3(3)	
6.1	Responsibility statements must be made by the persons responsible within the entity.	DTR 4.2.10(1)	
6.2	The name and function of any person who makes a responsibility statement must be clearly indicated in the responsibility statement.	DTR 4.2.10(2)	

		Reference	Yes/No/n/a
6.3	For each person making a responsibility statement, the statement must confirm that to the best of his or her knowledge: (a) 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 as required by DTR 4.2.4R; (b) the interim management report includes a fair review of the information required by DTR 4.2.7R; and (c) **if the entity has listed shares**, the interim management report includes a fair review of the information required by DTR 4.2.8R.	DTR 4.2.10(3)	
6.4	A person making a responsibility statement will satisfy the requirement in 6.3(a) above to confirm that the condensed set of financial statements 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) by including a statement that the condensed set of financial statements have been prepared in accordance with: (a) IAS 34; or (b) for UK issuers not using IFRS, pronouncements on interim reporting issued by the Accounting Standards Board; or (c) for all other issuers not using IFRS, a national accounting standard relating to interim reporting, provided always that a person making such a statement has reasonable grounds to be satisfied that the condensed set of financial statements prepared in accordance with such a standard is not misleading.	DTR 4.2.10(4)	

Appendix III

Illustrative interim management statement

This illustrative interim management statement (IMS) has been developed to provide an example of what an IMS may include. This illustrative IMS is based on a hypothetical large group and hence may go beyond the level of detail that is required by the DTR.

Interim management statement

To the members of Delto plc

[Insert suitable wording to the effect that the interim management statement has been prepared solely to provide additional information to shareholders as a body to meet the relevant requirements of the UK Listing Authority's Disclosure and Transparency Rules and that the interim management statement should not be relied on by any other party or for any other purpose.]

[If the IMS contains information about the future, directors may wish to insert suitable wording to clarify that the interim management statement may contain forward-looking statements and that these statements:

- have been made by the directors in good faith based on the information available to them up to the time of their approval of this report; and
- should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking information.]

This interim management statement has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Delto plc and its subsidiary undertakings when viewed as a whole.

DTR 4.3.4 This interim management statement relates to the period from 1 February 2007 to 14 May 2007 [date of publication of the IMS[1]] and contains information that covers this period, up to the date of publication of this interim management statement.

DTR 4.3.5 **Our operations**

Delto plc manufacturers innovative, high quality products for the [ ] and [ ] industries. These products are used by our customers in a variety of systems which perform functions such as [ ] and [ ]. Our product portfolio includes lines such as the [Product X] range and the [Product Y] range and our key brands include [ ], [ ] and [ ]. We are a global player in our market, with the majority of our operations being in [A Land], [B Land], [C Land] and [D Land].

In [A Land], our biggest single market in both revenue and profit terms, the economic environment during the period has been relatively stable, with a continued high level of growth of _%. In the rest of Europe, growth has been lower at an average of _% during the period and this rate of growth is not expected to change significantly in the current financial year. In [D Land], the economy continued to strengthen, albeit at a lower pace than in the previous financial year.

Progress during the period

Revenue and operating profit

Total group revenue was up _% on the corresponding period in the previous financial year to £_million, with growth achieved in [Activity A] (_%) and [Activity B] (_%) but a decline of _% in [Activity C]. Excluding the net impact of foreign currency effects (£-_million), acquisitions (£_million) and disposals (£-_million), revenue on a like-for-like basis was higher by _% at £_million.

1 Date of publication of the IMS should be between ten weeks after the beginning, and six weeks before the end, of the relevant six month period (DTR 4.3.3). Therefore, a company with a January year end should publish its first IMS between 12 April and 19 June in a non-leap year.

During the period, we have invested £_million (2006: £_million) in our core products and have launched a new product, [Product X1]. This new product contributed revenue of £_million during the period. Further new products are nearing completion and are due to be launched over the next 12 to 18 months.

In our last annual report, we anticipated the replacement of [Product X] with its updated version during the first quarter of the current financial year. However, the replacement of [Product X] globally was delayed when the regulator [ ] imposed further testing requirements on the new version. This impacted our [Activity B] business with sales of the [Product X] range down _% from our expectation to £_million. The launch of the replacement product is now expected to occur in the fourth quarter of the current financial year.

Group operating profit for the period was £_million, _% ahead of the comparative period in the previous financial year (£_million). Despite a decline in gross margin percentage in the current period by _ percentage points to _%, underlying operating profit before interest, tax and one-off items increased by £_million to £_million.

Net assets

During the period, we acquired [name of company] to grow our market strength in [Activity C] and are currently restructuring this part of the business following the acquisition to consolidate our positions in this market.

The Group has net debt of £_million (31 January 2007: £_million). During the period, additional loans of £_million were drawn down under the Group's existing loan facility. As the Group continues to be able to borrow at competitive rates, the draw down under the existing loan facility was used partly to fund the acquisition of [name of company].

[Address of registered office]

14 May 2007[2]

By order of the Board,
[Signature]
[Director]
[Name of signatory to be stated]

2 Date of publication of the IMS should be between ten weeks after the beginning, and six weeks before, the end of the relevant six month period (DTR 4.3.3). Therefore, a company with a January year end should publish its first IMS between 12 April and 19 June in a non-leap year.

Appendix IV

Interim management statement disclosure checklist

This interim management statement (IMS) disclosure checklist is based on the Disclosure and Transparency Rules (DTR) in chapter 4 of the UKLA Handbook, in respect of the requirements for periodic financial reporting. The DTR apply for periods beginning on or after 20 January 2007.

The DTR interim management statement requirements apply to all UK companies, whose shares are admitted to trading on a regulated market[1]. Therefore, companies with listed debt only are not required by the DTR to prepare IMS. Companies, which publish quarterly reports in accordance with either national legislation, or the rules of the regulated market on which the shares are listed, or voluntarily, are also exempted from preparing IMS (DTR 4.3.6).

		Reference	Yes/No/n/a
1	**Exemptions from rules on interim management statements**		
1.1	Public sector issuers The rules on interim management statements (DTR 4.3) do not apply to a state, a regional or local authority of a state, a public international body of which at least one EEA State is a member, the ECB and EEAStates' national central banks.	DTR 4.4.1	
1.2	Debt issuers The rules on interim management statements (DTR 4.3) do not apply to an issuer that issues exclusively debt securities admitted to trading the denomination per unit of which is at least 50,000 Euros (or an equivalent amount).	DTR 4.4.2	
1.3	Issuers of convertible securities The rules on interim management statements (DTR 4.3) do not apply to an issuer of transferable securities convertible into shares.	DTR 4.4.5	
1.4	Issuers of preference shares The rules on interim management statements (DTR 4.3) do not apply to an issuer of preference shares.	DTR 4.4.6	
1.5	Issuers of depository receipts The rules on interim management statements (DTR 4.3) do not apply to an issuer of depository receipts.	DTR 4.4.7	
1.6	Non-EEA States – Equivalence An issuer whose registered office is a non-EEA state whose relevant laws are considered equivalent by the FSA is exempted from the rules interim management statements (DTR 4.3).	DTR 4.4.8	

1 Regulated markets include the LSE main market, but exclude exchange regulated markets such as AIM.

		Reference	Yes/No/n/a
2	**Mechanics of reporting**		
2.1	Management should publish an IMS during the first six-month period of the financial year and another statement during the second six-month period of the financial year.	DTR 4.3.2	
2.2	Each IMS 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 4.3.3	
3	**Content of IMS**		
3.1	The IMS should contain information that covers the period between the beginning of the relevant six-month period and the date of publication of the statement.	DTR 4.3.4	
3.2	An explanation of material events and transactions that have taken place during the relevant period should be provided; and their impact on the financial position of the company and its controlled undertakings.	DTR 4.3.5 (1)	
3.3	A general description of the financial position and performance of the company and its controlled undertakings during the relevant period should be provided.	DTR 4.3.5 (2)	

Appendix V

A guide to IAS 34 'Interim Financial Reporting'

1 Introduction

IAS 34 'Interim Financial Reporting' prescribes the minimum content for an interim financial report, and the principles for recognition and measurement in complete and condensed financial statements for an interim period (defined as a financial reporting period shorter than a full financial year). It has been effective since 1 January 1999. Apart from minor textual amendments, it has not been affected by recent IASB Standards. However IFRIC 10 'Interim Financial Reporting and Impairment' is of direct interest and effective for annual periods beginning on or after 1 November 2006.

This Appendix discusses the requirements of IAS 34 in the following sections:

Section 2	Scope
Section 3	Content of an interim financial report
Section 4	Accounting policies
Section 5	Recognition and measurement
Section 6	Additional examples
Section 7	First-time adoption of IFRSs
Section 8	Future developments

Throughout this Appendix, text that represents interpretations and examples other than those cited in IFRSs are highlighted in shading.

2 Scope

IAS 34 applies to interim reports that are described as complying with International Financial Reporting Standards. [IAS 34(3)]

IAS 34 does not contain any rules as to which entities should publish interim financial reports, how frequently, or how soon after the end of an interim period. The Standard notes that governments, securities regulators, stock exchanges, and accountancy bodies often require entities with publicly-traded debt or equity to publish interim financial reports and that those regulations will generally specify the frequency and timing of such reports. However, IAS 34(1) encourages publicly-traded entities:

- to provide interim financial reports at least as of the end of the first half of their financial year; and
- to make their interim financial reports available no later than 60 days after the end of the interim period.

Each financial report, annual or interim, is evaluated on a stand-alone basis for compliance with IFRSs. It is important to note that entities that prepare annual financial statements in accordance with IFRSs are not precluded from preparing interim financial reports that do **not** comply with IFRSs, as long as the interim report does not state that it is IFRS compliant. The fact that an entity may not have provided interim financial reports during a financial year, or that it may have provided interim financial reports that do not comply with IAS 34, does not prevent the entity's annual financial statements from conforming to IFRSs, if they are otherwise IFRS compliant. [IAS 34(1) and (2)]

3 Content of an interim financial report

3.1 Minimum components

Entities reporting in accordance with IAS 34 are required to include in their interim reports, at a minimum, the following components: [IAS 34(8)]

- a condensed balance sheet;
- a condensed income statement;
- a condensed statement showing either (a) all changes in equity or (b) changes in equity other than those arising from capital transactions with owners and distributions to owners;
- a condensed cash flow statement; and
- selected notes.

The interim statement of changes in equity should follow the same format as in the most recent annual financial statements. [IAS 34(13)]

3.2 Periods required to be presented

IAS 34(20) requires interim reports to include interim financial statements (whether condensed or complete – see section 3.4 below) for the periods listed in the following table.

Statement	Current	Comparative
Balance sheet	End of current interim period	End of immediately preceding financial year
Income statement	Current interim period and cumulatively for the year-to-date	Comparable interim period and year-to-date of immediately preceding financial year
Statement of changes in equity	Cumulative for the current financial year-to-date	Comparable year-to-date of immediately preceding financial year
Cash flow statement	Cumulatively for the current financial year-to-date	Comparable year-to-date of immediately preceding financial year

3.2.1 Entities that report half-yearly

Based on the requirements of IAS 34(20), the following statements are required to be presented in the interim report of an entity that reports half-yearly, with a 31 December 2008 year end.

Balance sheet at	30 June 2008	31 December 2007
Income statement – 6 months ended	30 June 2008	30 June 2007
Statement of changes in equity – 6 months ended	30 June 2008	30 June 2007
Cash flow statement – 6 months ended	30 June 2008	30 June 2007

3.2.2 Entities that report quarterly

Based on the requirements of IAS 34(20), the following statements are required to be presented in the half-year interim report of an entity that reports quarterly, with a 31 December 2008 year end.

Balance sheet at	30 June 2008	31 December 2007
Income statement – 6 months ended	30 June 2008	30 June 2007
– 3 months ended	30 June 2008	30 June 2007
Statement of changes in equity – 6 months ended	30 June 2008	30 June 2007
Cash flow statement – 6 months ended	30 June 2008	30 June 2007

3.2.3 Entities with seasonal businesses

The requirements of IAS 34(20), as discussed above, set out the minimum periods for which interim financial statements are to be presented. However, entities may wish to provide additional information. For example, entities whose business is highly seasonal are encouraged to disclose financial information relating to the twelve-month period ended on the interim date, and comparative information on the same basis. [IAS 34(21)]

3.2.4 Change of financial year end

IAS 34 does not discuss the circumstances where there is a change in the financial year end of the reporting entity. IAS 34(20) requires the presentation of comparatives, for the income statement, statement of changes in equity and cash flow statement, for "comparable" periods. Accordingly, in preparing the interim report based on the new financial year end, the entity should present comparatives for the same interim period, which may not have been the basis for the interim financial information previously reported.

Example 3.2.4

An entity with a 31 March year end, which reported half year information to 30 September 2007, moves to a 31 December year end. It produces "annual" accounts for the nine months ended 31 December 2007. Its half year interim report for 2008 will be for the six months ended 30 June 2008.

The appropriate comparative period for the June 2008 interim report is the six months ended 30 June 2007. This will enable users to compare trends over time, particularly for a seasonal business. The statements for the six months ended 30 September 2007 are not directly comparable.

If it is not practicable to restate 2007 to the new interim period basis, the comparatives for the six months ended 30 September 2007, and also the amounts for the six months ended 31 March 2007, should be presented, with disclosure that restatement to the new interim period basis was not practicable.

3.2.5 Comparatives for first interim reports

When an entity is preparing its first interim report, unless the report relates to the first period of operation, it should generally include comparatives as discussed in the previous sections. In the exceptional circumstances where the entity does not have available in its accounting records the financial information that is needed to prepare the comparative interim financial statements, the entity has no choice but to omit disclosure of prior period comparative financial statements.

In the circumstances described, the omission of the comparatives represents a breach of IAS 34. Therefore, the interim financial report cannot be described as complying with IAS 34 without an "except for" statement regarding the omission of prior period comparative figures. Both the fact of, and the reason for, the omission should be disclosed.

3.3 Group accounts

If the entity's most recent annual financial statements were consolidated statements, then the interim financial report should also be prepared on a consolidated basis. If the entity's annual financial report included the parent's separate financial statements in addition to consolidated financial statements, IAS 34 neither requires nor prohibits the inclusion of the parent's separate statements in the entity's interim report. [IAS 34(14)]

Where the entity has disposed of all of its subsidiaries during the interim period, such that it has no subsidiaries at the interim reporting date, it should prepare its interim financial report on a consolidated basis because it had subsidiaries at some point during the interim period. The income statement, cash flow statement and statement of changes in equity will include the impact of the subsidiaries up to the date(s) of disposal and the effects of the disposal.

3.4 Form and content of interim financial statements

Where the information prescribed by IAS 34(8) (as listed in section 3.1 above) is presented, the resultant financial statements are described as "condensed". However, entities also have the option of producing a complete set of financial statements for inclusion in their interim reports. Where an entity takes this alternative, the form and content of the financial statements must conform to the requirements of IAS 1 'Presentation of Financial Statements' for a complete set of financial statements, as well as the requirements of IAS 34. [IAS 34(7) and (9)] Therefore, the measurement and disclosure requirements of all relevant Standards apply, including all measurement and disclosure requirements of IAS 34 and, in particular, the selected explanatory notes listed in IAS 34(16) (see section 3.5 below).

3.4.1 Items to appear on the face of condensed financial statements

IAS 34 requires that, for each component (balance sheet, income statement, statements of changes in equity, and cash flow statement) each of the headings and sub-totals that were included in the entity's most recent annual financial statements should be disclosed. Additional line items are required if their omission would make the condensed interim financial statements misleading. [IAS 34(10)]

In prescribing the minimum content, IAS 34 uses the terms "headings" and "sub-totals", thereby seeming to imply that not all of the line items that were presented in the most recent annual financial statements are necessarily required. Such an interpretation would do a disservice, however, to a user of the financial statements who is trying to assess trends in the interim period in relation to financial years. Accordingly, the phrase should be interpreted, in nearly all cases, to mean the line items that were included in the entity's most recent annual financial statements. The line items on the face of most published financial statements are already highly aggregated and it would be difficult to think of a line item in the annual income statement, in particular, that would not also be appropriate in an interim income statement. For example, it would not be appropriate to begin a condensed income statement with the gross profit figure, omitting figures for revenue and cost of goods sold.

For the balance sheet, a too literal interpretation of "each of the headings and subtotals" might lead to an interim balance sheet that presented lines only for total current assets, total non-current assets, total current liabilities, total non-current liabilities and total equity, which will generally be insufficient for trend analysis.

For the statement of changes in equity, all material movements in equity occurring in the interim period should be disclosed separately.

In the case of the cash flow statement, some condensation of the lines from the annual statement may be appropriate, but subtotals for "operating", "investing" and "financing" only are unlikely to be sufficient.

If a particular category of asset, liability, equity, income, expense or cash flow was so material as to require separate disclosure on the face of the financial statements in the most recent annual financial statements, such separate disclosure will generally be appropriate in the interim financial report. Further aggregation would only be anticipated where the line items in the annual statements are unusually detailed.

Under IAS 34(10), additional line items should be included if their omission would make the condensed interim financial statements misleading. Therefore, a new category of asset, liability, income, expense, equity or cash flow arising for the first time in the interim period may require presentation as an additional line item in the condensed financial statements.

3.4.2 Use of the term "condensed"

The requirements discussed in the previous section will result in the presentation of at least some statements that include all of the line items, headings and sub-totals that were presented in the most recent annual financial statements. The question then arises as to whether such statements should, in practice, be described as "condensed".

Given that the notes supplementing the interim statements are limited, the presentation package taken together is condensed from what would be reported in a complete set of financial statements under IAS 1 'Presentation of Financial Statements' and other Standards. In such circumstances, the balance sheet/income statement/equity/cash flow information presented is condensed – even if the appearance of the face of the statements has not changed. These interim statements should therefore be described as "condensed", since otherwise a user may infer that they constitute a complete set of financial statements under IAS 1, which they do not. A complete set of financial statements must include a full note presentation identical to the annual presentation.

3.4.3 Earnings per share

Earnings per share (EPS), both basic and diluted should be presented on the face of the income statement (whether complete or condensed) for the interim period. [IAS 34(11)]

IAS 33 ‘Earnings Per Share’ was revised in 2003 to require the disclosure in annual financial statements of more EPS figures than had previously been the case. IAS 34 has not itself been amended, nor does it make any specific reference to the requirements of IAS 33. Nevertheless, to enable users to compare trends, the same EPS figures should be presented in the interim report as in annual financial statements. Therefore, irrespective of whether the interim statement is described as “condensed”, the following should be presented on the face of the interim period income statement, with equal prominence for basic and diluted EPS for all periods presented:

- profit or loss attributable to the ordinary equity shareholders of the parent entity; and
- if presented in the annual financial statements, profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity.

These should be presented for each class of ordinary shares that has a different right to share in profit for the period.

EPS figures should be provided for all income statement periods presented in the interim report. Therefore, if the entity presents income statement information separately for the current interim period and the current year-to-date, with comparatives for each, EPS (both basic and diluted) should be presented for the same four periods.

Any change in assumptions for the purposes of computing diluted EPS during the interim period may result in an apparent anomaly. For example, the sum of diluted EPS for the first quarter plus diluted EPS for the second quarter may not always equal diluted EPS for the half year period.

Diluted EPS for the first quarter is based on assumptions that were valid during and at the end of that quarter. IAS 33 states that diluted EPS should not be restated for changes in the assumptions used or for conversions of potential ordinary shares into outstanding ordinary shares. Therefore, diluted EPS for the second quarter and for the half year period may be based on different assumptions than were used in computing diluted EPS for the first quarter. Also, certain outstanding potential ordinary shares may have been “anti-dilutive” (their conversion to ordinary shares would increase EPS) in the first quarter and would, therefore, be excluded from first quarter diluted EPS. In the second quarter and on a six month basis, however, they may have been dilutive, and would therefore be included in diluted EPS.

Example 3.4.3

The following information relates to a quarterly reporter:

	Quarter 1	Quarter 2	Half year
	(1 January to 31 March)	(1 April to 30 June)	(1 January 30 June)
Net income	£1,000	£1,000	£2,000
Ordinary shares outstanding	1,000	1,000	1,000
Weighted average quoted market price of ordinary shares	£8	£20	£14

Throughout the half year, the entity had outstanding 100 options each allowing the holder to purchase one ordinary share for £10. No options were exercised. For the second quarter interim report, IAS 34(20)(b) requires an income statement for the second quarter and an income statement for the half year. Calculations of basic and diluted EPS are as follows:

	Quarter 1	Quarter 2	Half year
	(1 January to 31 March)	(1 April to 30 June)	1 January to 30 June)
Basic EPS	£1,000/1,000 = £1.00	£1,000/1,000 = £1.00	£2,000/1,000 = £2.00
Diluted EPS – numerator	£1,000	£1,000	£2,000
Diluted EPS – denominator	1,000*	1,050	1,028.57
		(1,000 + 50**)	(1,000 + 28.57***)
Diluted EPS	£1	£0.9524	£1.9444

* The exercise price of the options is greater than the average market price of shares during the period. Therefore, the options are ignored in computing diluted EPS.

** If the share options were exercised, the proceeds of issue of £1,000 would equate to an issue of 50 shares at the average market price of £20. Therefore, the remaining 50 shares are assumed to have been issued for no consideration and are added to the number of ordinary shares outstanding for the computation of diluted EPS.

*** If the share options were exercised, the proceeds of issue of £1,000 would equate to an issue of 71.43 shares at the average market price of £14. Therefore, the remaining 28.57 shares are assumed to have been issued for no consideration and are added to the number of ordinary shares outstanding for the computation of diluted EPS.

Note that the sum of diluted EPS for the first quarter (£1.00) plus diluted EPS for the second quarter (£0.9524) does not equal diluted EPS for the first six months (£1.9444).

3.5 Selected notes

IAS 34 specifies that an interim report should contain selected explanatory notes.

3.5.1 Required disclosures

The disclosure requirements of IAS 34 are based on the assumption that anyone reading the interim report will have access to the most recent annual financial statements. Therefore, not all of the supplementary notes in the annual financial statements are required for interim reporting purposes, since this would result in repetition, or the reporting of relatively insignificant changes. The explanatory notes included with the interim financial information are intended to provide an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date. [IAS 34(15)]

The following table lists the minimum notes required by IAS 34. The information is generally presented on a year-to-date basis. However, the entity is also required to disclose any events or transactions that are material to an understanding of the current interim period. [IAS 34(16)]

The following information should be disclosed in the notes to the interim financial statements: [IAS 34(16)]

- a statement that the same accounting policies and methods of computation are followed in the interim financial statements as were followed in the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change;
- explanatory comments about the seasonality or cyclicality of interim operations;
- the nature and amount of items affecting assets, liabilities, equity, net income or cash flows, that are unusual because of their size, nature or incidence;
- the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year, or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;
- issuances, repurchases and repayments of debt and equity securities;
- dividends paid (aggregate or per share), separately for ordinary shares and other shares;
- for entities required to comply with IAS 14 'Segment Reporting' in their annual financial statements, segment revenue and segment result for business segments or geographical segments, whichever is the entity's primary basis of segment reporting;
- material events after the end of the interim period that have not been reflected in the interim financial statements;
- the effect of changes in the composition of the entity during the interim period, including business combinations, acquisitions or disposals of subsidiaries and long-term investments, restructurings and discontinued operations; and
- changes in contingent liabilities or contingent assets since the last annual balance sheet date.

The Standard requires the entity to provide explanatory comments about the seasonality or cyclicality of interim operations under IAS 34(16)(b). Discussion of changes in the business environment (such as changes in demand, market shares, prices and costs) and discussion of prospects for the full current financial year of which the interim period is a part will normally be presented as part of a management discussion and analysis or financial review, outside of the notes to interim financial statements.

IAS 34(17) provides the following examples of the kinds of disclosures that are required:

- the write-down of inventories to net realisable value and the reversal of any such write-down;
- recognition of a loss arising from the impairment of property, plant, and equipment, intangible assets, or other assets, and the reversal of any such impairment loss;
- the reversal of any provisions for the costs of restructuring;
- acquisitions and disposals of items of property, plant, and equipment;
- commitments for the purchase of property, plant, and equipment;
- litigation settlements;
- corrections of prior period errors;
- any loan default or any breach of a loan agreement that has not been remedied on or before the balance sheet date; and
- related party transactions.

IAS 34(16) requires entities that fall within the scope of IAS 14 'Segment Reporting' in their annual financial statements to disclose segment revenue and segment result for their primary segments. In November 2006, the IASB issued IFRS 8 'Operating Segments' which expands the number of entities required to provide segment information in their annual financial statements and increases significantly the amount of segment information that is disclosed in interim financial reports. The consequential changes to IAS 34 are discussed in section 8 of this Appendix. IFRS 8 and the resulting changes to IAS 34 will become effective for periods beginning on or after 1 January 2009. Early application is permitted by the IASB[1].

1 IFRS 8 may not be adopted prior to its endorsement for use in Europe which is expected in May/June 2007.

3.5.2 Detail required in notes

IAS 34 does not specify the level of detail for the disclosures required by IAS 34(16) and IAS 34(17). The guiding principle is that the interim disclosures should be those that are useful in understanding the changes in financial position and performance of the entity since the last annual reporting date. IAS 34(18) points out that the detailed disclosures required by other IFRSs are not required in an interim financial report that includes condensed financial statements and selected explanatory notes. So, in general, the level of detail in interim note disclosures will be less than the level of detail in annual note disclosures. To illustrate:

- IAS 2(37) suggests that amounts of inventories at the end of a period and changes in inventories during the period are normally classified between merchandise, production supplies, materials, work in progress and finished goods. That level of detail would not normally be required in condensed interim financial statements unless it is significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date. Therefore, the disclosure of a write-down of inventories to net realisable value and the reversal of such a write-down, as required by IAS 34(17)(a), will generally be made at the entity-wide level in condensed interim financial statements, rather than analysed between different classes of inventories; and
- IAS 36(126) requires disclosure of impairment losses and reversals for each class of assets. The disclosure of impairment losses and reversals required by IAS 34(17)(b) will generally be made at the entity-wide level in condensed interim financial statements, rather than by class of assets, except where a particular impairment or reversal is deemed significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date.

Where business combinations have occurred during the interim period, IAS 34(16)(i) requires the entity to disclose all of the details prescribed for annual financial statements in paragraphs 66 to 73 of IFRS 3 'Business Combinations' (see point 4.29 of the half-yearly financial report disclosure checklist in Appendix II).

3.5.3 Inclusion of interim period disclosures in next annual financial statements

If an item of information is deemed significant and, therefore, is disclosed in an entity's interim financial report, that item of information will not necessarily be disclosed in the entity's next annual financial report that includes the interim period in which the disclosure was made. Under IAS 34, interim period disclosures are determined based on materiality levels that are assessed in relation to the interim period financial data (see section 3.7 below). The Standard recognises that the notes to interim financial statements are intended to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date. A disclosure that is useful for that purpose may not be useful in the annual financial statements.

To illustrate, IAS 34(16)(c) requires disclosure of the nature and amount of any item that affects assets, liabilities, equity, net income or cash flows if it is unusual because of its nature, size or incidence. For example, such an item may be unusual in size in the context of a single quarter or half year period, but not so with respect to the full financial year.

As discussed at section 3.8 below, IAS 34(26) does require disclosure in the notes to the annual financial statements where an estimate of an amount reported in an earlier interim period is changed significantly.

3.5.4 Inclusion of interim period disclosures in subsequent interim periods of the same financial year

If an item of information is deemed significant and, therefore, is disclosed in an entity's interim financial report for the first quarter, that item of information will not necessarily be disclosed in the interim financial reports for the subsequent quarters of the same financial year. As discussed in section 3.7 below, under IAS 34, materiality is assessed in relation to each interim period's financial data. Therefore, an item that is considered material in the context of one interim period may not be material for subsequent interim periods of the same financial year. IAS 34(16) indicates that note disclosures are normally on a year-to-date basis.

For example, the explanatory notes in the interim report as of 30 June for a 31 December year end entity that reports quarterly will cover the period 1 January to 30 June. An item of information that was deemed significant in the first quarter report and, therefore, was disclosed in the notes to the interim report for the three months ending 31 March, may not be significant on a 30 June six month year-to-date basis. If that is the case, disclosure in the six month interim report is not required.

By contrast, an item might be significant to understanding the performance of the entity for the current interim period (in the example above, the three months ended 30 June) but not for the year-to-date (six months ended 30 June). IAS 34(16) specifically requires disclosure of such items. In addition to reporting information on a year-to-date basis, the entity is required to disclose any events or transactions that are material to an understanding of the current interim period.

3.6 Disclosure of compliance with IFRSs

IAS 34(19) requires that, where an interim financial report has been prepared in accordance with the requirements of that Standard, that fact should be disclosed. An interim financial report should not be described as complying with International Financial Reporting Standards unless it complies with all of the requirements of IFRSs and applicable SIC Interpretations. The latter statement will be appropriate only where interim financial statements are complete rather than condensed.

Therefore, an interim financial report can only be described as complying with "International Financial Reporting Standards" if it includes a complete set of financial statements as stipulated by IAS 1 'Presentation of Financial Statements' in addition to the disclosures required by other Standards and the additional explanatory note disclosures required by IAS 34. Because condensed interim reports do not include all of the disclosures required by IAS 1 and other Standards, they do not meet this requirement. They are therefore more appropriately described as having been prepared "using accounting policies consistent with International Financial Reporting Standards and in accordance with IAS 34 'Interim Financial Reporting'".

IAS 34 clarifies that, where other Standards call for disclosures in financial statements, in that context they mean a complete set of financial statements of the type normally included in an annual financial report. Such disclosures are not required if the interim financial report includes only condensed financial statements and selected explanatory notes. [IAS 34(18)]

Therefore, when presenting condensed interim financial information, the entity needs to consider compliance with Standards at two levels:

- compliance with all of the measurement rules contained in extant Standards and Interpretations (as stated in the previous paragraph, compliance with the disclosure requirements of Standards other than IAS 34 is not required); and
- compliance with the disclosure requirements and the measurement principles for interim reporting purposes specified by IAS 34.

3.7 Materiality

IAS 34(23) states that, in deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality should be assessed in relation to the interim period financial data. In making assessments of materiality, it should be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

While materiality judgements are always subjective, the overriding concern is to ensure that an interim financial report includes all of the information that is relevant to understanding the financial position and performance of the entity during the interim period. Therefore, it is inappropriate to base quantitative estimates of materiality on projected annual figures.

3.8 Disclosure in annual financial statements

It is quite common that entities do not prepare a separate report for the final interim period in a financial year. This will be determined on the basis of the rules of local regulators. For example, an entity with a 31 December year, which reports half-yearly, may not be required to produce a separate interim report covering the period from July to December.

In such circumstances, IAS 34 requires disclosure in the notes to the **annual** financial statements where an estimate of an amount reported in an earlier interim period is changed significantly. The nature and amount of that change in estimate are required to be disclosed. [IAS 34(26)] This requirement is intended to provide the user of the financial statements with details of changes in estimates in the final interim period consistent with those generally required by IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. The Standard does state, however, that this disclosure requirement is intended to be narrow in scope, relating only to the change in estimate, and it is not intended to introduce a general requirement to include additional interim period financial information in the entity's annual financial statements. [IAS 34(27)]

IAS 34(27) makes clear that, when such a change in estimate occurs and is required to be disclosed in the annual financial statements, the disclosure represents additional interim period financial information. Consequently, although the disclosure is made in the annual financial statements, materiality will be determined by reference to interim period financial data.

4 Accounting policies

4.1 Same accounting policies as annual financial statements

The accounting policies applied in the interim financial statements should be consistent with those applied in the most recent annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. [IAS 34(28)]

Entities are required to disclose in their interim reports that this principle has been met. [IAS 34(16)(a)]

4.2 Changes in accounting policies

Preparers of interim reports in compliance with IAS 34 are required to consider any changes in accounting policies that will be applied for the next annual financial statements and to implement the changes for interim reporting purposes. Such changes will generally encompass:

- changes required by a Standard or Interpretation that will be mandatory for the annual financial statements; and
- changes that are proposed to be adopted for the annual financial statements, in accordance with the requirements of IAS 8 'Accounting Policies, Changes in Accounting Policies and Errors', on the basis that they will result in the financial statements providing reliable and more relevant information.

If there has been any change in accounting policy since the most recent annual financial statements, the interim report is required to include a description of the nature and effect of the change. [IAS 34(16)(a)]

Where a change of accounting policy may be expected as a result of a new or amended Standard or Interpretation, UK companies will also need to consider whether that Standard or Interpretation has been, or is likely to be, endorsed by the European Commission.

4.3 Restatement of previously reported interim periods

A change in accounting policy, other than one for which the transitional provisions are specified by a new Standard or Interpretation, should be reflected by: [IAS 34(43)]

- restating the financial statements of prior interim periods of the current financial year, and the comparable interim periods of prior financial years that will be restated in annual financial statements in accordance with IAS 8; or
- when it is impracticable to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to all prior periods, adjusting the financial statements of prior interim periods of the current financial year, and comparable interim periods of prior financial years, to apply the new accounting policy prospectively from the earliest date practicable.

IAS 34(44) states that an objective of these principles is to ensure that a single accounting policy is applied to a particular class of transactions throughout an entire financial year. That is not to say that voluntary changes in accounting policy part-way through the year are prohibited. Such changes are permitted, provided that the conditions of IAS 8 are met. What IAS 34(44) requires is that, where a change in accounting policy is adopted at some point during the year, the amounts reported for earlier interim periods should be restated to reflect the new policy.

5 Recognition and measurement

5.1 General principles

As discussed in section 4.1 above, in preparing their interim reports, entities are required to apply the same accounting policies as will be applicable for their next annual financial statements. The principles for recognising assets, liabilities, income and expenses for interim periods are the same as in annual financial statements.

It is not intended, however, that each interim period should be seen to stand alone as an independent period. The Standard states that the frequency of an entity's reporting (annual, half-yearly or quarterly) should not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes are made on a year-to-date basis. [IAS 34(28)]

IAS 34 does not repeat the general principles underlying the preparation of financial information that are set out in IAS 1 'Presentation of Financial Statements'. However, preparers need to refer to IAS 1 itself for clarification in this regard.

IAS 1(3) states, in part, that "this Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with IAS 34 'Interim Financial Reporting'. However, paragraphs 13-41 apply to such financial statements".

Paragraphs 13 to 41 of IAS 1, which therefore apply when preparing condensed financial statements for interim purposes, deal with:

- fair presentation and compliance with IFRSs;
- going concern;
- accrual basis of accounting;
- consistency of presentation;
- materiality and aggregation;
- offsetting; and
- comparative information.

5.2 Seasonal, cyclical or occasional revenues

Revenues that are received seasonally, cyclically or occasionally within a financial year may not be anticipated or deferred as of an interim date, if anticipation or deferral would not be appropriate at the end of the financial year. [IAS 34(37)]

Thus, for example, an entity engaged in retailing does not divide forecasted revenue by two to arrive at its half year revenue figures. Instead, it reports its actual results for the six month period. If the retailer wishes to demonstrate the cyclicality of its revenues, it may include, as additional information, revenue for the 12 months ending on the interim reporting date and comparative information for the corresponding previous 12 month period.

5.3 Uneven costs

The rule on revenues also applies to costs. Costs that are incurred unevenly during an entity's financial year should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year. [IAS 34(39)]

A cost that does not meet the definition of an asset at the end of an interim period is **not** deferred in the interim balance sheet either to await future information as to whether it has met the definition of an asset, or to smooth earnings over interim periods within a financial year. [IAS 34(30)(b)] Thus, when preparing interim financial statements, the entity's usual recognition and measurement practices are followed. The only costs that are capitalised are those incurred **after** the specific point in time at which the criteria for recognition of the particular class of asset are met. Deferral of costs as assets in an interim balance sheet in the hope that the criteria will be met before the year end is prohibited (see also section 6.6 below).

Example 5.3A

Major advertising campaign early in the financial year

An entity reports quarterly. In the first quarter of the financial year, the entity introduces new models of its products that will be sold throughout the year. At that time, it incurs a substantial cost for a major advertising campaign that will benefit sales throughout the year. Is it appropriate to spread the advertising cost over the benefit period – all four quarters of the year – or is the entire cost an expense of the first quarter?

The entire cost is recognised in the first quarter. Explanatory note disclosure may be required. IAS 38(69)(c) requires that all expenditure on advertising and promotional activities should be recognised as an expense when incurred. As outlined above, a cost that does not meet the definition of an asset at the end of an interim period is not deferred, either to await future information as to whether it has met the definition of an asset or to smooth earnings over interim periods within a financial year.

Example 5.3B

Fixed costs of a manufacturer whose business is seasonal

A manufacturer's shipments of finished products are highly seasonal (shares of annual sales are respectively 20 per cent, 5 per cent, 10 per cent, and 65 per cent for the four quarters of the financial year). Manufacturing takes place more evenly throughout the year. The entity incurs substantial fixed costs, including fixed costs relating to manufacturing, selling, and general administration, and wishes to allocate all of its fixed costs to the four quarters based on each quarter's share of estimated annual sales volume.

Such an allocation is not acceptable under IAS 34. IAS 34(39) states that costs that are incurred unevenly during an entity's financial year should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

In the circumstances described, the fixed costs should be split between manufacturing fixed costs and non-manufacturing fixed costs. IAS 2(12) 'Inventories' requires that the cost of manufactured inventories should include a systematic allocation of fixed production overheads (i.e. fixed manufacturing costs). Because manufacturing takes place evenly throughout the year, the entity will recognise cost of goods sold expense only when sales are made and, therefore, it will achieve its objective of allocating fixed manufacturing costs to the four quarters based on sales volume.

Fixed non-manufacturing costs are, however, different. IAS 2(16) makes clear that selling costs and administrative overheads (whether variable or fixed) are excluded from the cost of inventories and are recognised as expenses in the periods in which they are incurred. Therefore, the entity must charge its fixed non-manufacturing costs to expense as incurred in each of the four quarters. As required by IAS 34(16), explanatory comments about the seasonality or cyclicality of interim operations should be disclosed in the notes to interim financial statements. In addition, IAS 34(21) encourages seasonal businesses to present "rolling" 12 month financial statements in addition to interim period financial statements.

5.4 Use of estimates

IAS 34(41) requires that measurement procedures used in interim financial reports produce information that is reliable, with all material relevant financial information being appropriately disclosed. It nevertheless acknowledges that, while reasonable estimates are often used for both annual and interim reports, interim reports generally will require a greater use of estimation methods than annual financial reports.

Appendix C to the Standard provides a number of examples of the use of estimates at interim reporting dates, which are reproduced below.

Examples of the use of estimates for interim reporting purposes

[Appendix C to IAS 34]

Inventories: Full stock-taking and valuation procedures may not be required for inventories at interim dates, although they may be carried out at financial year end. It may be sufficient to make estimates at interim dates based on sales margins.

Classifications of current and non-current assets and liabilities: Entities may do a more thorough investigation for classifying assets and liabilities as current or non-current at annual reporting dates than at interim dates.

Provisions: Determination of the appropriate amount of provisions (such as provisions for warranties, environmental costs and site restoration costs) may be complex and often costly and time-consuming. Entities sometimes engage outside experts to assist in the annual calculations. Making similar estimates at interim dates often entails updating prior annual provisions, rather than engaging outside experts to do a new calculation.

Pensions: IAS 19 'Employee Benefits' requires that an entity determine the present value of defined benefit obligations and the market value of plan assets at each balance sheet date, and encourages entities to involve a professionally-qualified actuary in the measurement of the obligations. For interim reporting purposes, reliable information is often obtainable by extrapolation of the latest actuarial valuation.

Income taxes: Entities may calculate income tax expense and deferred income tax liability at annual dates by applying the tax rate for each individual jurisdiction to measures of income for each jurisdiction. While such precision is also desirable at interim reporting dates, it may not be achievable in all cases, and a weighted average of rates across jurisdictions or across categories of income is used if it is a reasonable approximation of the effect of using more specific rates.

Contingencies: The measurement of contingencies may involve the opinions of legal experts or other advisers. Formal reports from independent experts are sometimes obtained with respect to contingencies. Such opinions about litigation, claims, assessments, and other contingencies and uncertainties, may or may not be needed at interim dates.

Revaluations and fair value accounting: IAS 16 'Property, Plant and Equipment' allows an entity to choose as its accounting policy the revaluation model whereby items of property, plant and equipment are revalued to fair value. Similarly, IAS 40 'Investment Property' requires an entity to determine the fair value of investment property. For those measurements, an entity may rely on professionally-qualified valuers at annual reporting dates, though not at interim reporting dates.

Intercompany reconciliations: Some intercompany balances that are reconciled on a detailed level in preparing consolidated financial statements at financial year end might be reconciled at a less detailed level in preparing consolidated financial statements at an interim date.

Specialised industries: Because of complexity, costliness and time, interim period measurements in specialised industries might be less precise than at financial year end. An example would be the calculation of insurance reserves by insurance companies.

5.5 Changes in estimates

As an illustration of the impact of changes in estimates, IAS 34 considers the rules for recognising and measuring losses from inventory write-downs, restructurings or impairments. The principles to be followed in an interim period are the same as those for annual periods. If such items are recognised and measured in, say, the first quarter of a financial year and the estimate changes in the second quarter of the year, the original estimate is adjusted in the second interim period, either by accrual of an additional amount or by reversal of the previously recognised amount. [IAS 34(30)(a)]

If changes in estimates arise, the results of previous interim periods of the current year are not retrospectively adjusted. However, the nature and amount of any significant changes in estimates must be disclosed either: [IAS 34(16)(d),(26) and (35)]

- in the annual report, if there has been no subsequent interim period financial report that has disclosed the change in estimate (see section 3.8 above); or
- in the following interim period financial report of the same year.

Changes in estimates should also be disclosed in the corresponding interim report for the following year, so that the comparative figures (which are not restated) will not be misleading.

6 Additional examples

Appendix B to IAS 34 contains a number of detailed examples to illustrate the application of the recognition and measurement principles discussed in the previous sections. These are reproduced below, together with a number of additional examples developed to illustrate important points.

6.1 Employer payroll taxes and insurance contributions

If employer payroll taxes or contributions to government-sponsored insurance funds are assessed on an annual basis, the employer's related expense is recognised in interim periods using an estimated average annual effective payroll tax or contribution rate, even though a large portion of the payments may be made early in the financial year. A common example is an employer payroll tax or insurance contribution that is imposed up to a certain maximum level of earnings per employee. For higher income employees, the maximum income is reached before the end of the financial year, and the employer makes no further payments through the end of the year. [IAS 34(B1)]

6.2 Major planned periodic maintenance or overhaul

The cost of a planned major periodic maintenance or overhaul or other seasonal expenditure that is expected to occur late in the year is not anticipated for interim reporting purposes, unless an event has caused the entity to have a legal or constructive obligation. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation. [IAS 34(B2)]

6.3 Provisions

A provision is recognised when an entity has no realistic alternative but to make a transfer of economic benefits as a result of an event that has created a legal or constructive obligation. The amount of the obligation is adjusted upward or downward, with a corresponding loss or gain recognised in the income statement, if the entity's best estimate of the amount of the obligation changes.

IAS 34 requires that an entity apply the same criteria for recognising and measuring a provision at an interim date as it would at the end of its financial year. The existence or non-existence of an obligation to transfer benefits is not a function of the length of the reporting period. It is a question of fact. [IAS 34(B3) and (B4)]

6.4 Year end bonuses

The nature of year end bonuses varies widely. Some are earned simply by continued employment during a time period. Some bonuses are earned based on a monthly, quarterly, or annual measure of operating result. They may be purely discretionary, contractual, or based on years of historical precedent.

A bonus is anticipated for interim reporting purposes if, and only if: [IAS 34(B5) and (B6)]

- the bonus is a legal obligation, or past practice would make the bonus a constructive obligation and the entity has no realistic alternative but to make the payments; and
- a reliable estimate of the obligation can be made.

IAS 19 'Employee Benefits' provides guidance on the application of the recognition rules to year end bonuses.

6.5 Contingent lease payments

Contingent lease payments can be an example of a legal or constructive obligation that is recognised as a liability. If a lease provides for contingent payments based on the lessee achieving a certain level of annual sales, an obligation can arise in the interim period of the financial year before the required annual level of sales has been achieved, if that required level of sales is expected to be achieved and the entity, therefore, has no realistic alternative but to make the future lease payment. [IAS 34(B7)]

6.6 Intangible assets

Entities are required to apply the definition and recognition criteria for an intangible asset in the same way in an interim period as in an annual period. Costs incurred before the recognition criteria for an intangible asset are met are recognised as an expense. Costs incurred after the specific point in time at which the criteria are met are recognised as part of the cost of an intangible asset. "Deferring" costs as assets in an interim balance sheet in the hope that the recognition criteria will be met later in the financial year is not justified. [IAS 34(B8)]

Example 6.6

Development costs that meet the IAS 38 capitalisation criteria midway in an interim period

An entity engaged in the pharmaceutical sector, with a December year end, reports quarterly. Throughout 2008, its research department is engaged in a major drug development project. Development costs incurred in 2008, by quarter, are as follows:

First quarter		£100
Second quarter		£100
Third quarter:		
	July 1 to 31 August	£80
	1 September to 30 September	£60
Fourth quarter		£150

The entity publishes its half year report on 15 August, and the £200 of development costs incurred during the first and second quarters are charged to expense. On 1 September, the research department determines that the criteria set out in IAS 38 for capitalising the development costs as an intangible asset have been met.

IAS 38 provides that asset recognition (cost capitalisation) begins at the point in time at which the recognition criteria are met, not at the start of the financial reporting period in which those criteria are met. Therefore, the following amounts are reported in the interim reports for the second half of the financial year, and in the annual report at 31 December 2008:

	30 September £	31 December £
Asset recognised in the balance sheet	60	210

	3 months ended 30 September £	9 months ended 30 September £	12 months ended 31 December £
Development costs charged to expense	80	280	280

6.7 Pensions

The pension cost for an interim period is calculated on a year-to-date basis by using the actuarially-determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-time events. [IAS 34(B9)]

6.8 Vacations, holidays, and other short-term compensated absences

Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. IAS 19 'Employee Benefits' requires that an entity measure the expected cost of and obligation for accumulating compensated absences at the amount the entity expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date. That principle is also applied at interim reporting dates. Conversely, an entity recognises no expense or liability for non-accumulating compensated absences at an interim reporting date, just as it recognises none at an annual reporting date. [IAS 34(B10)]

Example 6.8

Vacation accruals at interim dates

An entity reports quarterly. Its financial year end is 31 December. Holiday entitlement accumulates with employment over the year, but any unused entitlement cannot be carried forward past 31 December. Most of the entity's employees take a substantial portion of their annual leave in July or August. Should an appropriate portion of employees' salaries during the July/August vacation period be accrued in the first and second quarter interim financial statements?

A portion should be accrued if the employees' vacation days are earned (accumulated) through service during the first and second quarters. Vacations are a form of short-term compensated absence as defined in IAS 19. IAS 19(11) requires that the expected cost of short-term accumulating compensated absences be recognised when the employees render service that increases their entitlement to future compensated absences. This principle is applied at both annual and interim financial reporting dates.

6.9 Other planned but irregularly occurring costs

An entity's budget may include certain costs expected to be incurred irregularly during the financial year, such as charitable contributions and employee training costs. Those costs generally are discretionary, even though they are planned and tend to recur from year to year. Recognising an obligation at an interim financial reporting date for such costs that have not yet been incurred generally is not consistent with the definition of a liability. [IAS 34(B11)]

6.10 Measuring interim income tax expense

6.10.1 Use of estimated annual rate

The interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, i.e. the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. [IAS 34(B12)]

This is consistent with the basic principle set out in IAS 34(28) that the same accounting recognition and measurement principles should be applied in an interim financial report as are applied in annual financial statements. Income taxes are assessed on an annual basis. Interim period income tax expense is calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to total annual earnings. [IAS 34(B13)]

To the extent practicable, a separate estimated average annual effective income tax rate is determined for each tax jurisdiction and applied individually to the interim period pre-tax income of each jurisdiction. Similarly, if different income tax rates apply to different categories of income (such as capital gains or income earned in particular industries), to the extent practicable, a separate rate is applied to each individual category of interim period pre-tax income. While that degree of precision is desirable, it may not be achievable in all cases and a weighted average of rates across jurisdictions or across categories of income is used if it is a reasonable approximation of the effect of using more specific rates. [IAS 34(B14)]

6.10.2 Impact of progressive tax rates

The estimated average annual effective income tax rate will reflect a blend of the progressive tax rate structure expected to be applicable to the full year's earnings, including enacted or substantively enacted changes in the income tax rates scheduled to take effect later in the financial year. [IAS 34(B13)] Example 6.10.2 below, which is drawn from Appendix B to IAS 34, illustrates the impact of progressive tax rates.

Example 6.10.2

Progressive tax rates

[IAS 34(B15)]

An entity reports quarterly. It expects to earn £10,000 pre-tax each quarter, and operates in a jurisdiction with a tax rate of 20 per cent on the first £20,000 of annual earnings and 30 per cent on all additional earnings. Actual earnings match expectations.

£10,000 of tax is expected to be payable for the full year on £40,000 of pre-tax income (£20,000 at 20 per cent and £20,000 at 30 per cent). The income tax expense that is reported in each quarter is as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax expense (£)	2,500	2,500	2,500	2,500	10,000

6.10.3 Uneven earnings throughout the year

Example 6.10.3 below, again drawn from Appendix B to IAS 34, illustrates the application of the IAS 34 principles when earnings are distributed unevenly throughout the year.

Example 6.10.3

Uneven earnings throughout the year

[IAS 34(B16)]

An entity reports quarterly. It earns £15,000 pre-tax profit in the first quarter, but expects to incur losses of £5,000 in each of the three remaining quarters (thus having zero income for the year). It operates in a jurisdiction in which its estimated average annual income tax rate is expected to be 20 per cent. The income tax expense reported in each quarter is as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax expense (£)	3,000	(1,000)	(1,000)	(1,000)	0

6.10.4 Change in estimate of annual tax rate
When preparing the tax estimate to be included in an interim period, the tax expense is based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Therefore, as for other changes in estimates, amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period if the estimate of the annual income tax rate changes. [IAS 34(30)(c)] The estimated average annual income tax rate would be re-estimated on a year-to-date basis, consistent with IAS 34(28).

The nature and amount of any significant changes in the estimated tax rate should be disclosed either: [IAS 34(16)(d), (26) and (35)]

- in the annual report, if there has been no subsequent interim period financial report that has disclosed the change in estimate (see section 3.8 above); or
- in the following interim period financial report of the same year.

6.10.5 Difference in financial reporting year and tax year
If the financial reporting year and the income tax year differ, the income tax expense for the interim periods of that financial reporting year is measured using separate weighted average estimated effective tax rates for each of the income tax years applied to the portion of pre-tax income earned in each of those income tax years. [IAS 34(B17)]

Example 6.10.5

Difference in financial reporting year and tax year

[IAS 34(B18)]

An entity's financial reporting year end is 30 June and it reports quarterly. Its taxable year end is 31 December. For the financial year that begins on 1 July 2007 and ends on 30 June 2008, the entity earns £10,000 pre-tax each quarter. The estimated average annual income tax rate is 30 per cent in 2007 and 40 per cent in 2008.

	Quarter ending 30/09/07	**Quarter ending 31/12/07**	**Quarter ending 31/03/08**	**Quarter ending 30/06/08**	**Year ending 30/06/08**
Tax expense (£)	3,000	3,000	4,000	4,000	14,000

6.10.6 Tax credits
Some tax jurisdictions give taxpayers credits against the tax payable based on amounts of capital expenditure, exports, research and development expenditure, or other bases. Anticipated tax benefits of this type for the full year are generally reflected in computing the estimated annual effective income tax rate, because those credits are granted and calculated on an annual basis under most tax laws and regulations. On the other hand, tax benefits that relate to a one-time event are recognised in computing income tax expense in that interim period, in the same way that special tax rates applicable to particular categories of income are not blended into a single effective annual tax rate. Moreover, in some jurisdictions, tax benefits or credits that are reported on the income tax return, including those related to capital expenditure and levels of exports, are more similar to a government grant and are recognised in the interim period in which they arise. [IAS 34(B19)]

6.10.7 Tax loss and tax credit carrybacks and carryforwards
The benefits of a tax loss carryback are reflected in the interim period in which the related tax loss occurs. IAS 12 'Income Taxes' provides that "the benefit relating to a tax loss that can be carried back to recover current tax of a previous period should be recognised as an asset". A corresponding reduction of tax expense or increase of tax income is also recognised. [IAS 34(B20)]

IAS 12 also provides that "a deferred tax asset should be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised". Detailed criteria are specified for the purpose of assessing the availability of future taxable profit against which the unused tax losses and credits can be utilised. [IAS 34(B21)]

For interim reporting purposes, the criteria for recognition of deferred tax assets are applied at the end of each interim period and, if they are met, the effect of the tax loss carryforward is reflected in the computation of the estimated average annual effective income tax rate. [IAS 34(B21)]

Example 6.10.7A

Tax loss carryforward at interim reporting date

[IAS 34(B22)]

An entity, which reports quarterly, has an operating loss carryforward of £10,000 for income tax purposes at the start of the current financial year for which a deferred tax asset has not been recognised. The entity earns £10,000 in the first quarter of the current year and expects to earn £10,000 in each of the three remaining quarters. Excluding the carryforward, the estimated average annual income tax rate is expected to be 40 per cent.

The taxable income for the year is therefore estimated to be £30,000 (i.e. income earned in the period of £40,000 less the loss carried forward of £10,000). The total tax payable will be £12,000 (£30,000 at 40 per cent), or an effective annual tax rate of 30 per cent (£12,000/£40,000).

The tax expense for each interim period is calculated as 30 per cent of earnings in the period, as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
Tax expense (£)	3,000	3,000	3,000	3,000	12,000

The tax effect of losses that arise in the early portion of a financial year should be recognised only when the tax benefits are expected to be realised either during the current year or as a deferred tax asset at the end of the year. For the purpose of applying this guidance, an established seasonal pattern of loss in the early interim periods followed by income in later interim periods is generally sufficient to support a conclusion that realisation of the tax benefit from the early losses is probable. Recognition of the tax benefit of losses incurred in early interim periods will generally not occur in those interim periods if available evidence indicates that income is not expected in later interim periods.

If the tax benefits of losses that are incurred in early interim periods of a financial year are not recognised in those interim periods, no income tax expense will be provided on income generated in later interim periods until the tax effects of the previous losses are offset.

The tax effect of a deferred tax asset expected to be recognised at the end of a financial year for deductible temporary differences and carryforwards that originate during the current financial year should be spread throughout the financial year by an adjustment to the annual effective tax rate.

Example 6.10.7B

Recognition of deferred tax assets at interim reporting dates

Assume that during the first quarter of 2008, an entity, operating in a tax jurisdiction with a 50 per cent tax rate, generates a tax credit of £4,000 (i.e. sufficient to cover taxable profits of £8,000) that, under tax law, will expire at the end of 2009. At the end of the first quarter of 2008, available evidence about the future indicates that taxable income of £2,000 and £4,000 will be generated during 2008 and 2009, respectively. Therefore, the entity expects to utilise £1,000 (£2,000 x 50 per cent) of the tax credit to offset tax on its 2008 taxable income, and £2,000 (£4,000 x 50 per cent) to offset tax on its 2009 income. It expects to recognise a deferred tax asset in its balance sheet at the end of 2008 of £2,000 (relating to the tax relief available in 2009), and the balance of £1,000 will not be recognised due to the low likelihood of its realisation.

Because the tax credit is generated during the current year, the tax consequence of the £2,000 deferred tax asset expected to be recognised at the end of 2008 is applied rateably to each of the interim periods during 2008.

Therefore, if profits arise on a straight line basis through 2008, a benefit for income taxes of £500 [£2,000 x 1/4)] will be recognised during the first interim period. Assuming the estimates about the future do not change during the remainder of the year, the tax benefit of the remaining £1,500 (£2,000 – £500) of net deferred tax asset will be recognised rateably over the pre-tax accounting income generated in the later interim periods of 2008.

6.10.8 Change in estimate as to recoverability of tax loss carryforward

Example 6.10.8

Change in estimate as to recoverability of tax loss carryforward

An entity operates in a tax jurisdiction with a 50 per cent tax rate. In 2008, the entity incurs tax losses of £50,000, which can be carried forward to offset against future taxable profits until 2010. At 31/12/2008, the entity estimates that £40,000 of the losses can be recovered against profits in 2009 (budgeted profit £15,000) and 2010 (budgeted profit £25,000), and therefore recognises a deferred tax asset of £20,000 (£40,000 x 50 per cent) in its annual financial statements for 2008.

At the end of the first quarter of 2009, actual year to date profits and anticipations for the remainder of the year are in line with budget. However, the budgeted profit for 2010 is revised downward to £20,000. Therefore, the carrying amount of the deferred tax asset at the end of 2009 should be reduced by £2,500 (£5,000 at 50 per cent). The effect of this reduction is spread throughout the year as part of the computation of the annual effective tax rate.

Therefore, in quarter 1 of 2009, assuming taxable profits of £6,000 out of estimated annual profits of £15,000, the income tax expense for the quarter is estimated as follows:

Estimated effective annual tax rate:	[(£15,000 x 0.50) + £2,500] /£15,000 = 66.7%
Tax expense in quarter 1:	£6,000 x 66.7% = £4,000

6.11 Contractual or anticipated purchase price changes

Volume rebates or discounts and other contractual changes in the prices of raw materials, labour, or other purchased goods and services are anticipated in interim periods, by both the payer and the recipient, if it is probable that they have been earned or will take effect. Thus, contractual rebates and discounts are anticipated, but discretionary rebates and discounts are not anticipated because the definitions of asset and liability (requiring control over resources to be received, or an obligation to pay out resources) would not be met. [IAS 34(B23)]

6.12 Depreciation and amortisation

Depreciation and amortisation charges for an interim period are based only on assets owned during that interim period. They should not take into account asset acquisitions or disposals planned for later in the financial year. [IAS 34(B24)]

6.13 Inventories

6.13.1 Measurement of inventories – general

Inventories are measured for interim financial reporting using the same principles as at financial year end. IAS 2 ‘Inventories’ establishes standards for recognising and measuring inventories. Inventories pose particular problems at any financial reporting date because of the need to determine inventory quantities, costs, and net realisable values. Nonetheless, the same measurement principles are applied for inventories at interim dates. To save cost and time, entities often use estimates to measure inventories at interim dates to a greater extent than at annual reporting dates. The following sections set out examples of how to apply the net realisable value test at an interim date and how to treat manufacturing variances at interim dates. [IAS 34(B25)]

6.13.2 Net realisable value of inventories

The net realisable value of inventories is determined by reference to selling prices and related costs to complete and dispose at interim dates. [IAS 34(B26)]

An entity should reverse a write-down to net realisable value in a subsequent reporting period only if it would be appropriate to do so at the end of the financial year. [IAS 34(B26)]

6.13.3 Interim period manufacturing cost variances

Price, efficiency, spending and volume variances of a manufacturing entity are recognised in income at interim reporting dates to the same extent that those variances are recognised in income at financial year end. Deferral of variances that are expected to be absorbed by the year end is not appropriate because it could result in reporting inventory at the interim date at more or less than its portion of the actual cost of manufacture. [IAS 34(B28)]

6.14 Foreign currency translation gains and losses

Foreign currency translation gains and losses are measured for interim financial reporting using the same principles as at financial year end. [IAS 34(B29)]

IAS 21 'The Effects of Changes in Foreign Exchange Rates' specifies how to translate the financial statements for foreign operations into the presentation currency, including guidelines for using average or closing foreign exchange rates and guidelines for including the resulting adjustments in income or in equity. Consistent with IAS 21, the actual average and closing rates for the interim period are used. Entities do not anticipate changes in foreign exchange rates in the remainder of the current financial year when translating foreign operations at an interim date. [IAS 34(B30)]

If IAS 21 requires that translation adjustments be recognised as income or as expenses in the period in which they arise, that principle is applied during each interim period. Entities do not defer some foreign currency translation adjustments at an interim date if the adjustment is expected to reverse before the end of the financial year. [IAS 34(B31)]

6.15 Interim financial reporting in hyperinflationary economies

Interim financial reports in hyperinflationary economies are prepared by the same principles as at financial year end. IAS 29 'Financial Reporting in Hyperinflationary Economies' requires that the financial statements of an entity that reports in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and the gain or loss on the net monetary position is included in net income. Also, comparative financial data reported for prior periods is restated to the current measuring unit. [IAS 34(B32) and (B33)]

Entities are required to follow the same principles at interim dates, thereby presenting all interim data in the measuring unit as of the end of the interim period, with the resulting gain or loss on the net monetary position included in the interim period's net income. Entities should not annualise the recognition of the gain or loss. Nor do they use an estimated annual inflation rate in preparing an interim financial report in a hyperinflationary economy. [IAS 34(B34)]

6.16 Impairment of assets

IAS 36 'Impairment of Assets' requires that an impairment loss be recognised if the recoverable amount of an asset has declined below its carrying amount. IAS 34 requires that an entity apply the same impairment testing, recognition and reversal criteria at an interim date as it would at the end of its financial year. That does not mean, however, that an entity must necessarily make a detailed impairment calculation at the end of each interim period. Rather, an entity will review for indications of significant impairment since the end of the most recent financial year to determine whether such a calculation is needed. [IAS 34(B35) and (B36)]

6.16.1 IFRIC 10 Interim Financial Reporting and Impairment

IFRIC Interpretation 10 'Interim Financial Reporting and Impairment' is effective for annual periods beginning on or after 1 November 2006.

IAS 34(28) requires an entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statements. It also states that the frequency of an entity's reporting (annual, half-yearly, or quarterly) should not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes should be made on a year-to-date basis.

The Interpretation addresses the interaction between the requirements in IAS 34(28) and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39, and the effect of that interaction on subsequent interim and annual financial statements:

- IAS 36(124) states that "an impairment loss recognised for goodwill shall not be reversed in a subsequent period";
- IAS 39(69) states that "impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss"; and
- IAS 39(66) requires that impairment losses for financial assets carried at cost (such as an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured) should not be reversed.

The issue is best illustrated by considering the example of Entity A and Entity B, which each hold the same equity investment with the same acquisition cost. Entity A prepares quarterly interim financial statements whilst Entity B prepares half-yearly financial statements. Both entities have the same financial year end date. If there was a significant decline in the fair value of the equity instrument below its cost in the first quarter, Entity A would recognise an impairment loss in its first quarter interim financial statements. However, if the fair value of the equity instrument subsequently recovered, so that by the half year date there had not been a significant decline in fair value below cost, Entity B would not recognise an impairment loss in its half-yearly financial statements if it tested for impairment only at its half-yearly reporting dates. Therefore, unless Entity A reversed the impairment loss that had been recognised in an earlier interim period, the frequency of reporting would affect the measurement of its annual results when compared with Entity B's approach.

The issue addressed by IFRIC 10 is whether an entity should reverse impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at a subsequent balance sheet date.

The consensus in the Interpretation is that an entity should not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in an equity instrument or a financial asset carried at cost. Essentially, IFRIC 10 concludes that the prohibitions on reversals of recognised impairment losses on goodwill in IAS 36 and on investments in equity instruments and financial assets carried at cost in IAS 39 should take precedence over the more general statement in IAS 34 regarding the frequency of an entity's reporting not affecting the measurement of its annual results.

However, IFRIC 10 also emphasises that an entity should not extend the consensus of this Interpretation by analogy to other areas of potential conflict between IAS 34 and other standards.

6.17 Capitalisation of borrowing costs in interim periods

Example 6.17

An entity follows the alternative treatment under IAS 23 'Borrowing Costs' and capitalises borrowing costs directly attributable to construction of qualifying assets. The entity funds its asset construction with general borrowings, rather than project-specific borrowings. Further, it uses general borrowings for purposes other than construction, so the amount of borrowings in any period is not necessarily related to the amount of construction during that period. The entity reports quarterly.

IAS 23(17) requires that the capitalisation rate for general borrowings be the weighted average of borrowing costs on borrowings outstanding during the period. For interim reporting purposes, the reference to "period" in IAS 23(17) should be interpreted to mean the year-to-date period, not each individual quarter so that, in accordance with IAS 34(28) and IAS 34(36), the amount of borrowing costs capitalised is "trued-up" each quarter on a year-to-date basis.

7 First-time adoption of IFRSs

Where an entity presents an interim financial report under IAS 34 for part of the period covered by its first IFRS financial statements, in addition to following all the requirements of IAS 34, the entity must meet certain additional requirements imposed by IFRS 1 'First-time Adoption of International Financial Reporting Standards'.

The additional requirements from IFRS 1 are that: [IFRS 1(45)]

- where the entity presented an interim financial report (under previous GAAP) for the comparable interim period of the immediately preceding financial year, the interim report should include reconciliations of:
  - (a) its equity under previous GAAP at the end of that comparable interim period to its equity under IFRSs at that date; and
  - (b) its profit or loss under previous GAAP for that comparable interim period (current and year-to-date) to its profit or loss under IFRSs for that period; and
- the entity's first interim financial report under IAS 34 for part of the period covered by its first IFRS financial statements should include the reconciliations described in IFRS 1(39)(a) and IFRS 1(39)(b), together with the details required by IFRS 1(40) and IFRS 1(41). Alternatively, a cross-reference to another published document that includes these reconciliations may be provided.

In addition, if a first-time adopter did not, in its most recent annual financial statements under previous GAAP, disclose information material to an understanding of the current interim period (see section 3.5.1 above), its interim financial report should disclose that information or include a cross-reference to another published document that includes it. [IFRS 1(46)]

When an entity prepares an interim financial report under IAS 34 for part of the period covered by its first IFRS financial statements, comparative information will need to be restated to comply with IFRSs. [IFRS 1(IG37)]

The Implementation Guidance attached to IFRS 1, reproduced below, illustrates the various reconciliations that need to be provided.

Example 7

Interim financial reporting

[based on IFRS 1(IG) Example 10]

Background

Entity R's first IFRS financial statements have a reporting date of 31 December 2007, and its first interim financial report under IAS 34 is for the quarter ended 31 March 2007. Entity R prepared previous GAAP annual financial statements for the year ended 31 December 2006, and prepared quarterly reports throughout 2006.

Application of requirements

In each quarterly interim financial report for 2007, entity R includes reconciliations of:

(a) its equity under previous GAAP at the end of the comparable quarter of 2006 to its equity under IFRSs at that date; and

(b) its profit or loss under previous GAAP for the comparable quarter of 2006 (current and year-to-date) to its profit or loss under IFRSs.

In addition to the reconciliations required by (a) and (b) and the disclosures required by IAS 34, entity R's interim financial report for the first quarter of 2007 includes reconciliations of (or a cross-reference to another published document that includes these reconciliations):

(c) its equity under previous GAAP at 1 January 2006 and 31 December 2006 to its equity under IFRSs at those dates; and

(d) its profit or loss for 2006 under previous GAAP to its profit or loss for 2006 under IFRSs.

Each of the above reconciliations gives sufficient detail to enable users to understand the material adjustments to the balance sheet and income statement. Entity R also explains the material adjustments to the cash flow statement.

If entity R becomes aware of errors made under previous GAAP, the reconciliations distinguish the correction of those errors from changes in accounting policies.

If entity R did not, in its most recent annual financial statements under previous GAAP, disclose information material to an understanding of the current interim period, its interim financial reports for 2007 disclose that information or include a cross-reference to another published document that includes it. [IFRS 1(46)]

8 Future developments

8.1 IFRS 8 'Operating Segments'

In November 2006, the IASB issued IFRS 8 'Operating Segments'. IFRS 8 requires that operating segments be defined, and amounts reported for each segment be measured, based on internal management reports which are regularly reviewed by the chief operating decision maker to allocate resources to segments and to assess their performance.

Based on this revised management approach, the IASB has concluded that it should be possible to expand segment information in interim reports without undue cost or delay. Accordingly, IFRS 8 and the consequential amendments to IAS 34 result in a significant increase in the amount of segment information to be disclosed in the interim financial statements. The amended disclosure requirements on segment information are as follows. [amended IAS 34(16)(g)]

Disclosure of segment information is required in an entity's interim financial report only if IFRS 8 'Operating Segments' requires that entity to disclose segment information in its annual financial statements. The entity shall disclose the following segment information:

- revenues from external customers, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker;

- intersegment revenues, if included in the measure of segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to the chief operating decision maker;
- a measure of segment profit or loss;
- total assets for which there has been a material change from the amount disclosed in the last annual financial statements;
- a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss; and
- a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation.

IFRS 8 and the consequential amendments to IAS 34 are effective for periods beginning on or after 1 January 2009. Early application is permitted but IFRS 8 may not be adopted prior to its endorsement for use in Europe which is expected in May/June 2007. If an entity chooses to apply IFRS 8 for an earlier period, the amendments to IAS 34 shall also be applied for that earlier period.

How can we help?

Deloitte would be pleased to advise on specific application of the principles set out in this publication. Professional advice should be obtained as this general advice cannot be relied upon to cover specific situations; application will depend on the particular circumstances involved.

If you would like further, more detailed information or advice, or would like to meet with us to discuss your interim reporting issues, please contact your local Deloitte partner or:

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Please also refer to the Corporate Governance section of our website www.deloitte.co.uk

Notes

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