



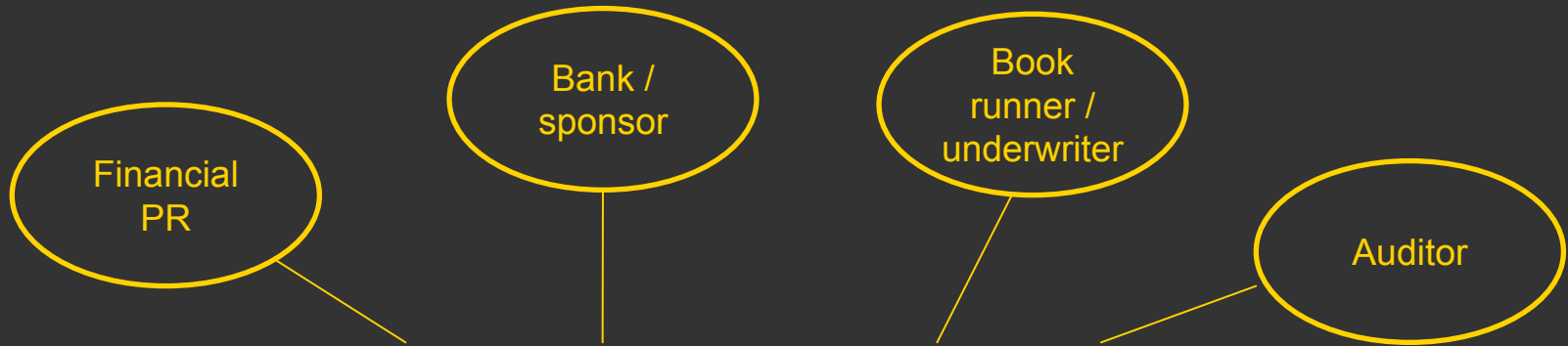
Financial reporting in the IPO process

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The challenge ahead



“An IPO is a business transformation process and not just a stand-alone transaction”



Why is financial reporting an issue?

- ▶ The IPO accountant has a number of key roles to play
 - ▶ Assessment of company's readiness to IPO
 - ▶ Financial track record and **historical financial information**
 - ▶ **Financial reporting procedures**
 - ▶ Tax structuring and tax residency
 - ▶ Long-form reporting on business and its performance
 - ▶ Working capital reporting
 - ▶ Executive and staff incentivisation plans
 - ▶ Guidance on model building process

Today's session will concentrate on the highlighted areas

Financial track record – preparation

- ▶ Identifying the companies and businesses in scope
- ▶ Understanding the tax structuring arrangements and any accounting implications
- ▶ Early start to the conversion process from previous GAAP to IFRS is likely to be required
- ▶ Sustainability / GHG reporting – currently only voluntary and does not require assurance to be provided
- ▶ Begin to manage the business with an “IFRS-listed hat”

Accounting issues for Cleantech

Key Cleantech accounting issues

- ▶ Tracking and capitalisation of development costs
- ▶ Identifying components of infrastructure and impairment testing
- ▶ Accounting implications of funding structure
- ▶ Accounting for emissions allowances and incentive schemes
- ▶ Embedded derivatives in power sales and purchase contracts
- ▶ Accounting for complex investment structures
- ▶ The increase in sustainability reporting

Financial track record

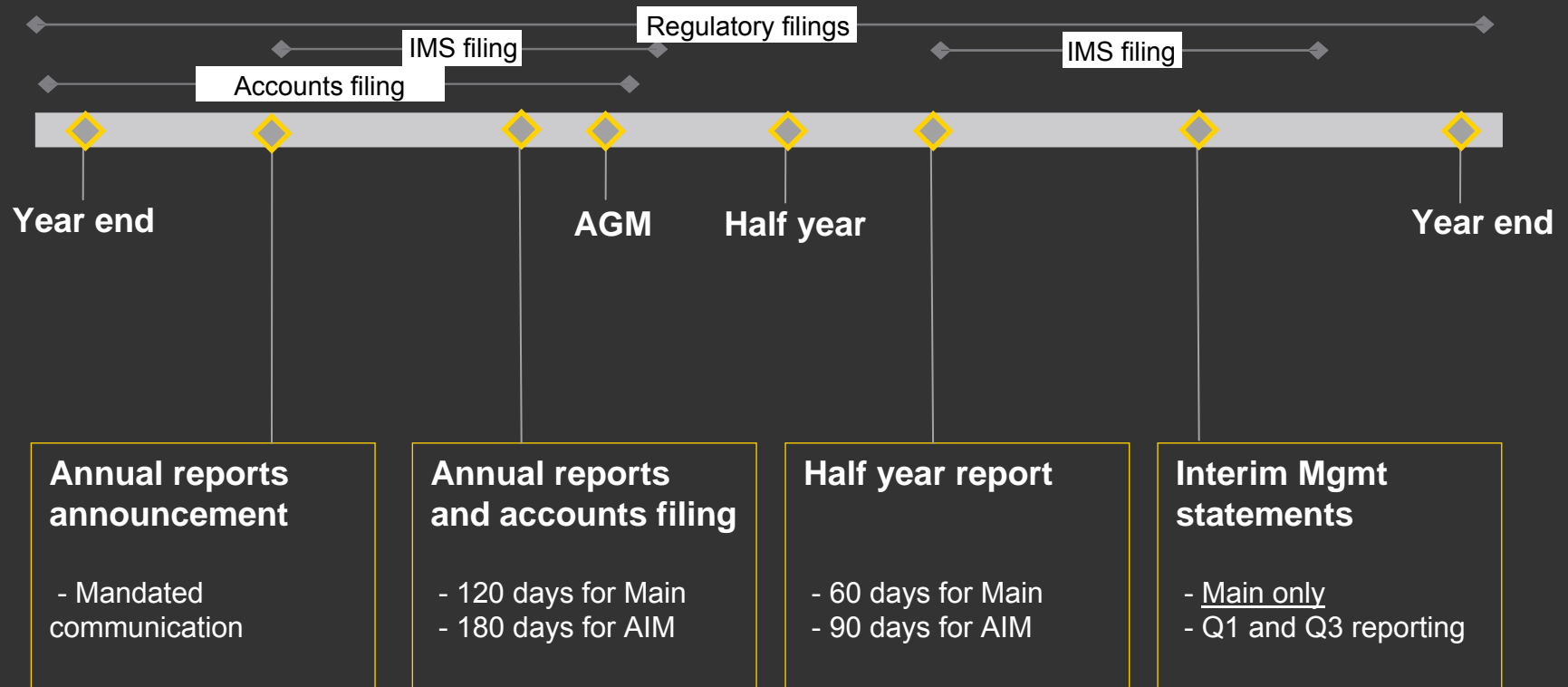
The requirements may vary depending on the type of listing

- ▶ 3 years of audited financial track record
- ▶ Based on the accounting policies of the post-IPO financial statements including Plc level footnotes
- ▶ Clean report from Reporting Accountants
- ▶ Possible stub period required (6 months audited for a Premium listing, in all cases it is 9 months unaudited interims)
- ▶ Sponsor required for Premium and Nomad required for AIM

Financial track record – post IPO

- ▶ Significantly increased disclosure requirements depending on the type of listing
- ▶ Scrutiny from analysts and the wider market place
- ▶ Tighter reporting timetable (see diagram on next slide)
- ▶ More information required for any future acquisitions and disposals

The reporting cycle (Main and AIM)



Ongoing financial reporting obligations

Why FRP?

The requirement for Financial Reporting Procedures (“FRP”) is driven by the Listing Rules which require the sponsor of a company seeking a listing to form a reasonable opinion having made due and careful enquiry that:

“the Directors of that group have established procedures which provide a reasonable basis for them to make proper judgements on an ongoing basis* as to the financial position and prospects of the Company and Group”

- ▶ “implemented procedures” being those procedures properly implemented by the Group where such implementation is capable of being evidenced ; and
- ▶ “proposed procedures” being those procedures designed, documented and approved by the Group, and which the Group has committed to implementing on a timely basis, including proposed date of implementation.

▶ * ‘ongoing basis’ not required for AIM

FRP – expectations and challenges

Expectations

- ▶ IFRS budgeting, forecasting and working capital reporting
- ▶ Effective monitoring and reporting on controls
- ▶ Appropriate corporate governance architecture
- ▶ Capable board with mix of skills and independence
- ▶ Process for disclosure timely key information to the market

Challenges

- ▶ High expectations of sponsors
- ▶ Lack of understanding of FRP
- ▶ Underestimation of time and effort to achieve goals
- ▶ Delays in implementation could delay the IPO timetable
- ▶ Remediation of FRP requires time
- ▶ Conflicting demands on time for management at the time of IPO

Achieving successful financial reporting

The regulators do not want any surprises and want to know that companies can meet their reporting requirements in a timely fashion

- ▶ Gap analysis your financial reporting procedures is essential to good preparation
- ▶ Allow sufficient time for remediation of key controls gaps and financial information gathering
- ▶ The ability to respond quickly and effectively to the rigorous information demands of a listed market
- ▶ Embedding IFRS policies and procedure – think and operate like a listed company
- ▶ Scalable financial reporting procedures to support existing processes and future growth plans

Early preparation is everything...

Q&A

Any questions?

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Thank you