

Implementation of International Financial Reporting Standards (IFRS) by Listed Companies in the Three Baltic Republics

Submitted by:

OÜ Nõu / Know Ltd

Contact person : Rita Ilisson

Address : Vabaõhumuuseumi tee 4B , Tallinn

Phone: 372 6579519, 372 5651545

E-mail: ilisson@online.ee

Submitted to:

East West Management Institute

Director Geoffrey Mazullo

December 14, 2004

This project aimed at charting the use of IFRS by listed companies in the Baltics, based on their published annual reports for 2003 and providing hands-on skills to preparers, users and regulators.

The research findings and recommendations of the project team are documented in this report.

- 1. Introduction**
- 2. Background**
- 3. Methodology**
- 4. Executive summary**
- 5. Issues**
- 6. Policy Recommendations**
 - Appendix A : Use of IFRS in Europe**
- 7. Appendix 1: Estonian Listed Companies (separate document)**
- 8. Appendix 2: Latvian Listed Companies (separate document)**
- 9. Appendix 3: Lithuanian Listed Companies (separate document)**

This publication and the research that enabled it were co-financed by a grant from the Partners for Financial Stability (PFS) Program, a cooperative program of East-West Management Institute, Inc. and the United States Department of State. The opinions expressed herein are those of the authors and do not necessarily reflect the views of the PFS Program.

1. Introduction

- 1.1 The ultimate objectives of this project were to:
Encourage the Baltic capital markets to implement the same strategies regarding accounting requirements and accounting enforcement in order to become an integrated and well-oiled cog in the European Union.
Ensure that Baltic issuers of equity and debt securities have the skills and spirit to prepare IAS/IFRS financial statements in 2005 and provide the disclosures the market needs in order to function efficiently.
Provide the capital markets with a push-start on the road to accounting enforcement so they can live up to their obligation under the IAS Regulation by 2005.
- 1.2 During the project we charted the use of IFRS by listed companies when preparing their financial statements for 2003 and provided hands-on skills to preparers, users and regulators in the Baltic States. Hands-on skills were provided via seminars and meetings with preparers, users and regulators.
- 1.3 One of the aims of this report is to encourage companies to move towards and follow best international practice when providing information to the capital markets as this information is used by investors, analysts, educators and supranational organizations in making investment decisions, teaching accounting or finance or forming an opinion on the reliability and transparency of a capital market. Another, is providing legislators, standard setters, regulators and exchanges with feedback regarding the current level of accounting compliance and disclosure, which can form a backdrop for future policy decisions.
- 1.4 We hope our findings will also be of interest to other EU member states tackling similar questions and problems.
- 1.5 This project was initiated and partially financed by the East West Management Institute and the Partners for Financial Stability (PFS) Program.

The institutions and companies who have sponsored this project both financially and by providing experts are the Tallinn Stock Exchange, the Estonian Financial Supervisory Authority, Riga Stock Exchange, the Bank of Latvia, Ernst & Young Latvia, Deloitte & Touche Lithuania, the Lithuanian Accounting Institute and OÜ Nõu.

We thank all of these institutions and companies for their perseverance, commitment to excellence and input.

The research team consisted of;

Rita Ilisson, project manager for OÜ Nõu, member of the IASB's Standards Advisory Council and lecturer at International University Concordia Audentes;

Katrin Sumberg, Estonian Financial Supervisory Authority
Maris Vinkelis, Specialist at the Accounting Department of the Bank of Latvia;
Leo Asmanis, Manager , Ernst & Young Latvia;
Agnese Bockane and Liga Tratmane, Ernst & Young Latvia;
Torben Pedersen, Partner, Deloitte & Touche Lithuania;
Laima Kaslauskiene, Managing Director, Accounting Institute of Latvia.

2. Background

2.1 Companies listed on EU regulated markets will be required to apply the set of IASs endorsed by the Accounting Regulatory Committee when preparing their consolidated financial statements for accounting periods beginning on or after Jan. 1, 2005. This requirement is set out in the IAS Regulation of 2002. A Regulation becomes law in all the member states. Member states may permit or require listed companies to comply with IAS when preparing their separate accounts. In addition, member states may permit or require the use of IAS by other companies.

2.2 At this point in time, it seems as if the set of IASs as endorsed by ARC and IFRS as promulgated by the International Accounting Standards Board (IASB) and effective for 2005 financial statements will be the same for 2005. ARC had endorsed the IASs effective in 2002 with the exception of IAS 32 and 39 on financial instruments and IFRS 1, when we embarked on this project in July of 2004. Since then, the improvements to IASs issued in December 2003, IAS 39 with 1 carve out, IFRS 3 and 4 have been approved. ARC is expected to approve IFRS 2 on stock-based payments in December 2004.

2.3 In the following text we use the abbreviations IAS and IFRS. The IASB has retained and revised many of the standards issued by its' predecessor, the IASC. They retain their previous designation as IASs. They have also issued new standards, which bear the designation IFRS. We will refer to the set of standards promulgated by the IASB as IFRS. As ARC has approved most of the standards promulgated by IASB, we will use IFRS throughout this report.

2.4 All three exchanges have chosen OMHEX as their strategic partner. This is an important step in integrating the Northern European (Finnish, Swedish and now Danish) and Baltic (Estonia, Latvia, Lithuania) capital markets. Estonia, Finland, Sweden and Denmark will permit all companies to apply IFRS in 2005. Lithuania has extended IAS use to the separate accounts of listed companies only, while Latvia has not extended IFRS use.

2.5 As the Baltic exchanges now have a common interface, it is important that common strategies ensure that the quality and quantity of information provided to investors is of the same high quality.

3. Methodology

3.1 We reviewed the English language versions of the annual reports of listed companies posted on the websites of the Baltic exchanges. In most cases only 2003 year-end reports were reviewed.

3.2 The annual reports were reviewed, as the interplay between the MD&A and the financial statements is of importance when trying to understand the numbers provided.

3.3 It is not common to find the annual reports of listed companies on the websites of exchanges, but rather on the websites of companies themselves. We believe that the report service offered by all three exchanges works very well and laud the listed companies for providing their annual reports in English.

3.4 In charting the use of IFRS by listed companies in the Baltic States, the reviewers have not only been concerned with specific treatments and disclosures, but also with whether companies live up to the spirit of international GAAP or only do it lip-service.

3.5 Issues concerning whether or not a certain company should or should not be listed, how and why they became listed or how the markets have developed shall not be broached in this report. However, these factors may explain managements' attitude towards accounting transparency and operational disclosures.

3.6 The reviewers have not set out to rank companies. Instead, we have concentrated on finding systemic problems and difficulties, which need further attention and action.

3.7 We reviewed the annual reports against the backdrop of the comments provided in the Reports on Standards Compliance (ROSCs) prepared for Lithuania (2002) and Estonia (2004) by World Bank experts. Latvia has requested a ROSC, however the draft is not yet public.

3.8 One of the questions the World Bank reviewers raise is - who actual prepares the IFRS financial statements – management or the company's auditors? They mention "boiler-plate" disclosures, which may give lip service to IFRS, while actual accounting policies are quite different. They received some confirmation of this when communicating with the management and auditors of the companies they reviewed.

3.9 An off-site review cannot answer this question, as there is no way to check the veracity of the underlying data nor the actual accounting policies implemented. However, the willingness of companies to converse with the users

of financial statements via these documents should give an indication of who does what and for whom.

4. Executive summary

4.1 The purpose of published financial statements and annual reports is to serve as a basis for investment and business decisions. To serve their purpose financial statements:

- need to be prepared in accordance with a comprehensive accounting platform, which investors and analysts understand;
- need to include enough entity-specific background and operational information to transform the numbers into decision-making tools;

4.2 IFRS is a comprehensive accounting platform, which rests on a set of definitions, underlying assumptions, and qualitative characteristics – a conceptual framework. IFRS stems from Anglo-Saxon traditions and assumes listed companies to be its constituents. Thus, the emphasis is on disclosure and transparency. (The IASB is now looking at the special problems of SMEs, but this is a recent development.)

4.3 The EU's accounting directives do not form a comprehensive platform. They represent a pastiche of alternative accounting policies, which member states can cut and paste into local legislation. The directives' constituents are both public and private companies with limited liability. The intent of the directives is to harmonize minimum requirements in member states. Up until 2002, the emphasis was on form and minimum requirements, not disclosure. During 2002 and 2003, the directives were updated with additional options to allow member states, who so wish, to narrow the gap between local GAAP and IFRS.

4.4 All three Baltic States incorporated the accounting directives into local legislation long before becoming EU members. But, they opted for different alternatives from the directives and embarked on different accounting reform strategies.

4.5 In part, the different approaches stem from how local standard setters have perceived and followed the European Commission's changing positions. Up until 1997, the European Commission's position was that it was not possible to apply the directives and IAS concurrently and that standards had no place in a European legal context (Regardless, the UK has always had a standards based system). In 1997, the Commission's stance changed and it was deemed possible to align the directives and IAS. In 2000, it was deemed possible to legislate standards.

4.6 A changeover from local GAAP to IFRS is more or less difficult depending on how similar or different local GAAP and IFRS are. The three Baltic countries

have moved towards narrowing the gap between local and international GAAP at different rates and times.

Differences in accounting treatments

Estonian GAAP consists of a framework law and system of standards, which have required IAS/IFRS treatments since 1994. Estonia was the first country in Europe to declare IAS as its accounting platform by law.

Latvian GAAP is becoming aligned with IFRS via the accounting directives legislative alignment process i.e. the laws regulating accounting have been amended in step with EU developments. In addition, the Accounting Standards Board established in 2002 has issued 2 standards. 8 standards are in the pipeline.

Lithuanian GAAP, now consists of 2 framework laws and system of standards (BAS), which are based on IFRS. Most of the mainstay IFRSs were issued by the Accounting Institute during 2002-2003, effective in 2004. The process is continuing.

Differences in disclosure requirements

All three local GAAPs evince differences vis-à-vis IFRS. This is inevitable as their constituents are all legal entities, including SMEs, not only listed companies.

4.7 Local requirements regarding IFRS use by listed companies have been enacted at different times.

With 1 exception, IFRS is the accounting platform of Estonian listed (main and I-list) companies.

In Latvia, companies on the main list have been required to prepare IFRS financials, while those on the second and free lists are required to apply IFRS when preparing consolidated financials as of year-end 2005. They may apply IFRS when preparing their separate financial statements, if and only if, the treatments are in compliance with Latvian GAAP.

In Lithuania, companies on the main list have been required to prepare IFRS financial statements, while

companies on the current list have been permitted to apply IFRS and many do. All listed companies may apply IFRS when preparing separate accounts.

4.8 There are examples of high quality financials and annual reports on all three exchanges. Companies listed on other exchanges, companies' whose parents are listed on US or European exchanges and those with the highest trading volumes lead the pack and provide user-friendly and highly informative annual reports.

4.9 In all three countries we found companies, without the abovementioned characteristics whose managements seem determined to provide transparent and user-friendly annual reports. They are the true champions of the cause.

4.10 Regardless of the fact that we cannot consider issues concerning how and why companies are listed, it should be noted that some companies were listed in accordance with national privatization strategies and have the state as shareholders. Two companies in Lithuania were in the process of being privatized 2003-2004. Managements' ability to move forward may be restricted due to political considerations. These factors may contribute to managements' attitude towards accounting transparency and operational disclosures, as evinced in the annual reports.

4.11 Estonia has the longest IFRS tradition for all listed companies. The level of mandatory and voluntary disclosure varies, but the spread is narrower than on the other markets. This does not mean that there is no room for improvement and some of the systemic issues described in the next section apply equally well.

4.12 The IFRS financial statements of companies on the main list of the Riga exchange are generally high quality. However, the quality of the financial statements of second list companies is very uneven, regardless of the fact that the majority prepare their financial statements under Latvian GAAP. We found informative financial statements that complied with all the requirements of Latvian GAAP and provided additional voluntary disclosures as well as handwritten financial statements. Please note that Latvian accounting legislation was changed in 2003, effective 2004, by incorporating the amended directives in order to narrow the gap with IFRS. New amendments are in the offing.

4.13 The IFRS financial statements of companies on the main list of the Lithuanian National Stock Exchange are generally high quality. While most of the financial statements of current list companies that purport to comply with IFRS, present the required disclosures, many lack entity-related narratives, which would make it possible to understand the numbers. We found local GAAP and IFRS financial statements that featured KPMG's logo on each and every page of the statements, including managements' declaration of compliance with IFRS. This practice leads to serious questions regarding both auditor independence

and management's accountability. The quality of Lithuanian GAAP financials is uneven, ranging from companies who seem to have managed to alleviate the IFRS gap while applying local GAAP, to numerical reconciliations. Please note that we reviewed 2003 financials and Lithuanian BAS is effective for 2004 financials.

Examples of Issues that require attention on all three markets include boilerplate templates, disaggregations, allowances for uncollectible receivables and obsolete inventories, the quality of MD&A, impairment of assets and level of disclosure. These issues are discussed in the next section.

5 Issues

5.1 Boiler-plate templates

5.1.1 Except for the leaders of the pack and the champions of the cause, the influence of the Big 4's templates is pervasive. As soon as one accesses a .pdf file, one knows which of the Big 4 has audited the company.

5.1.2 We appreciate that templates have their place on the learning curve. However, we hope that preparer's have not been led to believe that filling in templates without providing entity-specific disclosures represents best practice. Template thinking, while seemingly reassuring and "no-fuss" for the audit firm may cause blockages in the development of transparent financial reporting.

5.1.3 The majority of the template-based financials we reviewed do not provide narratives, which demystify the numbers. Yes, the numbers add up (usually), yes the desegregation has been performed, but this does not satisfy the investors' information needs and therefore the purpose of the financial statements.

5.1.4 the "worst" scenario is a set of boilerplate financials, which have been qualified by the auditors. Not only is the narrative information scanty, but the user is not provided with the information necessary to understand the qualification. Worst scenario financials do not enhance the reputation of either the company or its auditors.

5.1.5 Recommendation

We encourage listed companies to prepare financial statements, which "talk" to the investor and analyst. Please post your annual reports, which consist of the company's financial statements and MD&A on the exchanges' and company's websites. This document is your window to the capital and financial markets. Please be reminded that management is responsible for preparing both documents by law. The use of IFRS does not negate adherence to local legislation regarding the MD&A and contents of the annual report.

5.2 Disaggregation

5.2.1 In the notes we found seemingly detailed break-downs of expenses, which feature things like business trips for XX, while other expenses amounting to XXXXX were aggregated. The rationale for what is or isn't separately disclosed and material is unclear. Some of these separate disclosures may be due to tax legislation, which require that companies distinguishes deductible and non-deductible expenses. The primary *raison d'être* of financial reporting is not to satisfy the information needs of internal revenue services.

5.2.2 IAS 1 *Presentation of Financial Statements* requires that companies using the cost by function format disclose additional information about salaries, depreciation, etc. In some cases we found no disaggregated information for the line item *Cost of Goods Sold*, while finding a detailed breakdown and disaggregation of marketing, distribution and administrative expenses (salaries, depreciation, business trips, etc).

5.2.3 Recommendation

We encourage listed companies to:

- determine reasonable materiality criteria for the disaggregation of line items presented in the notes;
- disaggregate *Cost of goods sold*, if this line item is significant vis-à-vis *Net sales* and present salaries, depreciation, production overhead, etc in the notes.

5.3 Allowances and provisions

5.3.1 As explained in IAS 37, downwards valuations of assets are called "provisions" in some jurisdictions. However, provisions are liabilities in accordance with IAS 37 and we shall adhere to IFRS terminology. Asset write-downs (impairment losses) are referred to as allowances.

5.3.2 Allowances are neither extraordinary nor unusual. They are operating expenses. In the cost by function format, we would expect inventory write-downs to be reflected in *Cost of goods sold*.

5.3.3 Impairment losses and reversals of impairment losses related to a group of assets shall be reported on the same line item in the income statement, in accordance with IFRS.

5.3.4 Recommendation

We encourage listed companies to:

- include allowances for the impairment of current assets in operating expenses;
- report reversals of impairment losses on the same line item of the income statement as the impairment losses reversed.

5.4 Impairment

5.4.1 Impairment is a serious issue. One of the external indicators of impairment is that the book value of equity exceeds market capitalization. This relationship exists for many of the listed companies reviewed.

5.4.2 This may be due to incorrectly gauged mandatory revaluations in the past, lack of prudence, negligible free float i.e. lack of independent minority shareholders or the privatization process. However, we cannot consider these extenuating circumstances in this off-site review.

5.4.3 Recommendation

Based on the financials and market data available, we encourage companies whose book value of equity exceeds market capitalization to test their assets for impairment and disclose sensitivity tested findings in their 2004 financial statements.

5.5 Level of disclosures

5.5.1 We realize that improving the level and relevancy of disclosure is a process. If local GAAP does not emphasize disclosure and relevant narratives, entities may find this process tiresome and difficult when applying and adopting IFRS.

5.5.2 It is not surprising that companies who are almost wholly-owned (actual free float of a couple of %) or in the midst of privatization may not be motivated to disclose financial and non-financial information. This anomaly cannot be considered in this review.

5.5.3 However, we believe that companies must be encouraged to disclose financial information in accordance with IFRS and provide additional information, which make the financials understandable against the backdrop of the company's operations, risks and possibilities. This is a necessary precursor for an active market.

5.5.4 Recommendation

We encourage companies to disclose financial information in accordance with IFRS and provide additional information, which make the notes come alive against the backdrop of the company's operations, risks and possibilities. This is a necessary precursor for an active market.

5.6. Authorization vs. approval date

5.6.1 The annual reports of listed companies should be made public on their authorization date. On the approval date, a press release should disclose

whether or not the shareholders have approved the financials and dividend distribution proposed by management. If shareholders require changes to the financials, the amended audited financials should be made public. Please note that IAS 1 requires that proposed dividends be disclosed, which are a feature of authorized, not approved financial statements.

5.6.2 Companies should distinguish the following three dates:

balance sheet date, the date of the financial position presented;

authorization date, the date on which annual reports including audited financial statements along with managements' dividend proposal are made available for use to the public i.e. the date after which no post-balance sheet date information can be supplied;

approval date, the date on which shareholders approve the audited financial statements and dividend proposal of management (if this is required by law).

5.6.3 Who signs the annual report on the authorization and approval dates is a matter for company law or exchange regulation. Management and the company's auditors' sign off the financials for authorization on (or immediately after) the authorization date. We have come across cases where management "approves" the financial statements long after the auditor has signed off on the financials. This is not best practice..

5.6.4 In most cases, the financials as authorized for use by management and approved by shareholders are identical except for the declaration (contra managements' proposal) of approved dividends. In the past there have been a few examples of shareholders' not approving financial statements or proposing dividend distributions, which differ from those proposed in the authorized financial statements.

5.6.5 Recommendation

We encourage listed companies, regulators and exchanges to distinguish the following dates – balance sheet date, authorization date and approval date. If the shareholders have the right to require changes to the financials or dividend proposal, this should be disclosed.

5.7 MD&As

5.7.1 We did not find any auditors' reports, which mentioned the interplay of the information in the MD&A and financial statements. Under the accounting directives, auditors are required to comment on whether the MD&A and financial statements are consistent. Some of the reports had no accompanying MD&A and yet, there was no mention of this in the auditors' report.

5.7.2 IFRS does not prescribe the content of the MD&A (IFRS has embarked on a MD&A project) except for encouraging disclosures, at this point in time. However, the interplay of the MD&A and financial statements provide the user with the information necessary to understand a company's financial position, performance, risks and possibilities.

5.7.3 The use of IAS as endorsed by the EU does not override the requirements in the European directives regarding the annual report. The auditor is required to review the financials and the annual report in order to ascertain whether the information provided is consistent.

5.7.4 Recommendation

We encourage auditors to comply with the accounting directives as transposed into local legislation. Regardless, of the fact that the abovementioned responsibility is not specifically dealt with in IFAC's generic auditing standards, the investor community expects auditors to comply with any and all requirements prescribed in local legislation.

We encourage companies to disclose any and all fees paid to auditing companies for assurance and/or consulting services. This would constitute best practice.

6. Policy recommendations

6.1 We believe that many of the issues identified can be painlessly remedied through discourse with issuers, exchanges and regulators. This is not to say that the process will not take time and effort.

6.2 During the seminars given in Latvia and Estonia and contacts with the management of Lithuanian companies, we were pleasantly surprised by managements' response. Where there is a will there is a way. Many of the issues brought out in below stem from misconceptions or the lack of investor orientation. We believe that once pointed in the right direction, companies 'managements,' without regulatory intervention, will resolve many of these issues. This is also our experience to date.

6.3 Estonia and Latvia have consolidated financial supervisory authorities, while insurance, banking and securities market supervision in Lithuania is performed by different institutions. The directives focus on prudential supervision, the IAS Regulation of 2002 requires the enforcement of accounting compliance. We are cognizant of the fact that these institutions are all members of CESR. Whether or not these institutions are de facto or de jure responsible for accounting enforcement vis-à-vis listed companies and what measures they intend to implement is not the object of this report.

6.4 The Estonian FSA took an interest in this project. As all companies in Estonia could apply IFRS as of January 2003, there are no legislative issues or barriers for preparers. They have implemented measures to enforce accounting compliance.

6.5 The Latvian FSA (Financial Supervisory Authority) did not take part in this project as they stated that the IFRS compliance of listed companies is not their responsibility. They seem to believe that the Latvian strategy of allowing companies to apply IFRS, when and if, IFRS is in compliance with Latvian GAAP is tenable and progressive. Left to judgment calls, this can ensue in chaos. The amended regulations of the Riga Stock Exchange require all listed companies to prepare IFRS consolidated statements as of 2005.

6.6 The Lithuanian LSE has shown an active interest in this project, regardless of the fact that they have stated that they have neither the right nor resources to enforce compliance. As listed companies are allowed to apply IFRS when preparing their separate and consolidated accounts, the only thing which may be lacking is a tenable and effective compliance mechanism.

6.7 We the authors, believe that enforcement should be a discrete activity, the aim of which is ensuring compliance without disturbing the operations and continuing activities of a company or the market. Central issues are strategy and efficiency. Should the Baltic states adopt a continental European or Northern European approach to enforcement? Must they tug and turn at the crossroads of two schools of thought? Regardless of the fact that the answers to these questions are not the object of this report, we suggest that legislators consider adopting the model applied in those countries with significant investments in the Baltic States.

6.8 We suggest that accounting compliance is not an issue for the courts, but an issue that can be resolved using peer pressure and positive examples. Many countries and organizations award companies for the transparency and user-friendliness of their annual reports. The carrot, rather than the stick seems to work as an effective mechanism, which results in increased transparency and disclosure on the market in total.

6.9 In Northern Europe accounting compliance has been delegated to expert groups. In the UK, accounting compliance is enforced by the Financial Reporting Review Panel (FRP), which consists of lawyers, accountants, analysts and preparers. They have a more than 10-year track record. Regardless of the fact that they have the right to resort to the courts, this has never been necessary. They publish their findings and this alone has been sufficient to motivate companies to restate their financials in accordance with FRP's findings. No one wants to be on the "bad-boy" list, as this affects the reputation of the company and their auditors. The review panel model has been implemented in Sweden, Denmark and Germany.

6.10 The exchanges in all three countries have and do act as regulators. We encourage legislators to consider an exchange-driven or regulator-driven compliance mechanism coupled with a financial reporting review panel model. Local or pan-Baltic think-tanks, should be considered. Off-site testing is a one-off activity. As witnessed by this project, it does cost money, but not very much and does not involve setting up permanent public institutions or formal structures. In the case of a pan-Baltic panel, which we encourage, local authorities shall deal with legal intervention.

6.11 The Tallinn stock exchange has championed the IAS/IFRS cause since 1998. All companies publish and post their annual reports in English and in EUROS.

6.12 The Riga stock exchange has shown initiative and required second list companies to prepare IFRS consolidated statements as of year-end 2005. We encourage them to mandate that the separate accounts of listed companies, whether included in the consolidated financial statements or presented stand-alone, should be prepared using IFRS and that they require financials denominated in EUROS as of 2005.

6.13 The Lithuanian National Stock exchange has pressed forward and all companies now present English language financial statements. We encourage them to require more consistent information from companies and companies to prepare EURO financials as of 2005.

6.14 Recommendation

We encourage legislators to consider setting up independent committees or a pan-Baltic committee (think-tank) to monitor IFRS compliance. This may be seen as a stopgap or permanent arrangement.

6.15 We recommend that the authorities responsible for accounting compliance:

- a) communicate directly or via a panel of experts (review panel) with companies' regarding accounting and disclosure concerns before any sanctions are taken;
- b) continue with initiatives such as this in order to bring issuers up to speed;
- c) establish awards for national or pan-Baltic flagships of accounting or corporate governance;
- d) work to ensure that IFRS can be applied by all companies consolidated into IFRS financial statements;
- e) require that a group present both the financial statements of the group and the parent in accordance with IFRS in the annual report package;
- f) require that the financial statements be posted on the company's and exchange's web on the authorization date;

- g) require that the financial statements and MD&A be presented together, as the audit opinion covers both;
- h) require that a company include share price data in the management report;
- i) issue guidelines on MD&As, which are in line with best practice;
- j) require company's to publish shareholder' approval of the financials and dividend distributions;
- k) set up a pan-Baltic review panel modeled on the UK Financial Reporting Review Panel.

Appendix A – Country use of the options in the IAS Regulation

Planned Implementation of the IAS Regulation (1606/2002) in the EU and EEA (Published for information purposes only)							Date 8/03/04	1/2	
European Commission	Austria	Belgium	Denmark	Finland	France	Germany	Greece	Italy	Ireland
<i>Status of the implementation of IAS</i>	Proposal	Proposal	Proposal ¹	Consultation	Proposal	Proposal	Final law	Final law	Consultation ²
Article 5(a) of the IAS Regulation LISTED COMPANIES									
1. Will your MS use the option to permit IAS in the annual accounts for listed companies?	No	See footnote ³	Until 2009: Yes After 2009: No	Yes	Not until tax and legal questions are settled	Yes ⁴	No	No	Probably yes
2. Will your MS use the option to require IAS in the annual accounts for listed companies?	No	See footnote ³	Until 2009: No After 2009: Yes	No	No	No	Yes	Yes ³ , except for insurance	No
Article 5(b) of the IAS Regulation OTHER COMPANIES									
1. Will your MS use the option to permit IAS in the consolidated accounts for other companies? If yes, what type of companies?	Yes, all companies	Yes, probably all types	Yes, all types	Yes ⁴ , all types	Yes, consolidated companies	Yes, all types	Yes ⁴	Yes, except for small enterprises	Yes, probably all types
2. Will your MS use the option to require IAS in the consolidated accounts for other companies? If yes, what type of companies?	No	Possibly for credit institutions Probably in the future for other companies	No	No	No	Yes, companies which have filed for a listing	No	Yes, some companies ¹	No
3. Will your MS use the option to permit IAS in the annual accounts for other companies? If yes, what type of companies?	No	See footnote ³	Yes, all types	Yes ⁴ All types ⁴	No	Yes ⁴ All types	Yes ⁴	Yes, except for insurance, small enterprises and required companies	Yes, probably all types
4. Will your MS use the option to require IAS in the annual accounts for other companies? If yes, what type of companies?	No	See footnote ³	No	No	No	No	No	Yes, some companies ⁴	No
Article 9 of the IAS Regulation									
(a) Will your MS use the option to defer the application of IAS until 2007 for companies whose debt securities only are admitted on a regulated market of any MS?	Probably yes	Probably yes	Yes	Yes	Yes, possibly	Yes	No	No	No
(b) Will your MS use the option to defer the application of IAS until 2007 for companies whose securities are admitted to public trading in a non-member State and which, for that purpose, have been using internationally accepted standards since a financial year that started prior to the publication of the IAS Regulation in the OJ?	Probably yes	Probably yes	No	No	No	Yes	No	No	No
Miscellaneous Is earlier adoption (before 2005) of IAS allowed? If yes, for what type of companies/ from when?	Yes, cons. accounts since 1998	Yes, cons. accounts for all companies	Yes, when a full set of IASs are adopted	1. Listed cos.: cons. accounts 30.9.2003 2. Other cos (not ins. cos): all accounts 2004	No	Yes, option for listed companies (as from 1998)	31.12.2004 Yes ⁴	No	No

¹ Denmark: Proposal pending in Parliament. Covers all enterprises except financial companies/institutions. As regards financial entities it is foreseen that they will be neither permitted nor required to use IAS.

² Ireland: The information given is only indicative and might still change after completion of the consultation process

³ Belgium: To be examined with tax and legal aspects

⁴ Germany: For purposes of information only. Financial statements that are in line with national accounting law will continue to be required for purposes of profit distribution, taxation and financial services supervision

European Commission	Luxemburg	Netherlands	Portugal	Spain	Sweden	UK	Norway	Iceland	Lichtenstein
<i>Status of the implementation of IAS</i>	Work group	Consultation	Work Group ¹⁰	Final law	Proposal	Consultation	Consultation	Work group	Final law
Article 5(a) of the IAS Regulation LISTED COMPANIES									
1. Will your MS use the option to permit IAS in the annual accounts for listed companies?	Yes, possibly 2007 if tax solution	Yes	No	No	Yes	Yes	Probably no	Yes	Yes
2. Will your MS use the option to require IAS in the annual accounts for listed companies?	Probably no	No	Yes	No	No	No	No	Probably no	No
Article 5(b) of the IAS Regulation OTHER COMPANIES									
1. Will your MS use the option to permit IAS in the consolidated accounts for other companies? If yes, what type of companies?	Yes, banks 2003	Yes, all types	Yes, companies with certified accounts	Yes, all types	Yes, all types	Yes, all types of companies except for the charity sector	Probably yes. All types	Yes, all types	Yes, all types
2. Will your MS use the option to require IAS in the consolidated accounts for other companies? If yes, what type of companies?	Probably no	No	No	No	Possibly for the financial sector ¹¹	No	No	No	No
3. Will your MS use the option to permit IAS in the annual accounts for other companies? If yes, what type of companies?	Yes possibly 2007 if tax solution	Yes, all types	Yes, companies with certified accounts	No	Yes, all types	Yes, all types of companies except for the charity sector	Probably no	Yes, all types	Yes, all types
4. Will your MS use the option to require IAS in the annual accounts for other companies? If yes, what type of companies?	Probably no	No	No	No	No	No	No	No	No
Article 9 of the IAS Regulation									
(a) Will your MS use the option to defer the application of IAS until 2007 for companies whose debt securities only are admitted on a regulated market of any MS?	Probably yes	No	No	Yes, except for banking sector companies	Yes	No	Yes	Probably yes	No
(b) Will your MS use the option to defer the application of IAS until 2007 for companies whose securities are admitted to public trading in a non-member State and which, for that purpose, have been using internationally accepted standards since a financial year that started prior to the publication of the IAS Regulation in the OJ?	No decision yet	No	No	No	No	No	Yes	Probably yes	No
Miscellaneous									
Is earlier adoption (before 2005) of IAS allowed? If yes, for what type of companies/ from when?	Derogations on an individual basis	No	No	No	No	No	No, but nearly possible within national rules	Probably yes	31.12.2002 Yes, all types

Planned Implementation of the IAS Regulation (1606/2002) in the Acceding Countries							(Published for information purposes only)		Date: 8/03/04	
European Commission	Czech Rep.	Cyprus	Estonia	Hungary	Latvia	Lithuania	Malta	Poland	Slovakia	Slovenia
Status of the implementation of IAS	Final law		Final law	Final law	Final law ¹	Final law		Consultation	Final law	Proposal
Article 5(a) of the IAS Regulation										
LISTED COMPANIES										
1. Will your MS use the option to permit IAS in the annual accounts for listed companies?	No		No	No ²	No ³	No		Yes, except for investment funds	No	No
2. Will your MS use the option to require IAS in the annual accounts for listed companies?	Yes		Yes	No	No	Yes		No	Yes	Yes
Article 5(b) of the IAS Regulation										
OTHER COMPANIES										
1. Will your MS use the option to permit IAS in the consolidated accounts for other companies? If yes, what type of companies?	Yes All types of companies		Yes All types	Yes, all types of companies within the scope of Act of Accounting	No ³	No		No	Yes	Yes, all types of companies which decide to use IASs for at least 5 years
2. Will your MS use the option to require IAS in the consolidated accounts for other companies? If yes, what type of companies?	No		Yes, credit and other financial institutions	No	No	Yes, for banks		No	Yes, all types. ⁴	Yes, for banks and insurance companies
3. Will your MS use the option to permit IAS in the annual accounts for other companies? If yes, what type of companies?	No		Yes All types	No ⁵	No ³	No		No	No	Yes, all types of companies which decide to use IASs for at least 5 years
4. Will your MS use the option to require IAS in the annual accounts for other companies? If yes, what type of companies?	No		Yes, credit and other financial institutions	No	No	Yes, for banks		No	No	Yes, for banks and insurance companies
Article 9 of the IAS Regulation										
(a) Will your MS use the option to defer the application of IAS until 2007 for companies whose debt securities only are admitted on a regulated market of any MS?	No		No	Issue under consideration	No	No		Yes	No	No
(b) Will your MS use the option to defer the application of IAS until 2007 for companies whose securities are admitted to public trading in a non-member State and which, for that purpose, have been using internationally accepted standards since a financial year that started prior to the publication of the IAS Regulation in the OJ?	No		No	Issue under consideration	No	No		No	No	No
Miscellaneous: Is earlier adoption (before 2005) of IAS allowed? If yes, for what type of companies/ from when?	Yes ⁶		Yes All types 01.01.2003	No ⁵	No ³	Yes, for banks since 1997		No	Yes, listed companies since 01.01.2004	No

¹ Latvia: Legislation currently in force. Covers all enterprises except financial and capital market participants (banks, insurers, etc)

² Hungary: The application of IAS for informal purposes is permitted, and the listing rules are in some cases requires the application of IAS. Nevertheless the companies are obliged to prepare annual accounts according to the Accounting Act. Changing of position is not anticipated until the tax and legal issues are not solved.

³ Latvia: Companies can use IAS in the annual and consolidated accounts as so far as it is not in conflict with national accounting laws.

⁴ Slovakia: Application of IAS for preparing consolidated accounts for all companies (listed and non-listed) from the year 2005.

⁵ Hungary: It is permitted to apply IASs for informal purposes, however the companies are obliged to prepare annual accounts according to the Accounting Act. It is not anticipated to change the position before the tax and legal issues are solved.

⁶ Czech Rep.: Yes, effective from the first accounting period following after Accession Treaty come into force, for companies mentioned above