Annex III

Accounting and audit issues

III

Accounting and audit issues

This chapter contains details of the main accounting, commercial bookkeeping and audit obligations to be observed by Spanish enterprises. According to Spanish legislation, all enterprises are required to keep orderly accounts, in keeping with their business, including a book of inventories and balance sheets book and a journal.

Companies must also keep one or more minutes books in which all the resolutions adopted by the annual and special shareholders' meeting and other collective bodies of the company must be recorded.

The Spanish National Chart of Accounts approved by Royal Decree 1514/2007, of November 16, 2007, establishes, in accordance with the European Union's accounting convergence process, the accounting principles that aim to ensure that financial statements, prepared clearly, present fairly a company's equity, financial position and results of operations, incorporating the accounting criteria contained in the International Accounting Standards.

III

1. Legal framework

The basic legislation setting out the legal framework in the sphere of accounting law is embodied in Spanish corporate legislation and has been amended in recent years in response to the mandatory harmonization of that legislation with EU Directives, specifically, with Directive 2013/34/EU of the European parliament and of the council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC and Directive 2006/43 on statutory audits of annual accounts and consolidated accounts.

In this regard, the aforementioned Community legislation had been approved as a result of the need for international accounting harmonization, in order to, inter alia, (i) ensure the transparency and comparability of financial statements; (ii) achieve efficient operation of EU capital markets; (iii) close the legal vacuums in the somewhat scant regulations for the accounting Directives and their similarly low level of implementation and (iv) clarify the diversity of legislation.

From the standpoint of accounting, the approval of Regulation (EC) no. 1606/2002 of the European Parliament and of the European Council, of July 19, 2002, in relation to the application of International Accounting Standards (IASs) in the European Union, and the report on the current situation of accounting in Spain and the basic lines to undertake its reform, also known as the White Paper on Accounting Reform in Spain, published by the Spanish Accounting and Audit Institute (ICAC) on June 25, 2002, marked the starting point for the direction that was to be taken in the accounting reform process as a whole in Spain.

That Regulation made it obligatory for companies to apply the IASs approved by the IASB (International Accounting Standards Board), for each financial year starting on or after January 1, 2005, with respect to their consolidated financial statements if at their balance sheet date their securities are admitted to trading on a regulated market of any member state.

The Member States were also given the option to allow or require those standards to be applied to the separate financial statements of listed companies, to the consolidated financial statements of unlisted companies and to the separate financial statements of unlisted companies.

In this regard, in Spain it was established that the general approach to be adopted should not be the direct application of IASs or IFRSs (International Financial Reporting Standards) in their most recent version, but rather to adapt Spanish GAAP thereto, solely introducing the accounting treatments that the aforementioned standards establish on an obligatory basis, and where IFRSs establish different accounting treatment options, taking the option that the legislature considered to be the most prudent and in keeping with the tradition in Spanish accounting practice.

Also, a hierarchy of sources was established to distinguish between (i) fundamental legislation, i.e. the Commercial Code and the Revised Spanish Corporations Law[1], which must contain basic, stable and lasting principles; (ii) implementing regulations, i.e. the Spanish National Chart of Accounts, its industry adaptations (as described below) and (iii) the resolutions of the ICAC, which would contain more detailed rules, the contents of which could be modified with greater ease.

1 The legislation on Spanish corporations is now contained in the Revised Corporate Enterprises Law, approved by Legislative Royal Decree 1/2010, of July 2, 2010, which repealed both the Revised Spanish Corporations Law and the Spanish Limited Liability Companies Law, to recast both of these laws in a single instrument which also includes the provisions in the Spanish Securities Market Law governing the more purely corporate matters of corporations whose securities are admitted to trading on an official secondary market, and the articles related Spanish partnerships limited by shares in the Spanish Commercial Code.

This point marked the start of a process of reform in Spain, firstly, with the approval of Law 62/2003, of December 30, 2003, on Tax, Administrative, Labor and Social Security Measures which was the first step taken in the adaptation of Spanish corporate accounting legislation for its international harmonization based on European legislation.

This process reached its maximum expression in 2007 when important legal provisions were passed, wrapping up the main areas in the process of adapting Spanish accounting legislation to international accounting legislation:

- Law 16/2007, of July 4, 2007, reforming and adapting Spanish corporate accounting legislation for its international harmonization based on European legislation, which made significant amendments to the Commercial Code, and to the then in force Revised Spanish Corporations Law, Limited Liability Companies Law and other industry-based accounting standards and, lastly, adapted for the first time the Corporate Income Tax Law to the new accounting legislation.

- Royal Decree 1514/2007, of November 16, 2007 approving the Spanish National Chart of Accounts (the Spanish National Chart of Accounts).

- Royal Decree 1515/2007, of November 16, 2007 approving the Spanish National Chart of Accounts for small and medium enterprises (SMEs) and the specific accounting rules for very small enterprises (VSEs).

- Royal Decree 1159/2010, of September 17, approving the Standards for the Preparation of Consolidated Financial Statements and amending the National Chart of Accounts approved by Royal Decree 1514/2007, of November 16, and the National Chart of Accounts for Small and Medium Enterprises, approved by Royal Decree 1515/2007, of November 16.

In addition, there has been a process for the adoption of additional industry-based accounting legislation, as a result of which the following industry adaptations to the new Spanish National Chart of Accounts have been approved:

- Royal Decree 1317/2008, of July 4, approving the Spanish National Chart of Accounts for insurance companies.
- Order EHA/3360/2010, of December 21, approving accounting standards for cooperative companies.
- Order EHA/3362/2010, of December 23, approving the rules adapting the Spanish National Chart of Accounts to concession holders for public infrastructure.
- Order EHA/733/2010, of March 25, approving accounting standards for public companies operating in certain circumstances.
- Royal Decree 1491/2011, of October 24, approving the provisions adapting the Spanish National Chart of Accounts to not-for-profit entities and the model action plan for not-for-profit entities.

Mention should be made, in view of their importance, to the changes to Spanish accounting legislation introduced by Royal Decree 602/2016 of December 17, 2016. These changes were obligatory in view of the eighth final provision of the Accounting Audit Law 22/2015 of July 20, 2015 and the first final provision of Law 16/2007 of July 4, 2007 for the reform and adaptation of commercial accounting legislation for the purposes of its international harmonization in line with European Union legislation, their purpose being to lay down the implementing regulations necessary as a result of the changes made to Spanish accounting law by Law 22/2015 of July 20, 2015 (as a result of the process for the transposition of Directive 2013/34/EU of June 26, 2013). Specifically, Royal Decree 602/2016 has introduced important changes to the following rules:

- The Spanish National Chart of Accounts, approved by Royal Decree 1514/2007 of November 16, 2007.
- The Spanish National Chart of Accounts for Small and Medium-sized Enterprises approved by Royal Decree 1515/2007 of November 16, 2007.
- The Rules on the Preparation of Consolidated Financial Statements approved by Royal Decree 1159/2010 of September 17, 2010.
- The Rules on the Adaptation of the Spanish National Chart of Accounts to not-for-profit entities, approved by Royal Decree 1491/2011 of October 24, 2011.

This draft is currently at the public consultation stage.

In relation to the other industries for which an adaptation was adopted before the approval of the currently in force Spanish National Chart of Accounts (such as, for example, construction companies, real estate companies, sports federations, healthcare companies, sports corporations, electricity companies, companies in the grape growing and wine producing industry), the earlier industry adaptations remain in force, insofar as they do not conflict with the new legislation, in conformity with Transitional Provision number five of Royal Decree 1514/2007, of November 16, approving the new Spanish National Chart of Accounts.

From the audit perspective, Accounting Audit Law 22/2015 of July 20, 2015 marked the culmination of a process for the adaptation of Spanish legislation to Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts (following its amendment by Directive 2014/56) and Community Regulation 537/2014 on specific requirements applicable to so-called public-interest entities.

The existing new legislation is supplemented and construed with the ICAC's resolutions and responses to requests. Particularly in relation to the interpretation of accounting legislation, it must be borne in mind that the ICAC stated in Ruling 1 of its Official Gazette 74/June, 2008, that where the legislation does not provide for a given matter or there are doubts as to its interpretation, the directors must use their professional judgment while respecting the framework of the new Spanish National Chart of Accounts and "generally accepted accounting principles in Spain". Also, the ICAC states that, although IFRSs may serve as an interpretative criterion, their mandatory application on a supplementary basis to separate financial statements is not envisaged. Notwithstanding this, IFRSs will apply directly to the consolidated financial statements of listed entities.

2. Accounting records

The rules governing the accounting records that have to be kept by companies are contained in the Commercial Code, which requires all traders to keep orderly books of account that are suitable for their business and to keep a book of inventories and balance sheets and another journal, without prejudice to the records required under laws or special provisions.

Companies are also required to keep a book or books of minutes containing, at least, all the resolutions adopted by the shareholders at the Annual General or Special General Meetings and by the companies' other collective bodies.

As regards the formal requirements applicable to the accounting records, the Commercial Code provides that companies must present their mandatory books of account to the Mercantile Registry of the place in which they have their registered office in order that they be officially certified and stamped before they start to be used.

Entries and notes may be made by any suitable procedure on separate sheets that must subsequently be bound sequentially to form part of the mandatory books of account, which must be legalized within four months from the end of the related reporting period.

These formal requirements also apply to the share registers of corporations, partnerships limited by shares and limited liability companies, which may be kept on electronic files.

3. Financial statements

Both the Commercial Code and the Revised Spanish Corporate Enterprises Law state that a set of financial statements comprises a balance sheet, an income statement, a statement reflecting the changes in equity during the period, a cash flow statement and notes to the financial statements, with these documents constituting a set of information for these purposes (a directors' report is also required, although it is not considered to be a constituent part of the financial statements). However, the cash flow statement is not obligatory where so established by a legal provision (e.g. for companies that are permitted to prepare a balance sheet and statement of changes in equity in abridged format, as explained below).

Both the Spanish Commercial Code and Revised Spanish Corporate Enterprises Law provide for accounting principles and measurement bases. Also, the Revised Spanish Corporate Enterprises Law specifies the disclosures to be included in the notes to the financial statements.

The Spanish National Chart of Accounts sets out the contents to be included in the separate financial statements, and its application by all companies is mandatory, regardless of whether their legal form is that of a sole proprietorship or a company, without prejudice to such companies as are in a position to apply the Spanish National Chart of Accounts for small and medium enterprises (SMEs) or the relevant industry adaptations, and constitutes the implementation for accounting purposes of Spanish corporate and commercial legislation.

The content of the Spanish National Chart of Accounts is as follows:

- Part one: conceptual accounting framework.
- Part two: recognition and measurement bases.
- Part three: financial statements.
- Part four: chart of accounts.
- Part five: accounting definitions and relationships.

The Standards for the Preparation of Consolidated Financial Statements were approved in Royal Decree 1159/2010.

4. Conceptual accounting framework and recognition and measurement bases

In relation to the practical application of the Spanish National Chart of Accounts, after a first part which sets out the conceptual accounting framework, part two establishes recognition and measurement bases for the various asset, liability and income statement items.

Following is a brief summary of the main features contained in the conceptual framework and in the most significant recognition and measurement bases introduced by the Spanish National Chart of Accounts currently in force.

Table 1

MAIN FEATURES OF SNCA

Area	Spanish national chart of accounts (SNCA)
Components of financial statements	The financial statements comprise a balance sheet, an income statement, a statement of changes in equity a cash flow statement and notes.
Statement of changes in equity and cash flow statement	These are added as new documents to be included in the financial statements along with the balance sheet, income statement and notes. The cash flow statement is to be prepared using the indirect method. The statement of changes in equity has two parts: the statement of recognized income and expense and the statement of total changes in equity.
Requirements concerning information to be included in the financial statements	The information included in the financial statements must be relevant and reliable. A quality deriving from reliability is completeness. Also, the financial information must be comparable and clear.
Accounting principles	The obligatory accounting principles are: going concern, accrual, consistency, prudence, no offset and materiality.
Offsetting	Except when a standard expressly provides otherwise, the no offset principle shall be applied. The SNCA defines the conditions for being able to present a financial asset and a financial liability and tax assets and tax liabilities for their net amount.
Items included in the financial statements	The following items are defined: assets, liabilities, equity, income and expenses, which shall be recognized when the probability criteria regarding the inflow or outflow of resources embodying economic benefits are met and their value can be determined reliably. The SNCA defines the concepts of historical cost or cost, fair value, net realizable value, value in use and present value, costs to sell, amortized cost, transaction costs, carrying amount and residual value.

Table 2

CONCEPTUAL ACCOUNTING FRAMEWORK

Preparation of financial statements	
Comparative information	The balance sheet, income statement, statement of changes in equity and cash flow statement must disclose the figures for the preceding period. The quantitative information in the notes must also refer to the preceding period.
Income statement format	The SNCA provides a model using a defined and obligatory vertical format. Companies that do not have a given volume of assets, amount of revenue and number of employees may opt for an abridged model.
Classification of expenses in the income statement	Classified on the basis of their nature.
Current/Non-current distinction in the balance sheet	Obligatory distinction in the balance sheet between current and non-current items.
Presentation, functional and foreign currencies	Presentation, functional and foreign currencies are defined in a similar way to EU-IFRSs.
Exchange differences – Non-monetary items at fair value	Exchange differences are recognized in equity or in profit or loss depending on where the changes in value of the item concerned are recognized.
Exchange differences – Monetary items	Exchange gains and losses are recognized in profit or loss for the year in which they arise.
Hyperinflationary economies	The SNCA lists circumstances that are indicative of high levels of inflation. It refers entities to the Rules for the Preparation of Consolidated Financial Statements, which implement the Commercial Code, for the applicable accounting treatment.

Table 3

RECOGNITION AND MEASUREMENT BASES

Intangible assets, property, plant and equipment and investment property	
Property, plant and equipment	Tangible items held for use on a lasting basis in the production or supply of goods or services or for administrative purposes.
Intangible assets	Identifiable non-monetary assets without physical substance. To be amortized based on their estimated useful lives. When the estimated useful life cannot be reliably estimated, however, they are required to be amortized over a 10-year period by the straight-line method.
Investment property	Non-current property held to earn rentals or for capital appreciation or both.
Costs of dismantling, removing or restoring assets	The initial estimate of the present value of the obligations to dismantle, remove or restore an asset shall be included in its cost.
Capitalization of borrowing costs	Certain borrowing costs must be capitalized in the case of non-current assets that will take more than one year to be ready for their intended use. As a general rule, interest can only be capitalized before the asset has been brought into use.
Asset swaps	**Swaps with a commercial substance.** The asset received is recognized at the fair value of the asset given up plus the monetary amounts delivered as consideration, unless there is clearer evidence of the fair value of the asset received and up to the limit of the latter value. **In swaps without commercial** substance or in those in which fair value cannot be reliably measured, the asset received is measured at the carrying amount of the asset given up plus the monetary amounts delivered as consideration, up to the limit, if available, of the fair value of the asset received if this value is lower.

Table 3 (Continuation)

RECOGNITION AND MEASUREMENT BASES

Intangible assets, property, plant and equipment and investment property	
Non-monetary capital contributions	The assets received are measured at their fair value at the date of contribution, unless it may be treated as a swap without commercial substance. There are specific rules if the contribution consist directly or indirectly on a business. For the contributor, the rules relating to financial instruments shall apply.
Impairment losses	Impairment losses arise when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized and reversed through profit or loss.
Major repairs to property, plant and equipment	The effect of costs of major repairs is taken into account when determining the carrying amount of property, plant and equipment. These costs are amortized over the period remaining until the repair is made. When the repair is made, its cost is recognized as a replacement if the related recognition criteria are met.
Research and development expenditure	**Research expenditure.** Period expense, although it may be capitalized in certain circumstances. **Development expenditure.** Capitalized when the conditions established for the capitalization of research expenditure are met.
Start-up costs	Period expense.

Table 4

INVENTORIES AND NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Inventories	
Definition	Refers expressly to inventories in the rendering of services.
Trade and financial discounts	Trade discounts, rebates and other similar directly attributable items are deducted in determining the costs of purchase.
Borrowing costs	Borrowing costs are included in the acquisition or production cost of inventories that necessarily take more than one year to get ready for their sale.
Non-current assets (disposal groups) classified as held for sale	
Non-current assets classified as held for sale	These are differences arising from the different values for accounting and tax purposes attributed to assets, liabilities and certain equity instruments, to the extent that they have a bearing on the tax charge. Temporary differences include, but are not limited to, timing differences. Based on the balance sheet method.

Table 5

INCOME TAX

Consideration of temporary differences	These are differences arising from the different values for accounting and tax purposes attributed to assets, liabilities and certain equity instruments, to the extent that they have a bearing on the tax charge. Temporary differences include, but are not limited to, timing differences. Based on the balance sheet method.

Table 6

LONG TERM EMPLOYEE BENEFITS AND PROVISIONS

Long term employee benefits	
Classification of pension plans for the purposes of their accounting treatment	Draws a distinction between long-term defined contribution plans and long-term defined benefit plans.
Provisions	
Measurement	Present value of the best possible estimate of the expenditures required to settle or transfer the obligation, recognizing the adjustments arising from their discounting as a finance cost as incurred. In the case of provisions maturing at one year or less, no discounting is required, provided that the effect of the time value of money is not material.

Table 7

FINANCIAL INSTRUMENTS

Loans and receivables – Initial recognition and subsequent measurement.	Loans and receivables are initially recognized at fair value plus directly attributable transaction costs. They are subsequently measured at amortized cost using the effective interest method.
Marketable securities (other than investments in Group companies and jointly controlled entities	These items are initially recognized at the fair value of the consideration paid plus, in the case of held-to-maturity investments and available-for-sale financial assets, the directly attributable transaction costs. They are subsequently measured at fair value, except for held-to-maturity investments, which are measured at amortized cost using the effective interest method. Investments whose fair values cannot be determined reliably are measured at cost minus valuation adjustments. Changes in the fair value are recognized in profit or loss, except in the case of available-for-sale financial assets, changes in the fair value of which are recognized in equity until the asset is disposed of or it is determined that it has become impaired.
Investments in Group companies, jointly controlled entities and associates	Initially recognized at cost and subsequently measured at cost less any accumulated impairment losses. Valuation adjustments are made for the difference between the carrying amount and the recoverable amount (i.e. the higher of fair value less costs to sell and the present value of the cash flows). Unless there is better evidence of the recoverable amount, when estimating the impairment an entity shall take into account the equity of the investee adjusted by the unrealized gains existing at the balance sheet date that relate to identifiable items in the balance sheet of the investee.
Held-to-maturity investments - Impairment	Difference between the carrying amount and the present value of the discounted cash flows or market value of the instrument.
Available-for-sale financial assets - Impairment	Difference between cost or amortized cost minus valuation adjustments recognized previously in profit or loss and the fair value at the measurement date. In the case of investments in equity instruments measured at cost because their fair value cannot be determined reliably, the provisions concerning the impairment of investments in Group companies, jointly controlled entities and associates shall apply.
Financial liabilities held for trading and other financial liabilities at fair value through profit or loss	Initial recognition: fair value. Subsequent measurement: fair value without deducting costs to sell. Changes in fair value are recognized in profit or loss.
Transactions involving equity instruments	Recognized in equity as a change therein, and in no case may they be recognized as financial assets.

Table 7 (Continuation)

FINANCIAL INSTRUMENTS

Gains and losses on transactions involving equity instruments	No gain or loss may be recognized in the income statement.
Compound financial instruments	Their components of liability and equity are recognized, measured and presented separately.
Derivatives	*Initial recognition:* fair value. *Subsequent measurement:* fair value without deducting costs to sell. Changes in fair value are recognized in profit or loss. Some specific rules apply to some financial instruments designated as hedged items
Preference shares	Not expressly addressed. They could be considered as a liability from an accounting point of view.
Participating loans	Does not address participating loans.

Table 8

BUSINESS COMBINATIONS

General consideration of business combinations	Mergers or spin-offs or business combinations arising from the acquisition of all the assets and liabilities of a company or of a part of a company that constitutes one or more businesses are accounted for using the purchase method. Acquisitions of shares, including those received through non-monetary contributions in the formation of a company, or other transactions resulting in the acquisition of control without any investment being made are governed by the rules for measuring financial instruments.
Business combinations between Group companies	In mergers between group companies in which the parent and a directly- or indirectly-owned subsidiary participate, the businesses acquired are measured at the amount attributed to them, after the transaction, in the consolidated financial statements of the group or subgroup. In the case of mergers between other group companies, where there is no parent/subsidiary relationship between them, the assets and liabilities of the business are measured at the amounts at which they had been carried prior to the transaction in the individual financial statements, and any difference that may be disclosed must be recognized in a reserves account. In spin-offs involving companies in the same group, criteria equivalent to those applied to mergers must be followed.
Negative difference arising on business combinations	If, exceptionally, the value of the identifiable net assets acquired exceeds the cost of the business combination, such excess shall be recognized as income in the income statement, with some exceptions.
Goodwill arising on business combinations	Initially measured as the difference between the cost of the business combination and the value of the identifiable assets acquired less the amount of the liabilities assumed, including contingent liabilities. Goodwill is amortized over its estimated useful life. This is presumed to be 10 years in the absence of evidence to the contrary, with amortization being required to be charged on a straight-line basis.
Reverse acquisitions	The rules in the standards for the preparation of consolidated financial statements must be applied.
Separate transactions	The acquirer must identify separate transactions not forming part of the business combination and recognize them under the required recognition or measurement rule.

Table 9
JOINT VENTURES

Concepts and classification of joint ventures	A joint venture is an economic activity controlled jointly by two or more natural or legal persons. The SNCA distinguishes between jointly controlled operations, jointly controlled assets and jointly controlled entities.
Concept of joint control	A by-law established or contractual agreement whereby two or more parties agree to share the power to govern the financial and operating policies of an economic activity so as to obtain economic benefits.
Jointly controlled operations and assets	The venturer shall recognize the proportional part of the jointly controlled assets and jointly incurred liabilities and shall recognize in its income statement the assets attributed to the jointly controlled operation controlled by it and the liabilities incurred as a result of the joint venture. Also, it shall recognize its share of the income earned and the expenses incurred by the joint venture, together with the expenses incurred in relation to its interest in the joint venture.
Jointly controlled entities	The venturer recognizes its interest in accordance with the rules governing investments in Group companies, jointly controlled entities and associates.

Table 10
SALES OF GOODS AND RENDERING OF SERVICES

Trade and financial discounts	Revenue is measured at the fair value of the consideration received or receivable, net of discounts and price reductions.
Interest included in the face value of receivables	Deducted from the price agreed on, except in the case of trade receivables maturing within no more than one year for which no contractual interest rate has been established, provided that the effect of the time value of money is not material.
Swaps of goods and services	In swaps of goods or services of a similar nature and value in the ordinary course of business no revenue is recognized.

Table 11
GRANTS, DONATIONS AND LEGACIES RECEIVED

Presentation	Repayable grants are recognized as liabilities. In general, non-repayable grants are initially recognized directly in equity and are allocated to profit or loss in proportion to the related expenses.
Allocation to profit or loss of grants related to assets	*Property, plant and equipment, intangible assets and investment property* recognized as income over the periods and in the proportions in which depreciation on those assets is charged or, where applicable, when the assets are sold, written down for impairment or derecognized. *Inventories and financial assets.* The year of the sale, valuation adjustment or derecognition.
Measurement of non-monetary grants	Measured at the fair value of the asset received at the date of recognition.
Grants provided by shareholders or owners	Must be recognized directly in shareholders' equity, regardless of the type of grant involved, except for grants received by public-sector companies from the parent public entity for the performance of activities in the public or general interest, which are allocated to profit or loss on the basis of their purpose.

Table 12

SHARE-BASED PAYMENT

Concept	Transactions which, in exchange for receiving goods or services, including services provided by employees, are settled using equity instruments of the entity or an amount based on the price of the entity's equity instruments.
Recognition of equity-settled share-based payment transactions	The goods or services received are recognized immediately as an asset or as an expense on the basis of their nature. Also, an increase in equity is recognized. When it is necessary to complete a specified period of service, the items will be recognized as the services are rendered over that period.
Measurement of equity-settled share-based payment transactions	Measured at the fair value of the goods or services received with a balancing entry in an equity account. If that fair value cannot be estimated reliably, they are measured at the fair value of the equity instruments granted with reference to the date on which the company receives the goods or the other party renders the services. Transactions with employees are measured at the fair value of the equity instruments granted at the date on which the resolution to grant them is adopted.
Measurement of cash-settled share-based payment transactions	Measured at the fair value of the liability, referring to the date on which the requirements for recognition are met with a balancing entry in a liability account. Until the liability is settled, the entity shall remeasure its fair value at each reporting date, with any changes in fair value recognized in profit or loss.

Table 13

DISCONTINUED OPERATIONS

Concept	This is a component of an entity that either has been disposed of, or is classified as held for sale and represents a separate major line of business or geographical area of operations, is part of a plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Table 14

INTRAGROUP TRANSACTIONS

General rule	The items in an intragroup transaction must be recognized at their fair value.
Special rules	These special rules are only applicable when the items in the transaction are a business and there is no monetary consideration: 1. Contributions in kind: Measurement in consolidated financial statements (or individual statements if no consolidation statements are formulated). 2. Mergers and spin-off: Measurement: • If there is a parent/subsidiary relationship between them the value that should be considered in the consolidated financial statements is used; • If that parent/subsidiary relationship does not exist the value in the consolidated financial statements is used also (or individual statements if no consolidation statements are formulated). The effective date for accounting purposes will be the date of the commencement of the fiscal year in which the merger is approved provided it falls after the date on which the companies became part of the group. 3. Capital reduction, distribution of dividends and dissolution of companies.

It should be noted that the Spanish National Chart of Accounts came into force on January 1, 2008, and was applied for the first time in the first reporting period that commenced on or after that date[2].

In addition, as has been indicated in section one entitled "Legal Framework", Royal Decree 602/2016 for the amendment, among other texts, of the Spanish National Chart of Accounts, approved by Royal Decree 1514/2007 of November 16, 2007, was published on December 17, 2016. Strictly from an accounting perspective, mention should be made—in view of their particular importance—of the main amendments envisaged in this draft, which are the following:

- Companies which are able to issue abridged financial statements and notes to the financial statements, and those entitled to apply the PGC for SMEs, are exempted from the obligation to issue a Statement of Changes in Equity.

- The treatment applicable to intangible assets is amended to bring it into line with Accounting Audit Law 22/2015 (LAC). The wording of recognition and measurement base 5 on *"Intangible assets"* is now as follows:

  "Intangible fixed assets are assets with a finite useful life which are therefore required to be amortized systematically over the period in which the economic benefits inherent in the asset can reasonably be expected to generate a return for the company.

  When the useful life of these assets cannot be reliably estimated, they are to be amortized over ten years, without prejudice to the periods established in specific rules on intangible fixed assets.

  These assets are nevertheless to be assessed for indications of impairment at least once a year, with any impairment loss incurred being verified."

According to the above wording, intangible assets of indefinite useful life no longer exist. They are all considered to have a finite useful life. It is only when this useful life cannot be reliably estimated that they are to be amortized over 10 years.

- The accounting treatment of goodwill is also amended, with specific provisions not applicable generally to intangibles which are intended to bring the treatment of goodwill into line with the wording of the LAC. The wording of recognition and measurement base 6 on "Specific rules on intangible fixed assets" is now as follows:

  *"**Goodwill is to be amortized over its useful life**. Useful life is to be determined separately for each cash-generating unit to which goodwill has been allocated.*

  ***The useful life of goodwill shall be presumed, in the absence of evidence to the contrary, to be 10 years,** with recovery being on a straight-line basis.*

  In addition, the cash-generating units to which goodwill has been allocated are to be checked for indications of impairment at least once a year, and in the event of any indications being found, testing for impairment losses is to be undertaken in accordance with the provisions of section 2.2 of the rule for tangible fixed assets.

  Impairment losses recognized against goodwill are not reversible in subsequent periods".

- In relation to the amortization of both (i) intangibles whose useful life cannot be reliably estimated and (ii) goodwill pursuant to the two preceding points, the sole transitional provision of the LAC stipulates that they are to be amortized prospectively. It nevertheless leaves the company the option of charging amortization retrospectively against reserves insofar as relates to the portion of the asset's useful life elapsing between its registration date and the entry into force of the reform.

- New parameters are established for the preparation of Abridged Financial Statements and for the application of the PGC for SMEs.

- Finally, amendments to the Rules on the Preparation of Consolidated Financial Statements are made, essentially in relation to the treatment of consolidation goodwill.

5. Distributable profit

In the context of the accounting legislation reform process described above, the rules for distributing company profit contained in Article 273 of the Revised Corporate Enterprises Law have been amended, and, in general terms, currently provide that:

- The profit taken directly to equity may not be distributed either directly or indirectly.

- Any distribution of profit is prohibited unless the amount of unrestricted reserves is at least equal to the amount of research and development expenditure that appears on the asset side of the balance sheet.

It should be noted that with the entry into force of the new LAC, the obligation to set up a restricted reserve equal to the goodwill recognized under assets has been eliminated.

6. Consolidation

As mentioned above, within the process of adapting Spanish accounting legislation to EU law, Royal Decree 1159/2010, of September 17, approved the Standards for the Preparation of Consolidated Financial Statements.

2 As regards such first-time application, Royal Decree 1514/2007, of November 16, approving the Spanish National Chart of Accounts, establishes a transitional regime so that companies may adapt thereto by preparing a corresponding opening balance sheet (Transitional Provisions One to Six). The regime also has implications in the aforementioned measurement bases in this connection.

The most important aspects ruled by that Royal Decree in this sphere are as follows:

- It widens the definition of "control" meaning the power to steer the financial and operating policies of an entity with the aim to obtain profits from its activities.
- Companies are exempted from the obligation to consolidate where the parent only has investments in subsidiaries that do not have a significant interest, individually or as a whole, to present fairly the equity, financial position and results of the group companies.
- It sets out the rules for recognizing eliminations of investments and net equity in cases of (i) inclusion of companies that constitute a business, (ii) consolidation of a company that does not constitute a business, and (iii) consolidation among companies that were already part of the group.
- It lays down rules for the conversion of financial statements in foreign currency.
- It contains more detailed rules on income tax expense.
- It amended the new Spanish National Chart of Accounts and the Spanish National Chart of Accounts for Small and Medium-Sized Enterprises, in relation to the recognition of business combinations, financial instruments and income taxes.

This Royal Decree applies to the consolidated financial statements, for financial years beginning on or after January 1, 2010, of the following:

- Groups of companies, including subgroups, whose parent company is Spanish[3].
- Cases in which any parent enterprise—whether an individual or a legal entity— voluntarily prepares and publishes consolidated financial statements.
- When consolidated financial statements are prepared and published by any individual or legal entity, to the extent that the substantive rules applicable to such entity require it to do so, or it does so voluntarily.

7. Requirements concerning disclosures in the notes to the financial statements

The Spanish Commercial Code states that the notes to the financial statements must complete, expand upon and discuss the contents of the other documents that make up the financial statements.

The minimum disclosure requirements are specified in the very wording of the Revised Spanish Corporate Enterprises Law, in the Spanish National Chart of Accounts, and in the Standards for the Preparation of Consolidated Financial Statements, all of which indicate that the notes to the financial statements form an integral part of the financial statements.

In response to the relative importance that the principle of fair presentation has in accounting legislation, there is a large number of disclosures to be included in the notes to the financial statements. Among other disclosures, the notes to the separate financial statements must at least contain, in addition to the disclosures specifically provided for in the Commercial Code, the Corporate Enterprises Law and the related implementing legislation, the following information:

- The measurement bases applied to the various items in the financial statements and the methods used for calculating valuation adjustments.
- The name, registered office and legal form of the companies of which the company is a general partner or in which it holds, directly or indirectly, an ownership interest of not less 20%, or in which, even if this percentage is lower, it exercises significant influence.

  The percentage of ownership of the share capital and the percentage of voting power held must be indicated, together with the amount of the equity in the investee's last business year.
- Where there are several classes of shares, the number and par value of each class.
- The existence of "rights" bonds, convertible debentures and similar securities or rights, indicating the number of each and the scope of the rights that they confer.
- The amount of the company's borrowings with a residual life of more than five years, and the amount of all the liabilities for which there is a security interest, indicating their form and nature. These disclosures must be shown separately for each liability item.
- The overall amount of the guarantee commitments to third parties, without prejudice to their recognition on the liability side of the balance sheet when it is probable that they will give rise to the effective settlement of an obligation.
- The pension obligations and those relating to group companies must be disclosed with due clarity and separation.
- The nature and business substance of the company's agreements that are not included in the balance sheet and the financial impact thereof, provided that this information is

3 If at the year-end date, any of the group companies has issued securities admitted for trading on a regulated market of any European Union member state, only the first section of Chapter I and the first section of Chapter II are applicable obligatorily. This same criterion applies when the parent company opts to apply the international financial reporting standards adopted in European Union Regulations. The information referred to in points 1 to 9 of article 48 of the Commercial Code is required to be included in the notes to the financial statements in any event.

relevant and necessary for determining the company's financial position.

- The company's significant transactions with related third parties, indicating the nature of the relatedness, the amount of the transactions and any other information concerning the transactions that might be required in order to determine the company's financial position.

- The distribution of the company's revenue by line of business and geographical market, to the extent that, from the standpoint of the organization of the sale of goods and of the rendering of services or other revenue of the company, these categories and markets differ significantly from each other. These disclosures may be omitted by companies that can prepare abridged income statements.

- The average number of employees in the reporting period, broken down by category, and the period staff costs, distinguishing between wages and salaries and employee benefits, with separate disclosure of those covering pensions, when such amounts are not broken down in the income statement.

- The amount of the salaries, attendance fees and remuneration of all kinds earned during the year in all connections by senior executives and the members of the managing body, and the amount of the pension or life insurance premium payment obligations to the former and current members of the managing body and senior executives. Where the members of the managing body are legal persons, the aforementioned requirements refer to the natural persons representing them. These disclosures can be made on an overall basis by type of remuneration.

- The amount of the advances and loans to senior executives and members of the governing bodies, indicating the applicable interest rate, their essential features and such amounts as might have been repaid, together with the guarantee obligations assumed on their behalf. Where the members of the managing body are legal persons, the aforementioned requirements refer to the natural persons representing them.

- Companies which have issued securities that are publicly traded on a regulated market of any EU Member State and which, pursuant to current legislation, only publish individual financial statements, are obliged to disclose in the notes to the financial statements the main changes in equity and profit or loss that would have arisen had EU-IFRSs been applied, indicating the measurement bases used.

- A breakdown of the fees for financial audit and other services provided by the auditors, together with those paid to persons or entities related to the auditors, in accordance with Spanish Audit Law 19/1988, of July 12, 1988.

- The group, if any, to which the company belongs and the Mercantile Registry at which the consolidated financial statements have been filed or, where applicable, the circumstances relieving the group from the obligation of presenting consolidated financial statements.

- When the company has the largest volume of assets from among the group of companies domiciled in Spain forming part of the same decision-making unit, because they are controlled in any way by one or several natural or legal persons not obliged to consolidate acting jointly, or because they are under single management due to agreements or clauses in the bylaws, a description of the companies must be given, indicating the reasons why they form part of the same decision-making unit, and the aggregate amount of the assets, liabilities, equity, revenue and profit or loss of those companies must be disclosed.

The company with the largest volume of assets is considered to be that which at the date of its inclusion in the decision-making unit has the largest figure under the total assets heading in the balance sheet model.

- According to the Resolution of the Accounting and Audit Institute, of December 29, 2010, the notes to the financial statements must contain information on deferred payments to suppliers in commercial transactions.

8. Auditing requirements

Accounting Audit Law 22/2015 of July 20, 2015 is the result of a sequence of legislative reforms which include most notably the following:

- Law 44/2002 of November 22, 2002, on Measures to Reform the Financial System, which introduced some substantial changes affecting a variety of aspects.

- Law 12/2010 of June 30, 2010 amending the Accounting Audit Law 19/1988, of July 12, 1988, the Securities Market Law 24/1988 of July 28, 1988, and the Revised Corporations Law approved by Legislative Royal Decree 1564/1989 of December 22, 1989, in order to adapt them to Community legislation.

The new law is intended to boost user confidence in economic and financial information by improving the quality of accounting audits within the European Union. Specifically, the new LAC sets out to:

- On the one hand, make transparency a fundamental attribute of both auditors and their work. Attention is drawn in this respect to the new requirements regarding the content of audit reports, which are stricter in the case of audit reports issued in respect of public-interest entities. The professionals by which entities of this kind are audited are placed under the obligation, on the one hand, to prepare and issue an additional report addressed to the Audit Committee which records and reflects the findings of the audit process; and on the other hand, to include in the annual transparency report certain financial information specified in the Directive. The aim of mechanisms of this kind is also to improve the channels of communication between auditors and the supervisors of public-interest entities and enhance the auditor's independence and objectivity, by introducing into the Spanish legislation stipulations and requirements which are more restrictive than those contained in Directive 2006/43/EC.

- Make the audit market more dynamic, open it up and integrate it at Community level through new measures such as the so-called "European passport". These changes are intended to accompany the measures included in Regulation (EU) no. 537/2014 of April 16, 2014, relating to incentives to encourage entities to undergo joint audits, the participation of smaller firms in obligatory tender processes of a public and periodic nature—which are regulated by simplifying the rules on the selection of the auditor—, and mandatory external rotation.

- There are measures included to reduce the transaction costs of doing business within the European Union for small and medium-sized firms:

  — Application proportionate to the scale and complexity of the activity of the auditor or of the entity being audited.

  — The Member States are given the authority to simplify certain requirements in the case of small audit firms.

  — Specific provisions for small and medium-sized audit firms.

- The objective is to achieve a higher degree of harmonization in surveillance and disciplinary matters, and in both European Union and international cooperation mechanisms. The competences of the public supervisory authority are reinforced with this aim in mind, with particular emphasis being placed on the authority to establish minimum disciplinary rules, while at the same time establishing risk assessment as the guiding principle in the quality control reviews to be carried out by such authority. In relation to audits of public-interest entities, there are two main changes:

  — Inclusion of mechanisms aimed at detailed monitoring of the evolution of the market.

  — Establishing of an anonymous sector dialog between auditors and the European Systemic Risk Board, as part of the process for the surveillance of risks affecting financial institutions classed as being of systemic importance.

The main changes introduced by the new LAC, with respect to the previous legislation, are the following:

- **Content of the audit report:**

  The following changes affecting the content of the audit report are to be noted:

  — The report must be free of material misstatements: It must be explained in it that the audit was planned and performed to obtain reasonable assurance that the financial statements are free of material misstatements, including any deriving from acts of fraud.

  — Provision of non-audit services: It should include a declaration affirming that no services other than those consisting of the audit of the financial statements have been provided and that no situations or circumstances have arisen which have affected the necessary independence of the auditor or audit firm.

  — Directors' report: Apart from expressing an opinion concerning the consistency or otherwise of the directors' report with the financial statements for the same year, the report is to include an opinion as to whether the content and presentation of the directors' report meets the requirements of the applicable legislation, with any material misstatements which may have been detected in this respect being indicated.

  — Just cause for failure to issue a report or relinquishment: It is stipulated that just cause shall be considered to exist whenever any of the following circumstances is present:

    – The existence of threats which compromise the independence or objectivity of the auditor or audit firm.

    – When it is absolutely impossible for the auditor or audit firm to perform the work for which they have been engaged owing to circumstances for which they cannot be considered responsible.

  — Clear wording, without certain references: The audit report is to be clearly worded and with no ambiguity.

- **European audit firm:**

  The possibility is envisaged of an audit firm authorized in another Member state pursuing its business in Spain, provided that the person signing the report on its behalf is authorized to practice in this country.

- **Obligation to abstain:**

  The obligation to abstain from participation in any decision-making process in the entity is imposed upon any person—not just the auditor—who could have an impact on the final appraisal or outcome of the audit.

- **Measures designed to guarantee independence:**

  Measures are introduced which aim to avoid conflicts of interest or in commercial relations, or any other kind of conflict—whether direct or indirect, actual or potential—which could compromise the independence of the audit function.

- **A requirement that there be no significant, directly held interest is introduced:**

  The Law requires there to be no significant directly-held interest. It also establishes a ban on the performance of certain transactions with financial instruments issued by the audited entity, applicable to the auditor or audit firm, their personnel, or any persons providing services in the performance of the audit activity, plus certain relatives of the above persons.

- **Inclusion of systems to safeguard the audit function:**

  The Law establishes the need to implement adequate systems to safeguard against any threats which could derive from conflicts of interest or from any commercial, employment, family or other kind of relationship.

- **The situations by which the auditor's duty of independence may be affected are defined:**

  According to the Directive being transposed, the following can affect the auditor's duty of independence:

  — The existence of relations, situations or provisions of services between the entity being audited and the auditor or audit firm.

  — Between the entity being audited and the network of which the auditor or audit firm forms part[4].

- **Audit principles and policies are established:**

  These operational principles and policies are aimed—as is to be expected—at guarding against any kind of threat to independence and guaranteeing the quality, integrity and critical and rigorous nature of the audit process.

- **Two forms of monitoring of the audit activity are envisaged:**

  The new rules provide more detailed provisions on the scope and purpose of the monitoring of the accounting audit activity, with two forms of monitoring being envisaged:

  — Inspections (formerly known as external quality control) to be carried out on a regular or periodic basis which may result in the issue of recommendations or requirements, with the analysis of risk as the guiding principle.

  — Investigations (which include what is currently referred to as technical control), the purpose of which is to detect and correct any deficiency in a specific audit engagement or activity performed by the auditor.

- **Cooperation between International Organizations:**

  The duty of collaboration with the Member States of the European Union is extended to include European supervisory authorities. These mechanisms are reinforced by the possibility of data being transmitted to the European Central Bank, the European System of Central Banks and the European Systemic Risk Board, and by the possibility of creating colleges of supervisory authorities within which data can be exchanged, particularly in relation to the activities of auditors who operate within the framework of a network.

Finally, in relation to the company to be audited, Additional Provision One of the LAC stipulates that all companies and entities, irrespective of legal form, which meet any of the following requirements are to have their financial statements audited:

a) Those issuing securities admitted to trading on official secondary securities markets or multilateral trading systems.

b) Those issuing debentures for sale to the public.

c) Those engaging habitually in financial intermediation activities and, in all cases, credit institutions, investment services companies, the governing companies of official secondary markets, the governing companies of multilateral trading systems, the Systems Company, central counterparties, the Stock Exchange Company, investment guarantee fund management companies, and other financial institutions, including collective investment institutions, securitization funds and their managers, entered in the corresponding Registers of the Bank of Spain and Spanish National Securities Market Commission.

d) Entities whose corporate purpose includes any of the activities regulated by the revised Private Insurance (Regulation and Supervision) Law, approved by Legislative Royal Decree 6/2004 of October 29, 2004, within the limits established in the relevant implementing regulations, and pension funds and their management companies.

e) Entities that receive government grants or aid or perform work for or render services or make supplies to the State and other public bodies, within the limits established in the implementing regulations to be laid down by the government in a Royal Decree.

f) All other entities that exceed certain limits defined by the government in a royal decree. These limits shall refer, as a minimum, to turnover, total assets according to the balance sheet and the average number of employees for the year, and shall be applicable—all of them or each one individually—to the extent possible given the legal structure of each company or entity.

4 In the rules which expand upon these provisions, a distinction is drawn between an audit network and a non-audit network, the rule being that if the persons or entities included within the scope of such a network are in any of the situations of incompatibility envisaged in this Law and in other legal provisions, this will result in the auditor or audit firm being considered incompatible in relation to the company in question, without prejudice to the specific provisions in this respect which the Law also lays down.

The limits referred to in the preceding paragraph coincide with those established in relation to the preparation of abridged balance sheets, according to the revised Capital Companies Law.

The rule established in this respect is that for two consecutive years leading up to the balance sheet date, at least two of the following requirements are to be met:

- Total assets of 2,850,000 euros or less.
- Annual turnover of 5,700,000 euros or less.
- Average number of employees during the year of 50 or fewer.

Companies lose this entitlement if they cease to meet two of the requirements referred to above for two consecutive years.

9. Financial statement publication requirements

The Revised Spanish Corporate Enterprises Law provides that companies must file their financial statements at the Mercantile Registry corresponding to the place in which they have their registered office, within one month from their approval, together with a certificate of the resolutions adopted by the shareholders at the Annual General Meeting at which they were approved and the proposed distribution of profit, copies of the financial statements, directors' report and auditors' report (if the company is obliged to have its financial statements audited or if its financial statements were audited at the request of the minority shareholders).

The Mercantile Registry is public and the corporate documentation filed thereat is publicized through certificates of the entries made by the registrars or through an uncertified extract, or through the issuance of copies of the entries made and of the documents filed at the Registry, all in accordance with the Spanish Commercial Code.

Also, publicly-traded companies must (pursuant to Securities Market Law 24/1988) present copies of their financial statements and of the related auditors' report to the Spanish National Securities Market Commission.

The official registers and other documentation in the possession of the Mercantile Registry and the Spanish National Securities Market Commission are available to the public for their perusal.

10 APPENDIX I

Appendix I

MODEL BALANCE SHEETS (DECEMBER 31, 20XX AND 20YY)

ACCOUNT NOS.	ASSETS	NOTES	200X
	A) NON-CURRENT ASSETS		
201, (2801), (2901)	**I. Intangible assets**		
202, (2802), (2902)	1. Development		
203, (2803), (2903)	2. Concessions		
204	3. Patents, licenses, trademarks and similar assets		
206, (2806), (2906)	4. Goodwill		
200, (2800), (2900); NECA 6.º 4	5. Computer software		
205, 209, (2805), (2905)	6. Research		
	7. Other intangible assets		
210, 211, (2811), (2910), (2911)	**II. Property, plant and equipment**		
212, 213, 214, 215, 216, 217, 218 219, (2812), (2813), (2814),	1. Land and buildings		
(2815), (2816), (2817), (2818),	2. Plant and other tangible xed assets		
(2819), (2912), (2913), (2914),	3. Fixed assets under construction and advances		
(2915), (2916), (2917), (2918),			
(2919)			
23			
220, (2920)	**III. Investments in fixed assets**		
221, (282) (2921)	1. Land		
	2. Buildings		
2403, 2404, (2493), (2494), (293 2423, 2424, (2953), (2954) 2413, 2414,	**IV. Long-term investments in group companies and associates**		
(2943), (2944)	1. Equity instruments		
NECA 6.º 6	2. Loans to companies		
	3. Debt securities		
	4. Derivatives		
	5. Other nancial assets		
	6. Other investments		

Appendix I (Continuation)

MODEL BALANCE SHEETS (DECEMBER 31, 20XX AND 20YY)

ACCOUNT NOS.	ASSETS	NOTES	200X
2405, (2495), 250, (259)	**V. Long-term Investments**		
2425, 252, 253, 254, (2955), (298)	1. Equity instruments		
2415, 251, (2945) (297)	2. Loans to third parties		
255	3. Debt securities		
258, 26	4. Derivatives		
257; NECA 6.º 6	5. Other nancial assets		
	6. Other investments		
474	**VI. Deferred tax assets**		
NECA 6.º 8	**VII. Non-current trade accounts receivable**		
	B) CURRENT ASSETS		
580, 581, 582, 583, 584, (599)	**I. Non-current assets held for sale**		
30, (390)	**II. Inventories**		
31, 32, (391), (392) 33, 34, (393), (394) NECA 6.º 7	1. Merchandise		
NECA 6.º 7	2. Raw materials and other supplies		
35, (395)	3. Work in process		
NECA 6.º 7	a) Long production cycle		
NECA 6.º 7	b) Short production cycle		
36, (396)	4. Finished goods		
407	a) Long production cycle		
	b) Short production cycle		
	5. Secondary products, by-products and recovered materials		
	6. Advances to suppliers		
430, 431, 432, 435, 436, (437), (490), (4935) NECA 6.º 8	**III. Trade and other accounts receivables**		
NECA 6.º 8	1. Trade accounts receivable		
433, 434, (4933), (4934) 44, 5531, 5533	a) Long-term trade accounts receivable		
460, 544	b) Short-term trade accounts receivable		
4709	2. Receivable from customers, group companies and associates		
4700, 4708, 471, 472 5580	3. Sundry receivables		
	4. Loans and advances to employees		
	5. Tax receivable		
	6. Other tax receivable		
	7. Called-up share capital (participation units)		

Appendix I (Continuation)

MODEL BALANCE SHEETS (DECEMBER 31, 20XX AND 20YY)

ACCOUNT NOS.	ASSETS	NOTES	200X
5303, 5304, (5393), (5394),(593)	**IV. Short-term investments in group companies and associates**		
5323, 5324, 5343, 5344, (5953),(5954)	1. Equity instruments		
5313, 5314, 5333, 5334, (5943),(5944)	2. Loans to companies		
5353, 5354, 5523, 5524	3. Debt securities		
NECA 6.º 6	4. Derivatives		
	5. Other nancial assets		
	6. Other investments		
5305, 540, (5395), (549)	**V. Short-term investments in group companies and associates**		
5325, 5345, 542, 543, 547,	1. Equity instruments		
(5955), (598)	2. Loans to companies		
5315, 5335, 541, 546, (5945),(597)	3. Debt securities		
5590, 5593	4. Derivatives		
5355, 545, 548, 551, 5525, 565, 566	5. Other nancial assets		
NECA 6.º 6	6. Other investments		
480, 567	**VI. Current prepayments and accrued income**		
570, 571, 572, 573, 574, 575 576	**VII. Cash and cash equivalents**		
	1. Cash		
	2. Cash equivalents		
	TOTAL ASSETS (A+B)		
	A) NET WORTH		
	A-1) EQUITY AND LIABILITIES		
100, 101, 102	**I. Capital**		
(1030), (1040)	1. Registered capital		
	2. (Uncalled capital)		
110	**II. Additional paid-in capital**		
112, 1141	**III. Reserves**		
113, 1140, 1142, 1143, 1144, 115, 119	1. Legal and statutory reserves		
	2. Other reserves		
(108), (109)	**IV. (Own shares and participation units held)**		

Appendix I (Continuation)

MODEL BALANCE SHEETS (DECEMBER 31, 20XX AND 20YY)

ACCOUNT NOS.	ASSETS	NOTES	200X
120 (121)	**V. Retained earnings (accumulated losses)** 1. Retained earnings 2. (Accumulated losses)		
118	**VI. Other capital contributions**		
129	**VII. Profit (loss) for the year**		
(557)	**VIII. (Interim dividend)**		
111	**IX. Other equity instruments**		
	A-2) EVALUATION ADJUSTMENTS		
133	**I. Available-for-sale nancial assets**		
1340, 1341	**II. Hedging transactions**		
136; (NECA 6.º 13)	**III. Non-current assets and related liabilities, held for sale**		
136; (NECA 6.º 13)	**IV. Translation gain/loss**		
137	**V. Other**		
130, 131, 132	**A-3) SUBSIDIES, DONATIONS AND LEGA CIES RECEIVED**		
	B) NON-CURRENT LIABILITIES		
140 145 146 141, 142, 143, 147	**I. Long-term provisions** 1. Long-term post-employment obligations 2. Environmental measures 3. Provisions for restructuring 4. Other provisions		
177, 178, 179 1605, 170 1625, 174 176 1615, 1635, 171, 172, 173, 175, 180,, 185, 189	**II. Long-term debts** 1. Debt securities and other marketable securities 2. Liabilities to credit institutions 3. Finance lease liabilities 4. Derivatives 5. Other nancial liabilities		
1603, 1604, 1613, 1614, 1623 1624, 1633, 1634	**III. Long-term debts to group companies and associates**		

Appendix I (Continuation)

MODEL BALANCE SHEETS (DECEMBER 31, 20XX AND 20YY)

ACCOUNT NOS.	ASSETS	NOTES	200X
479	**IV. Deferred tax liabilities**		
181	**V. Non-current accrued expenses and deferred income**		
NECA 6.º 16	**VI. Non-current trade accounts payable**		
15; (NECA 6.º 17)	**VII. Long-term debt with special characteristics**		
	C) CURRENT LIABILITIES		
585, 586, 587, 588, 589	**I. Liabilities related to non-current assets held for sale**		
499, 529	**II. Current provisions**		
500, 501, 505, 506 5105, 520, 527 5125, 524 5595, 5598 (1034) (1044) (190), (192), 194, 509, 5115, 5135, 5145, 521, 522, 523, 525, 526, 528, 551, 5525, 5530, 5532, 555, 5565, 5566, 560, 561, 569	**III. Current liabilities** 1. Debt securities and other marketable securities 2. Liabilities to credit institutions 3. Finance lease liabilities 4. Derivatives 5. Other nancial liabilities		
5103, 5104, 5113, 5114, 5123, 6124, 5133, 5134, 5143, 5144, 5523, 5524, 5563, 5564	**IV. Current liabilities to group companies and associates**		
400, 401, 405, (406) NECA 6.º 16 NECA 6.º 16 403, 404 41 465, 466 4752 4750, 4751, 4758, 476, 477 438	**V. Trade and other payables** 1. Trade accounts payable a) Long-term trade accounts payable b) Short-term trade accounts payable 2. Payable to suppliers, group companies and associates 3. Sundry creditors 4. Payable to employees (accrued wages and salaries) 5. Current tax payable 6. Other tax payable 7. Advances from customers		
485, 568	**VI. Current prepayments and accrued income**		
502, 507; NECA 6.º 17	**VII. Short-term debt with special characteristics**		
	TOTAL LIABILITIES AND EQUITY (A + B +C)		

11 Appendix II

Appendix II

MODEL INCOME STATEMENTS FOR THE YEAR ENDED __ 200X)

ACCOUNT NOS.	OPERATIONS	NOTES	200X
	A) CONTINUING OPERATIONS		
700, 701, 702, 703, 704, (706),(708), (709) 705	**1. Net turnover** a) From sales b) From services		
(6930), 71*, 7930	**2. Increase (decrease) in finished goods and work-in-process inventory**		
73	**3. Own work capitalized**		
(600), 6060, 6080, 6090, 610* (601), (602), 6061, 6062, 6081, 6082, 6091, 6092, 611*, 612* (607)(6931), (6932), (6933), 7931, 7932, 7933	**4. Supplies** a) Consumption of merchandise b) Consumption of raw materials and other consumables c) Work done by other companies d) Impairment of merchandise, raw materials and other supplies		
75 740, 747	**5. Other operating income** a) Ancillary and other current operating income b) Operating grants transferred to income for the year		
(640), (641), (6450) (642), (643), (649) (644), (6457), 7950, 7957	**6. Staff costs** a) Wages, salaries and similar expenses b) Social security and other costs c) Provisions		
(62) (631), (634), 636, 639 (650), (694), (695), 794, 7954 (651), (659)	**7. Other operating expenses** a) Outside services b) Taxes other than income tax c) Losses, impairment and increase (decrease) in operating provisions d) Other current operating expenses		
(68)	**8. Other current operating expenses**		

* May be positive or negative.

Appendix II (Continuation)

MODEL INCOME STATEMENTS FOR THE YEAR ENDED __ 200X)

ACCOUNT NOS.	OPERATIONS	NOTES	200X
746	**9. Government and other grants related to tangible fixed assets**		
7951, 7952, 7955, 7956	**10. Excess provisions**		
(690), (691), (692), 790, 791, 792 (670), (671), (672), 770, 771, 772	**11. Impairment and gain (loss) on disposal of fixed assets** a) Asset impairment and losses b) Gain (loss) on disposals and other		
774; (NECA7.º 6)	**12. Negative diference from business combinations**		
(678),778;(NECA 7.º 9)	**13. Other gains (losses)**		
	A1) PROFIT (LOSS) OF EXPLOITATION (1+2+3+4+5+6+7+8+9+10+11+12+13)		
7600,7601 7602, 7603 7610, 7611, 76200, 76201, 76210, 76211 7612, 7613, 76202, 76203, 76212, 76213, 767, 769 746; (NECA 7.º 4)	**14. Financial income** a) From equity investments a1) In group companies and associates a2) In other companies b) From marketable securities and other financial instruments b1) Of group companies and associates b2) Of other companies c) Subsidies, donations and legacies of a financial nature		
(6610), (6611), (6615), (6620),(6621), (6640), (6641), (6650),(6651) (6654), (6655) (6612), (6613), (6617), (6618),(6622), (6623), (6624), (6642), (6643), (6652),(6653), (6656), (6657), (669) (660)	**15. Financial expenses** a) For debts to group companies and associates b) For debts to other companies c) For updating of provisions		
(6630), (6631), (6633), 7630, 7631, 7633 (6632), 7632	**16. Change in fair value of nancial instruments** a) Financial assets held for trading and others b) Credited (charged) to profit (loss) for the year for avialable for sale financial assets		
(668), 768	**17. Exchange diferences**		
(696), (697), (698), (699), 796, 797, 798, 799 (666), (667), (673), (675),766, 773, 775	**18. Impairment and gain (loss) on disposal of nancial instruments** a) Impairments and losses b) Gain (loss) on disposals and others		

Appendix II (Continuation)

MODEL INCOME STATEMENTS FOR THE YEAR ENDED __ 200X)

ACCOUNT NOS.	OPERATIONS	NOTES	200X
	19. Other financial income and expenses a) Inclusion of borrowing costs in assets b) Financial revenues from arrangements with creditors c) Other financial revenues and expenses		
	A2) NET FINANCIAL INCOME (EXPENSE) (14+15+16+17+18+19)		
	A3) PROFIT (LOSS) BEFORE TAXES (A.1+A.2)		
(6300)*, 6301*, (633), 638	**20. Income tax**		
	A.4) PROFIT (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS (A.3+20)		
	B) DISCONTINUED OPERATIONS		
	21. Profit (loss) for the year from discontinued operations, net of taxes		
	A.5) PROFIT (LOSS) FOR THE YEAR (A.4+21)		

* May be positive or negative.

12 Appendix III

Appendix III
MODEL STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED __ 200X

1. Statement of recognized income and expense for the year ended __ 200X

ACCOUNT NOS.		NOTES
	A) RESULT OF THE INCOME STATEMENT	
(800), (89), 900, 991, 992	Income and expenses recognised directly in equity	
(810), 910	I. From valuation of financial instruments	
94	1. Available-for-sale financial assets	
(85), 95	2. Other income/ expenses	
(860), 900; (NECA 8.º 1.2)	II. From cash flow hedges	
(820), 920; (NECA 8.º 1.3)	III. Subsidies, donations and legacies received	
(8300)*, 8301*, (833), 834, 835, 838	IV. For actuarial gains or losses and other adjustments	
	V. For non-current assets and related liabilities, held for sale	
	VI. Translation gain/loss	
	VII. Tax effect	
	B) TOTAL REVENUE AND EXPENSES RECOGNISED DIRECTLY IN EQUITY (I+II+III+IV+V+VI+VII)	
(802), 902, 993, 994	Transferred to profit or loss	
(812), 912	VIII. For valuation of financial instruments	
(84)	1. Available-for-sale financial assets	
(862),902; (NECA 8.º 1.2)(821), 921; (NECA 8.º 1.3) 8301*, (836), (837)	2. Other income/ expenses	
	IX. For cash flow hedges	
	X. Subsidies, donations and legacies received	
	XI. For non-current assets and related liabilities, held for sale	
	XII. Translation gain/loss	
	XIII. Tax efect	
	C) TOTAL TRANSFERRED TO PROFIT OR LOSS (VIII+IX+X+XI+XII+XIII)	
	TOTAL RECOGNISED INCOME AND EXPENSE (A + B + C)	

* May be positive or negative.

Appendix III (Continuation)

MODEL STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED __ 200X

2. Statement of total changes in equity for the year ended __ 200x

A. CLOSING BALANCE 200X-2

I. Adjustments for changes of accounting policy 200X-2 and previous years
II. Adjustments for errors 200X-2 and previous years

B. ADJUSTED OPENING BALANCE, 200X-1

I. Total recognised income and expense
II. Transactions with unitholders or shareholders

1. Capital increases
2. (-) Capital reductions
3. Conversion of financial liabilities to equity (bond conversions, debt forgiveness)
4. (-) Dividend distribution
5. Transactions with own shares or participation units (net)
6. Increase (decrease) in equity resulting from business combination
7. Other transactions with unitholders or shareholders

III. Other changes in equity

C. CLOSING BALANCE, 200X-1

I. Adjustments for changes of accounting policy 200X-1
II. Adjustments for errors 200X-1

D. ADJUSTED OPENING BALANCE, 200X

I. Total recognised income and expense
II. Transactions with unitholders or shareholders

1. Capital increases
2. (-) Capital reductions
3. Conversion of financial liabilities into equity (bond conversions, debt forgiveness)
4. (-) Dividend distribution
5. Transactions with own shares or participation units (net)
6. Increase (decrease) in equity resulting from business combination
7. Other transactions with unitholders or shareholders

III. Other changes in equity

E. CLOSING BALANCE, 200X

13 Appendix IV

Appendix IV

MODEL CASH FLOW STATEMENTS FOR THE YEAR ENDED ___ 200X

A) CASH FLOWS FROM OPERATING ACTIVITIES

1. Profit (LOSS) for the year before taxes

2. Adjustments to profit or loss

a. Deprecitation and amortization of fxed assets (+)
b. Valuation allowances for impairment (+/-)
c. Valuation of provisions (+/-)
d. Government and other grants (-)
e. Cash flows from retirements and disposals of xed assets (+/-)
f. Cash flows from retirements and disposals of nancial instruments (+/-)
g. Financial income (-)
h. Financial expenses (+)
i. Exchange diferences (+/-)
j. Change in fair value of financial instruments (+/-)
k. Other income and expenses (+/-)

3. Changes in working capital

a. Inventories (+/-)
b. Trade and other receivables (+/-)
c. Other current assets (+/-)
d. Trade and other payables (+/-)
e. Other current liabilities (+/-)
f. Other non-current assets and liabilities (+/-)

4. Other cash ows from operating activities

a. Interest paid (-)
b. Dividends received (+)
c. Interest received (+)
d. Corporate income tax received (paid) (+/-)
e. Other amounts received (paid) (+/-)

5. Cash ows from operating activities (1+2+3+4)

Appendix IV (Continuation)

MODEL CASH FLOW STATEMENTS FOR THE YEAR ENDED ___ 200X

B) CASH FLOWS FROM INVESTING ACTIVITIES

7. Payments for investments (-)

a. Group companies and associates
b. Intangible fixed assets
c. Property, plant and equipment
d. Investment property
e. Other nancial assets
f. Non-current assets held for sale
g. Business unit
h. Other assets

7. Received from divestments (+)

a. Group companies and associates
b. Intangible assets
c. Property, plant and equipment
d. Investment property
e. Other nancial assets
f. Non-current assets held for sale
g. Business unit
h. Other assets

8. Other cash ows from investing activities (7+6)

C) CASH FLOWS FROM FINANCING ACTIVITIES

9. Receipts and payments for equity instruments

a. Issuance of equity instruments (+)
b. Amortization of equity instruments (-)
c. Purchase of own equity instruments (-)
d. Disposal of own equity instruments (+)
e. Subsidies, donations and legacies received (+)

Appendix IV (Continuation)

MODEL CASH FLOW STATEMENTS FOR THE YEAR ENDED ___ 200X

10. Receipts and payments for nancial liabilities

a. Issuance
   1. Debt securities and other marketable securities (+)
   2. Debts to credit institutions (+)
   3. Debts to group companies and associates (+)
   4. Debts with special characteristics (+)
   5. Other debts (+)

b. Repayment and amortization of
   1. Debt securities and other marketable securities (-)
   2. Debts to credit institutions (-)
   3. Debts to group companies and associates (-)
   4. Debts with special characteristics (+)
   5. Other debts (-)

11. Payments for dividends and remuneration of other equity instruments

a. Dividends (-)

b. remuneration of other equity instruments (-)

12. Cash ows from financing activities (9+10+11)

D) EFFECT OF CHANGES IN EXCHANGE RATES

E) NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (5+8+12+D)

Cash or cash equivalents at beginning of year

Cash and cash equivalents at end of year

investinspain@investinspain.org
investinspain.org