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Spanish National Chart of Accounts and Consolidation Rules in your Pocket

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"This pocket guide is aimed at facilitating rapid consultation of the Spanish National Chart of Accounts and Consolidation Rules although under no circumstances does it replace nor should it be taken as a regulatory reference in substitution of the corresponding complete legal texts".

Translation of a publication entitled "Plan General de Contabilidad y Normas de Consolidación. Guía de bolsillo", originally issued in spanish.

Foreword

In recent years we have witnessed a series of highly significant changes relating to the Spanish accounting system. These changes have been a faithful reflection of the evolution and convergence of accounting standards at international level as well as the verification, by the users of financial statements, of the growing importance of accounting with respect to economic decision-taking in the highly complex environment in which we currently live:

- In the first phase, in 2005 it became obligatory for listed consolidated groups to issue their financial statements in accordance with International Financial Reporting Standards (IFRSs).

- In the second phase, in 2007 the new Spanish National Chart of Accounts was approved, applicable not only to listed companies (separate financial statements) but also to most other Spanish companies which, in general, had not previously had significant contact with the international standards.

- Lastly, the most recent phase saw in 2010 the approval of Rules for the Preparation of Consolidated Financial statements (NOFCAC) as well as certain amendments that affected four recognition and measurement standards in the Chart of Accounts, certain of which of such importance as Standard 19 on Business Combinations and Standard 21 on Transactions between Group Companies.

There is no doubt that the implementation of all these changes to standards has presented a challenge and called for a significant effort, not only for the companies themselves but also for the various users of financial information, auditors, regulators, analysts and banks.

However, experience has shown us that cooperation among the parties involved has without doubt been of unparalleled assistance, so much so that today we can say that the difficulties have been overcome and that as a result of the endeavours made to implement the new standards, the results achieved have been highly satisfactory.

The aforementioned initial implementation and subsequent practical application have not been without difficulties which arose, among other factors, from the high degree of complexity of the new standards compared with the former Spanish National Chart of Accounts of 1990. This circumstance has frequently given rise to the need to interpret and compare the accounting standards; a process that, in any case, requires a joint effort from all the parties involved in order to achieve the desired outcome.

We hope that this updated edition of The Spanish National Chart of Accounts and Consolidation Rules in your Pocket will be of use and provide assistance during this period of changes in which we are immersed.

October 2011

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Historical context of the change in accounting legislation

Background

Listed consolidated companies

In 2002 the European Union (EU) approved an accounting regulation, currently in force, requiring all EU companies listed on a regulated market (and which form part of a consolidated group) to follow International Financial Reporting Standards ("EU-IFRSs") in their consolidated financial statements starting on 1 January 2005.

Unlisted companies

Under the aforementioned European regulation, the Member States were able to extend the IFRS requirement to the consolidated financial statements of non-listed companies and to the separate financial statements of all companies (both listed and unlisted).

In order to analyse the impact of this EU strategy on Spain, in 2001 a Commission of Experts was created to prepare a report on the situation of accounting in Spain and the basic lines along which any reform thereof should advance (Accounting White Paper).

The principal recommendation contained in the aforementioned White Paper was that the accounting standards to be applied in the separate financial statements of Spanish companies should be those included in local legislation, which in order to be uniform, should be brought

into line with IFRSs as adopted by the European Union. In addition, the experts deemed it appropriate that non-listed consolidated groups could also voluntarily apply IFRSs from 1 January 2005 onwards -an option which is still currently in force.

The inclusion of International Financial Reporting Standards as adopted by the EU in Spanish accounting and corporate legislation came about through Law 62/2003, of 30 December, on tax, administrative, employment and social security measures.

European Commission	
Regulation (EC) 1606/2002/ of the European Parliament and of the Council, of 19 July 2002, on the application of International Accounting Standards	• Adoption of IFRSs by listed consolidated groups starting 2005 • Extension is envisaged, at the discretion of each Member State, to non-listed companies.

Local regulations in Spain: Process of accounting harmonisation	
Accounting White Paper 2002	• The Commission of Experts recommends maintaining Spanish accounting legislation for separate financial statements and adapting it to a conceptual framework and measurement bases compatible with IFRSs in order to achieve uniformity. • It was considered appropriate to provide the option of applying IFRSs to unlisted consolidated companies.
Law 62/2003, of 30 December, on tax, administrative, employment and social security measures	• Extends IFRSs to Spanish consolidated listed companies and introduces certain basic amendments to corporate and commercial law to make it compliant with the criteria and requirements of International Standards. • Allows for voluntary application of IFRSs to non-listed consolidated groups (requirement of consistent application over time and a rule of continuity). • Consolidated groups: the obligation is introduced to consolidate groups under the concept of "decision-making unit" (Art. 42 of the Spanish Commercial Code). This obligation has since been withdrawn. • Concept of fair value. • New disclosures to be provided in the directors' report and notes to the financial statements.

Reguladores locales en España: Proceso de armonización contable

Law 16/2007, of 4 July, reforming and adapting accounting legislation for its international harmonisation based on EU legislation	• The text of this corporate and commercial law Reform introduces amendments to the Spanish Commercial Code, the Consolidated Spanish Public Limited Liability Companies Law, and the Spanish Private Limited Liability Companies Law. It introduces a general legal framework which will be subsequently implemented by subordinate legislation in terms of more specific technical-accounting aspects, thereby authorising: - The Spanish Government to approve through royal decree the Spanish National Chart of Accounts (SNCA) and supplementary rules (in particular, in matters relating to consolidation and the Chart of Accounts for SMEs). - The Ministry of Economy and Finance, at the request of the Spanish Accounting and Audit Institute (ICAC) and by Ministerial Order, to approve the industry adaptations of the new SNCA. - The ICAC to approve mandatory rules in implementation of the SNCA, in particular in relation to measurement bases and the preparation of financial statements. • The final text also includes the required amendments to the Spanish Corporation Tax Law.

Reguladores locales en España: Proceso de armonización contable	
Royal Decree 1159/2010 approving the Rules for the Preparation of Consolidated Financial Statements and amending the Spanish National Chart of Accounts	• Implements, in the framework of the Spanish Commercial Code, the particularities of consolidating financial statements. • These consolidation rules were prepared to constitute an accounting framework in harmony with community Law. • Four recognition and measurement standards (RMS) included in the SNCA were amended: - RMS 9 Financial instruments - RMS 13 Income tax - RMS 19 Business combinations - RMS 21 Transactions with Group companies

Accounting reform in Spain

Thus, the conclusions reached in the Accounting White Paper are at the root of the reform of Spanish corporate and commercial law, which took tangible form in Law 16/2007, of 4 July, reforming and adapting accounting legislation for its international harmonisation based on EU legislation, as well as in Royal Decree 1514/2007, of 16 November, approving the Spanish National Chart of Accounts, and in Royal Decree 1515/2007, of 16 November, approving the Chart of Accounts for Small and Medium-sized Companies and the specific accounting rules for micro companies.

All these accounting reforms would clearly have been incomplete had no amendments been made to the consolidation rules applicable to Spanish groups that do not use EU-IFRSs as the basis for issuing their consolidated financial statements. To this end, the Ministry of Economy and Finance published Royal Decree 1159/2010, of 17 September, approving the Rules for the Preparation of Consolidated

Financial Statements. This Royal Decree also included other amendments that affected the Spanish National Chart of Accounts. Specifically, the Recognition and Measurement Standards (RMSs) of the Chart of Accounts that were amended were as follows:

- RMS 9 on Financial Instruments
- RMS 13 on Income Tax
- RMS 19 on Business Combinations
- RMS 21 on Transactions between Group companies

At present there is no Consolidated Spanish National Chart of Accounts that includes both the basic standards approved in 2007 and the amendments to the four RMSs indicated above.

All the standards discussed in this section came into force at different times, although they are all fully in force for the years beginning on or after 1 January 2011.

Which chart of accounts can I apply?

Coinciding with the approval of the Spanish National Chart of Accounts in 2007 was the approval of a Chart of Accounts for Small and Medium-sized Companies (SNCA for SMEs), of optional application for companies that have certain characteristics. Also, the Chart of Accounts for SMEs contains the specific accounting rules for micro companies.

Schematically, the application of each of the Charts of Account in force is as follows:

<table>
<tr><th></th><th>Scope of applications</th><th>Exceptions</th></tr>
<tr><td>Spanish National Chart of Accounts</td><td>Obligatory for all companies, whatever their legal form, except for those that may apply the SNCA for SMEs.</td><td></td></tr>
<tr><td>Chart of Accounts for SMEs</td><td>Companies that meet the requirements to prepare an abridged balance sheet and statement of changes in equity may voluntarily apply this Chart of Accounts; that is to say, companies that for two successive years, at each year-end, are below at least two of the following thresholds:
Total assets do not exceed EUR 2,850,000.
Revenue does not exceed EUR 5,700,000.
The average number of employees in the year does not exceed 50.
If the company forms part of a corporate group, the amount of the foregoing thresholds must be taken to be the total for all the companies that make up the group.</td><td>It may not be applied in any circumstances if the company is in any of the following situations:
It has securities admitted to trading on an EU regulated market.
It forms part of a corporate group that prepares or should prepare consolidated financial statements.
Its functional currency is a currency other than the euro.
It is a bank.</td></tr>
</table>

	Ámbito de aplicación	Excepciones
Specific rules for MICROCOMPANIES	These rules may be applied by companies which, having opted to apply the Spanish National Chart of Accounts for SMEs, meet at least two of the following conditions at year-end for two consecutive years: • Total assets do not exceed EUR 1,000,000. • Revenue does not exceed EUR 2,000,000. • The average number of employees in the year does not exceed 10. If the company forms part of a corporate group, the amount of the foregoing thresholds must be taken to be the total for all the companies that make up the group.	

Spanish National Chart of Accounts

The Spanish National Chart of Accounts is divided into five sections:

Obligatory	• Section One: Accounting conceptual framework • Section Two: Recognition and measurement standards • Section Three: Financial statements - Rules for the preparation of financial statements - Standard models of financial statements and notes thereto - Abridged models of financial statements and notes thereto
Voluntary[1]	• Section four: Chart of accounts • Section five: Definitions and accounting relationships

[1] Application of sections four and five is not mandatory, except where they relate to or contain recognition and measurement bases.

Conceptual framework

Financial statements and disclosure requirements. The financial statements include:

- Balance sheet
- Income statement
- Statement of changes in equity
- Statement of cash flows
- Notes to the financial statements

The statement of cash flows is not mandatory for companies that may prepare an abridged balance sheet, abridged statement of changes in equity and notes to the abridged financial statements.

The information included in the financial statements must be relevant and reliable and meet the requirements of comparability and clarity.

Accounting principles

- Going concern
- Accrual
- Consistency
- Prudence
- Non-offsetting
- Materiality

In the event of conflict among accounting principles, the principle that is more conducive to faithful representation must prevail. It should be indicated that the definition of the principle of prudence is not consistent with the definition in the former Spanish National Chart of Accounts of 1990. The current principle requires prudence when making estimates or valuations in conditions of uncertainty, whereas in the former Spanish National Chart of Accounts of 1990 the principle of prudence was a priority.

Elements of financial statements and accounting recognition methods:

- The basic elements of financial statements are defined as:
  - Assets, liabilities and equity. These elements are recognised in the balance sheet.
  - Revenue and expenses. These elements are recognised in the income statement or, where appropriate, directly in the statement of changes in equity.
- Items are recognised when -meeting the definition of an element (assets, liabilities, etc.)- it is probable that resources embodying economic benefits will flow to and from the entity and the value thereof can be measured with sufficient reliability.

Measurement bases

The Spanish National Chart of Accounts indicates that the following measurement bases and their related definitions must be taken into account:

- Historical cost or cost.
- Fair value.
- Net realisable value.
- Present value.
- Value in use.
- Costs to sell.
- Amortised cost.
- Transaction costs attributable to a financial asset or liability.
- Carrying amount or book value.
- Residual value.

On initial recognition, as a general rule, assets and liabilities are measured as follows:

General measurement bases		
Assets	Liabilities	Provisions
Acquisition or production cost	Value of the consideration received, plus the related accrued interest payable	Present value of the best estimate of the amount required to settle the obligation

Items at fair value		
Financial assets and liabilities that form part of a trading portfolio	Available-for-sale financial assets	Financial assets and liabilities that are derivative financial instruments
Initial recognition of assets and liabilities that arise from a business combination		

Property, plant and equipment

Recognition

Acquisition or production cost, which includes:

- Non-recoverable indirect taxes.

- The initial estimate of the present value of dismantling or removal obligations, provided that these obligations give rise to the recognition of provisions.

- Such borrowing costs as might have been incurred before the property, plant and equipment are ready for their intended use (provided that this period exceeds one year) and which are directly attributable to the acquisition, manufacture or construction thereof.

Subsequent measurement

Acquisition or production cost less any accumulated depreciation and any recognised impairment losses.

Depreciation is taken on the basis of the useful life of the assets and of their residual value, based on the decline in value usually caused by their use and by wear and tear, as well as the technical and commercial obsolescence that may affect them. If there are parts of an item with a cost that is significant in relation to the total cost of the item and which have different useful lives, they must be depreciated separately from the rest of the item.

Impairment losses

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

The concept of cash-generating unit is introduced as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

An entity shall assess at least at each reporting date whether there is any indication that an item of property, plant and equipment or a cash-generating unit is impaired.

Impairment must be calculated for each item separately and if it were not possible to calculate the recoverable amount for each individual item, the recoverable amount of the cash-generating unit to which each item of property, plant and equipment belongs must be calculated.

Impairment losses recognised and reversed are charged and credited, respectively, to the income statement.

Exchange transactions

If the exchange transaction has commercial substance, the property, plant and equipment received is measured at the fair value of the asset given up (unless there is clearer evidence of the fair value of the asset received and up to the limit thereof). The valuation differences are recognised in the income statement.

An exchange transaction has commercial substance if:

- The configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or

- The present value of the post-tax cash flows from the entity's operations affected by the transaction changes as a result of the exchange.

In addition, any difference arising as a result of the foregoing must be significant relative to the fair value of the assets exchanged.

If the exchange lacks commercial substance, the property, plant and equipment received is measured at the carrying amount of the asset given up, up to the limit of the fair value of the asset received if this is lower.

Non-monetary capital contributions

The receiver measures the items of property, plant and equipment received at fair value at the time of the contribution.

The contributor of these assets shall apply the contents of the standard on financial instruments.

There are specific rules for the non-monetary contributions of a business between group companies.

Particular rules

The SNCA includes specific rules on property, plant and equipment which affect:

- Building lots.
- Buildings.
- Plant, machinery and tools.
- Utensils and tools.
- In-house work on non-current assets.
- Major repairs.
- Material investments in operating leases.

Investment property

Definition

Investment property is non-current property assets held to earn rentals or for capital appreciation or both, rather than for:

- Use in the production or supply of goods or services or for administrative purposes; or
- Sale in the ordinary course of business.

Measurement

The same measurement bases are applied as those for property, plant and equipment.

Intangible assets

The same rules contained in the standard on property, plant and equipment apply, without prejudice to the following:

Recognition

Order for an intangible asset to be recognised, in addition to the definition of an asset and the recognition criteria contained in the conceptual framework, it is necessary that it meets the requirement of identifiability, which entails that it fulfils either of the following two conditions:

- It is separable (it may be sold, transferred, given up for use, rented or exchanged).

- It arises from contractual or other legal rights.

Start-up costs, customer lists, trademarks or other similar items that have been generated internally are not recognised as intangible assets.

Subsequent measurement

In general, intangible assets are amortised on the basis of their useful lives, unless they have an indefinite useful life, in which case they are not amortised. However, they must be tested for possible impairment at least once a year, and the continuance of the factors that support an indefinite useful life assessment must be reviewed.

Particular rules on intangible assets

Research and development:

Research expenditure is an expense in the year in which it is incurred, although it may be capitalised to intangible assets from the time when the following two conditions are met:

- It is specifically itemised by project and the related costs are clearly identified so that they can be allocated over time.
- There are sound reasons to foresee the technical and economic success of the project.

If development expenditure meets the foregoing requirements it is capitalised to assets.

- Research expenditure must be amortised within a maximum period of five years.
- Development expenditure must be amortised over its useful life, which in principle, unless there is evidence to the contrary, does not exceed five years.

In both cases if at any time there are reasonable doubts as to the technical success or economic profitability of the project, the amounts capitalised must be recognised directly in profit or loss for the year.

Intellectual property:
Development expenditure capitalised when the corresponding patent or similar item is obtained, including the cost of registering and formalising intellectual property. Intellectual property is amortised and impairment losses are recognised thereon in accordance with the general rules provided for other intangible assets.

Goodwill:
Goodwill is only recognised when it arises in an acquisition for valuable consideration in the context of a business combination.

It must be allocated to the corresponding cash-generating unit or units from the acquisition date.

Goodwill is not amortised, but rather at least once a year it is reviewed for impairment and, where appropriate, impairment losses are recognised.

Impairment losses on goodwill may not be reversed.

Leasehold assignment rights:
Leasehold assignment rights must arise from a transaction for valuable consideration. They are amortised and impairment losses are recognised thereon in accordance with the general rules that govern intangible assets.

Computer software:
Both computer programs acquired from third parties and software developed in-house may be capitalised, applying the same recognition and amortisation criteria as for development expenditure.

Other intangible assets (administrative concessions, commercial rights, intellectual property or licences):
These are amortised and impairment losses are recognised thereon in accordance with the general rules that govern intangible assets.

Non-current assets and disposal groups classified as held for sale

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, provided that:

- The asset is available for immediate sale in its present condition, and
- Its sale is highly probable (specific circumstances are envisaged in order to assess this circumstance).

On classification in this category, these assets are measured at the lower of carrying amount (recognising any impairment losses upon classification) and fair value less costs to sell.

While an asset is classified under this heading, it must not be depreciated.

If one of these assets ceases to be held for sale it is reclassified to the balance sheet item that corresponds to its nature and is measured, at the reclassification date, at the lower of its previous carrying amount (adjusted for any depreciation, amortisation or revaluation that would have been recognised had the asset not previously been classified as held for sale) and its recoverable amount.

Disposal groups classified as held for sale

Disposal groups are groups of assets and liabilities (both current and non-current) directly associated with each other that will be disposed of together as a group in a single transaction.

They are measured by applying the same rules as those described in the preceding section.

Leases and other transactions of a similar nature

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset.

This transfer of the risks and rewards is presumed to have taken place when a purchase option exists and there are no reasonable doubts that it will be exercised. The transfer is also presumed to have taken place, even though there is no purchase option, in the following cases:

- Ownership of the asset is transferred to the lessee by the end of the lease term.

- The lease term is for the major part of the economic life of the asset.

- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

- The leased assets are of such a specialised nature that only the lessee can use them.

- If the lease is cancelled the lessor's losses associated with the cancellation are borne by the lessee.

- Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee.

- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

The lessee recognises an asset based on its nature and a financial liability for the same amount (the lower of the fair value of the leased asset and the present value of the minimum lease payments agreed upon for the lease term, calculated at the inception of the lease). The total finance charge is allocated to periods during the lease term and recognised in the income statement on an accrual basis using the effective interest method.

The lessor recognises the lease revenue in accordance with the criteria contained in the standard on revenue from sales and services if it is the manufacturer or dealer of the leased asset or in accordance with the criteria contained in the standard on property, plant and equipment in all other cases. Interest is recognised in the income statement in the year in which it accrues using the effective interest rate method.

Operating leases

The lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Operating lease income and expenses corresponding to the lessor and the lessee are considered, respectively, to be income and expenses of the year in which they accrue.

A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortised over the lease term.

Sale and leaseback transactions

When the economic conditions of a disposal, coupled with the subsequent leaseback of the assets disposed of, evidence that it is a method of financing, the transaction is considered to be a finance lease and, consequently, the lessee must not reclassify the asset nor recognise any gain or loss on the transaction and the amount received must be credited to an item that reflects the corresponding financial liability.

Financial instruments

(amended by Royal Decree 1159/2010)

Scope

This standard applies to financial assets, financial liabilities and own equity instruments (generally, treasury shares). It also applies to the treatment of hedge accounting and transfers of financial assets and liabilities.

What is a financial instrument?

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and liabilities include:

Financial Assets	Financial Liabilities
Cash and cash equivalents	Trade payables
Trade receivables	Bank borrowings
Loans to third parties	Debt instruments and other marketable securities issued
Debt securities of other entities	Debt with special characteristics
Equity instruments of other entities	Other financial liabilities
Other financial assets	Derivatives with a liability balance
Derivatives with an asset balance	

Initial recognition of financial instruments

Financial instruments are initially measured at fair value at the acquisition or issue date, which, in the absence of evidence to the contrary, is the price of the transaction.

Equity investments in Group companies, jointly controlled entities and associates

On initial measurement of investments of this type, the criteria for determining the cost of the combination established in RMS 19 on Business Combinations must also be taken into account. This additional criterion was introduced by Royal Decree 1159/2010, approving the Rules for the Preparation of Consolidated Financial statements (NOFCAC).

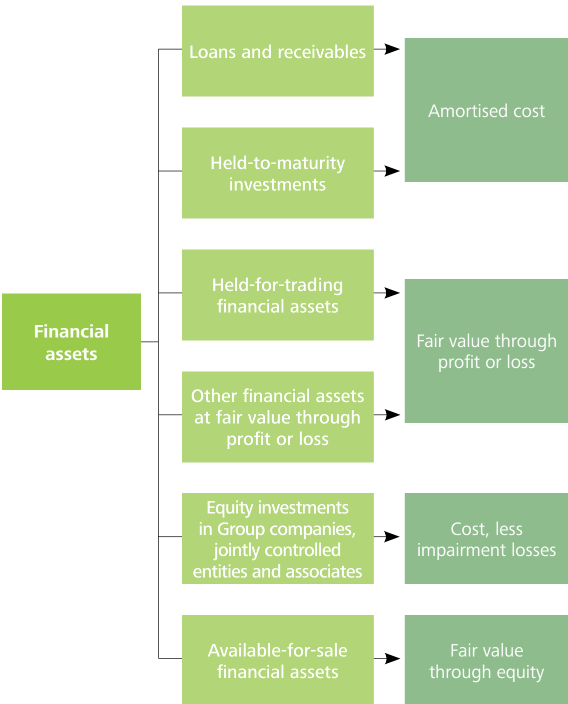
For the purposes of measuring financial instruments, the standard indicates that financial assets and liabilities must be classified in one of the following categories:

	Categories of financial asset	Definition	of financial liabilities	
1	Loans and receivables	Trade and non-trade receivables and payables.	Accounts payable.	1
2	Held-to-maturity investments	Debt securities with fixed maturity and fixed or determinable payments that are traded in an active market and which the Company has the positive intention and ability to hold to the date of maturity.		
3	Held-for-trading financial assets	• Acquired or incurred for the purpose of reselling or repurchasing them in the near term. • Form part of a portfolio of financial instruments that are managed to obtain short-term profit. • A derivative financial instrument held for speculative purposes.	Held-for-trading financial liabilities.	2
4	Other financial assets at fair value through profit or loss	Hybrid financial instruments or others initially designated for inclusion in this category because: • They eliminate or reduce accounting mismatches. • They are managed and their performance is evaluated on a fair value bais in accordance with a documented risk management or investment strategy.	Other financial liabilities at fair value through profit or loss.	3
5	Equity investments in Group companies, jointly controlled entities and associates	Investments in entities either controlled or under significant influence. (These many not be included in other categories for measurement purposes).		
6	Available-for-sale financial assets	Debt securities and equity instruments of other entities not classified in any of the other categories.		

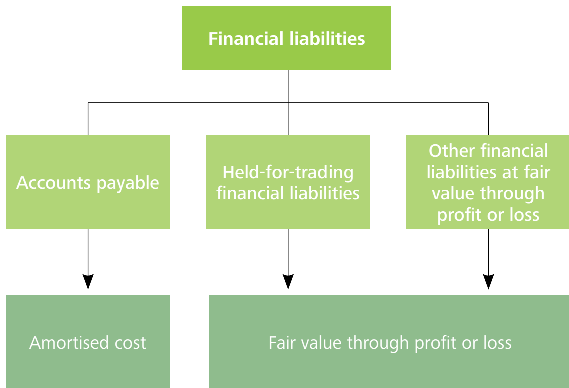
Financial instruments are initially measured at fair value at the acquisition or issue date, which, in the absence of evidence to the contrary, is the price of the transaction.

Subsequent measurement of financial instruments

Financial assets are subsequently measured as follows:



Financial liabilities are subsequently measured as follows:



Own equity instruments (treasury shares)

The cost of treasury shares is deducted from equity and is not recognised as a financial asset of an entity.

Gains or losses arising from treasury share transactions are not recognised in the income statement, but rather they are recognised directly in equity.

The expenses incurred on treasury share transactions are recognised directly in equity as a reduction of reserves.

Hedge accounting

Hedging instruments are instruments that have been designated to hedge a specifically identified risk that may have an impact on the income statement as a result of changes in the fair value or in the cash flows of one or more hedged items.

Hedge accounting means that when certain requirements are met, the hedging instruments and the hedged items must be recognised applying the criteria specified in the standard, thereby offsetting the gains or losses generated by the hedging instrument and the hedged item, in order to achieve a neutral effect on the income statement.

Formal designation and documentation must be made of the hedging relationship at inception of the hedge; the hedge must also be highly effective.

For recognition and measurement purposes, hedging transactions are classified in the following categories:

Type of hedge	Definition	Recognition of changes in value of the instrument
Fair value hedge	Hedges the exposure to changes in fair value of recognised assets and liabilities or unrecognised firm commitments attributable to a particular risk.	Profit or loss.
Cash flow hedge	Hedges the exposure to variability in cash flows that is attributable to a particular risk associated with recognised assets or liabilities or highly probable forecast transactions.	Temporarily in equity
Hedge of a net investment in a foreign operation	Hedges the foreign currency risk of subsidiaries, associates, joint ventures and branches whose business activities are based or carried on in a functional currency other than the reporting currency of the financial statements.	Operations without an independent legal personality and branches: Temporarily in equity (on the sale or disposal of the operation they are recognised in profit or loss) Subsidiaries, jointly controlled entities and associates: same treatment as for the exchange rate component of fair value hedges.

Inventories

Inventories are recognised initially at acquisition or production cost.

In addition to the amount billed by the seller, acquisition cost also includes the additional expenses incurred until the goods are located at their point of sale (transport, insurance, customs duties and other direct costs).

Production cost is determined by adding the costs directly attributable to the goods to the cost of acquisition of raw materials and similar items, plus the reasonable portion of the costs indirectly allocable to the related goods, to the extent that they relate to the production period and are based on the level of use or the normal working capacity of the means of production.

For inventories that need more than twelve months to get ready for sale, acquisition or production cost includes borrowing costs in accordance with the provisions of the standard on property, plant and equipment.

In general, the cost of inventories is assigned using the weighted average cost formula. The FIFO method is also acceptable. The cost of inventories of items that are not ordinarily interchangeable are assigned by using specific identification of their individual costs.

Inventories are subsequently measured at the lower of acquisition or production cost and net realisable value, recognising the appropriate write-downs through the income statement.

Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

Foreign currency

Foreign currency transactions

Foreign currency transactions are transactions denominated or which have to be settled in a currency other than the entity's functional currency. In general, it is assumed that the functional currency of the entities domiciled in Spain is the euro.

Translation

Foreign currency items are translated to the functional currency as follows:

- They are translated, on initial recognition, at the exchange rate prevailing at the transaction date.

- Subsequently,

  - Monetary items are translated at the exchange rate prevailing at the end of the reporting period (e.g. receivables denominated in foreign currency).

    Both exchange losses and exchange gains arising on translation are recognised in profit or loss in the year in which they arise.

- Non-monetary items measured at their historical cost are translated using the exchange rates prevailing at the date of the transaction (e.g. non-current assets of foreign sales offices), irrespective of any possible impairment test.

- Non-monetary items measured at fair value are translated using the exchange rates prevailing at the date when the fair value was determined, recognising the effect in equity or in profit or loss, as appropriate, on the basis of the nature of the related item.

There are also specific rules for the translation of financial statements to the presentation currency when, exceptionally, the functional currency is a currency other than the euro.

Income tax
(amended by Royal Decree 1159/2010)

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

Current tax assets and liabilities

The current income tax expense is the amount payable by the company as a result of income tax settlements for a given year.

Tax credits and tax loss carryforwards from prior years effectively offset in the current year reduce the current income tax expense.

Deferred tax assets and liabilities

Temporary differences arise from the different measurement of assets and liabilities and certain of an entity's own equity instruments for accounting and tax purposes, insofar as they have an impact on the future tax burden.

Deferred tax liabilities are generally recognised for all taxable temporary differences, unless they arise from:

- The initial recognition of goodwill.

- The initial recognition of an asset or a liability in a transaction that is not a business combination and that does not affect either accounting profit (loss) or taxable profit (tax loss).

Deferred tax assets arising from deductible temporary differences and tax loss and tax credit carryforwards are only recognised to the extent that it is probable that the company will have taxable profits in the future against which the deferred tax assets can be utilised, except when they arise from:

- The initial recognition of an asset or a liability in a transaction that is not a business combination and that does not affect either accounting profit (loss) or taxable profit (tax loss).

At the end of each reporting period, the company reassesses the deferred tax assets recognised and those not recognised in prior periods.

Measurement and classification

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply at the date of their reversal, based on the tax legislation which has been enacted or substantially enacted at the end of the reporting period.

Deferred tax assets and liabilities must not be discounted and are classified as non-current assets and liabilities.

Lastly, when a business combination is initially accounted for and no deferred tax assets are recognised but these assets are then recognised at a subsequent date, the following criteria apply:

- Deferred tax assets recognised in the measurement period (generally one year) that result from new information obtained about circumstances that existed at the time of the combination reduce any goodwill.

- Deferred tax assets recognised after the measurement period, or recognised in this period but based on facts that did not exist at the time of the combination, do not give rise to goodwill adjustments and are generally recognised in profit or loss.

Revenue from sales and services

Measurement

Revenue from the sale of goods and the rendering of services is measured at the fair value of the consideration received or receivable arising therefrom, which, unless there is evidence to the contrary, is the agreed-upon price net of discounts and any similar items.

Revenue from sales

Revenue from the sale of goods is only recognised when:

- The entity has transferred to the buyer the significant risks and rewards of ownership of the goods, irrespective of the transfer of legal title.

- The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Also, revenue is recognised when it is probable that the profit or economic benefits from a transaction will flow to the company and when the amount of the revenue and the costs incurred or to be incurred can be measured reliably.

Revenue from the rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period.

When the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Provisions and contingencies

Recognition

An entity must recognise provisions for liabilities which, meeting the definition and fulfilling the recognition criteria in the conceptual framework, are of uncertain timing or amount. Provisions may arise from:

- a legal provision or a contractual requirement.
- an implicit or constructive obligation, which arises from the entity creating a valid expectation on the part of other parties that it will discharge certain responsibilities.

Measurement

Based on the information available at any given time, at the end of each reporting period provisions are measured at the present value of the best possible estimate of the amount required to settle the obligation or to transfer it to a third party. Where discounting is used, adjustments made to provisions are recognised as interest cost on an accrual basis.

The compensation to be received from a third party on settlement of the obligation does not give rise to a reduction in the amount of the debt (without prejudice to the recognition of the asset, provided that there are no doubts that the reimbursement will take place), unless there is a legal or contractual relationship whereby a portion of the risk has been externalised.

Liabilities for long-term employee benefits

Scope

Post-employment benefits, such as pensions and other retirement benefits, and any other long-term benefit that represents economic compensation payable on a deferred basis with respect to when the service is provided.

Long-term defined contribution obligations

Contributions of a predetermined nature to a separate entity –such as an insurance company or a pension plan-, provided that the entity does not have the legal, contractual or implicit obligation to make additional contributions if the separate entity is unable to meet the obligations assumed.

Defined contribution obligations give rise to a liability when there are accrued contributions payable at the end of the reporting period.

Long-term defined benefit obligations

Long-term defined benefit obligations relate to long-term employee benefits payable that are not based on defined contributions.

- The amount recognised as a provision for long-term benefits payable is the difference between the present value of the benefit obligations and the fair value of the plan assets with which the obligations will be settled.

  Plan assets are assets that are not owned by the entity but rather by a legally separate third party and which may only be used to pay employee benefits, such as insurance policies, for example.

- At the end of the reporting period any changes in the present value of the benefit obligations or, as the case may be, the plan assets, arising from actuarial gains or losses, are recognised directly in equity (in reserves) in the year in which they arise.

- The past service costs arising from the establishment or improvement of a post-employment long-term defined benefit plan are charged to profit or loss:

  – Immediately, in the case of vested rights.

  – On a straight-line basis over the average period remaining until the past service rights vest, in the case of revocable rights.

Share-based payment transactions

Scope

These are transactions which, in exchange for receiving goods or services (including the services provided by employees), are settled by an entity with own equity instruments or with an amount of cash that is based on the value of the entity's own equity instruments, such as share options or share appreciation rights.

Recognition

The entity recognises, on the one hand, the goods or services received as an asset or as an expense, when they are obtained, and on the other:

- an increase in equity if the transaction is settled in equity instruments,
- or a liability if the transaction is settled with an amount of cash that is based on the value of the equity instrument.

In transactions in which it is necessary to complete a specified period of service, the entity accounts for those services as they are rendered.

Measurement

Equity-settled share-based payment transactions:

- With employees: at the fair value at grant date of the equity instruments granted.

- With suppliers (goods or services counterparty): at the fair value, if it can be measured reliably, of the goods or services at the date that they are received. Otherwise, the goods or services received and the increase in equity are measured at the fair value of the equity instruments granted at the date on which the entity obtains the goods or the counterparty renders the service.

Having recognised the increase in equity, the entity does not make any subsequent adjustment to total equity after vesting date.

Cash-settled share-based payment transactions:

- The goods or services acquired and the liability incurred are measured at the fair value of the liability at the date on which the requirements for the recognition thereof are met.

- Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period, with any changes in fair value recognised in profit or loss for the period.

Grants, donations and legacies received

Granted by third parties other than shareholders or owners

Recognition

Non-refundable grants, donations and legacies are accounted for as income directly in equity and are systematically recognised in profit or loss on the basis of their purpose in order to match them with the related costs which they are intended to compensate.

Refundable grants, donations and legacies received are recognised as liabilities of the company until they become non-refundable.

Measurement

They are initially recognised at the fair value of the monetary amount received or the asset granted.

Methods of allocation to income

Non-refundable grants, donations and legacies are taken to income on the basis of the purpose for which they were granted. Thus, those:

- Granted to ensure a minimum level of profitability or to compensate for losses from operations: are recognised as income in the year in which they are granted, unless their purpose is to finance losses from operations in future years, in which case they are allocated to income in those years.

- Granted to finance specific expenses: are recognised as income in the same year in which the expenses they are financing are incurred.

- Granted to acquire assets or settle liabilities:

  – Intangible assets, property, plant and equipment and investment property: in proportion to the period depreciation or amortisation taken.

  – Financial assets and inventories: on disposal of the asset, on the recognition of an impairment loss or on derecognition.

  – Repayment of debts: on repayment of the debt or on the basis of the item financed.

- Granted for no specific purpose: in the year in which they are recognised.

Granted by shareholders or owners

These grants do not constitute income and must be recognised directly in equity.

Joint ventures

Definition

An economic activity controlled jointly by two or more natural or legal persons through a statutory or contractual arrangement whereby they agree to share the power to govern the financial and operating policies of an economic activity so as to obtain economic benefits.

Categories of joint venture

Jointly controlled operations and assets that are not independent legal entities, such as Spanish UTEs (unincorporated temporary joint ventures) and joint property entities:

- Each venturer recognises in its balance sheet the share corresponding to it, in proportion to its ownership interest, of the assets and liabilities. Also, it recognises in the income statement its share of the income earned and expenses incurred by the joint venture.

- Reciprocal results, assets, liabilities, income, expenses and cash flows must be eliminated.

Jointly controlled entities.

- The venturer recognises its ownership interest in accordance with the provisions for equity investments in Group companies, jointly controlled entities and associates in the standard on financial instruments.

Transactions between Group companies
(amended by Royal Decree 1159/2010)

General rule

Transactions between Group companies are accounted for in accordance with the general rules. Accordingly, in general the items subject to the transaction are initially recognised at fair value.

If the price agreed upon in the transaction differs from fair value, the economic substance of the transaction must be analysed and the transaction must be accounted for in accordance therewith.

Specific rules

The specific rules only apply when the items subject to the transaction must be classified as a business. Accordingly, equity interests that give control over a company that constitutes a business also have this classification.

The specific rules govern three types of situations:

Non-monetary contributions:

The contributor measures its investment at the carrying amount of the assets and liabilities contributed in the consolidated financial statements prepared in accordance with the Rules for the Preparation of Consolidated Financial statements (NOFCAC). The acquirer recognises them for the same amount.

Merger and spin-off transactions:

If a parent and a subsidiary thereof are involved, the assets and liabilities acquired are measured at the amount corresponding to them in the Group's consolidated financial statements, with any difference that arises recognised in reserves.

In the case of transactions between other Group companies (e.g. transactions between "sister companies"), the assets and liabilities acquired are measured in the same way as indicated above.

The consolidated financial statements that must be used for this purpose are those of the largest subgroup or group whose parent is Spanish.

In this type of transaction, the effective date for accounting purposes is the beginning of the period in which the merger or spin-off is approved, provided that this date is subsequent to when the companies joined the group.

Capital reduction, dividend distribution and company dissolution transactions.

The transferor recognises the difference between the amount of the payable to the shareholder or owner and the carrying amount of the business given up, with a credit to reserves.

Changes in accounting policies, errors and accounting estimates

Changes in accounting policies and correction of errors

Retrospective application, and the effect thereof, is calculated from the earliest year for which information is available.

The resulting income or expense corresponding to prior years will give rise, in the year in which the change in accounting policy or correction of the error takes place, to the corresponding adjustment for the cumulative effect of the changes in assets and liabilities, which will be recognised directly in equity.

The amounts affected in the comparative information for the years that these circumstances affect will be modified.

Changes in accounting estimates

Changes in estimates that result from the obtainment of additional information, more experience or knowledge of new facts after the end of the reporting period are not considered to be changes in accounting policy.

Changes in accounting estimates are applied prospectively, and the effect thereof is recognised, based on the nature of the transaction, as income or expense in the income statement for the year or, where appropriate, directly in equity.

The effect, if any, on future periods is recognised as income or expense in those future periods.

Events after the reporting period

Events after the reporting period that provide evidence of conditions that existed at the end of the reporting period

These events must be taken into account when preparing the financial statements and they give rise, depending on their nature, to an adjustment, disclosure in the notes to the financial statements, or both.

Events after the reporting period that are indicative of conditions that did not exist at the end of the reporting period

- These events do not give rise to an adjustment in the financial statements.

- If the events are of such importance that non-disclosure would distort the assessment capacity of the users of the financial statements, the entity must disclose in the notes to the financial statements the nature of the event after the reporting period and an estimate of its effect (or, as the case may be, a statement that such an estimate cannot be made).

When preparing the financial statements all the information that could affect the application of the going-concern principle of accounting must be taken into account.

General rules for the preparation of financial statements

Formal preparation of the financial statements

The entity's owner or the directors that authorise the financial statements for issue are responsible for their accuracy.

The financial statements must be formally prepared by the directors within a maximum period of three months from the end of the reporting period.

The structure of the financial statements must conform to the standard model, unless the models for abridged financial statements may be applied.

Abridged financial statements

The companies that meet the requirements to prepare an abridged balance sheet, abridged statement of changes in equity and notes to the abridged financial statements are entitled to use the models for abridged financial statements.

The companies that prepare abridged financial statements are not obliged to prepare a statement of cash flows and there are fewer minimum disclosure requirements than for the standard financial statement models.

However, when these companies perform transactions the disclosure of which is governed by the standard model of financial statements and not the abridged model, the related information must be included in the notes to the abridged financial statements.

General rules

Some of the general rules to be taken into consideration are as follows:

- In addition to the amounts for each item for the current period, the amounts corresponding to the immediately preceding period must be presented. If they are not comparable, the amounts for the preceding period must be adjusted.
- Wherever appropriate, each item must be cross-referenced to the corresponding information in the notes to the financial statements.
- There must be a segregation of the balance sheet and income and expense items relating to Group companies, associates and jointly controlled entities (the latter shall be included in the items relating to associates).
- Items included on the consolidation of joint ventures that do not have their own legal personality must be disclosed in the notes to the financial statements.
- The quantitative information expressed in the notes to the financial statement must at all times be comparative, unless the accounting standard states otherwise in a certain specific case.
- Interim financial statements must be presented in the same form and using the same policies as those established for the financial statements.

Balance sheet

Some of the rules to be applied in the preparation of the balance sheet are as follows:

- Items must be classified as current and non-current.
- Financial assets and financial liabilities may be presented net if the entity has the legal right and intention to offset the related amounts.
- Accumulated impairment losses and accumulated depreciation and amortisation reduce the balance of the related asset.
- Research expenditure must be presented separately under “Intangible Assets”.
- The land and buildings that meet the definition of investment property shall be included therein.
- Inventories with a long-cycle of production must be presented separately from those with a short cycle.
- Own equity instruments acquired must be presented as a deduction from equity.
- Non-refundable grants, donations and legacies not yet taken to income form part of equity.

- Non-current assets classified as held for sale and disposal groups classified as held for sale, as well as the liabilities that form part of the disposal group, are presented separately from other assets and liabilities. These assets and liabilities cannot be offset or presented as a single amount.

Income statement

The income statement must be prepared taking into account, inter alia, the following rules:

- Items are classified on the basis of their nature.

- An “Excessive Provisions” account is created for reversals of provisions, except those relating to obligations to employees and operating provisions, which are recognised by netting the excess off against the corresponding expense accounts.

- The costs associated with restructuring are recognised on the basis of their nature.

- If the entity presents exceptional income or expenses of a significant amount (floods, fires, fines or penalties), an account must be created entitled “Profit/Loss from Operations - Other Gains and Losses”.

- A separate line item "Profit/Loss for the Year from Discontinued Operations Net of Tax" must be presented that includes a single amount comprising the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised in the measurement to fair value less costs to sell or on the sale or disposal of the assets or disposal groups constituting the discontinued operation.

Statement of changes in equity

This statement consists of two parts:

Statement of recognised income and expense

This statement reflects changes in equity attributable to:

- The profit or loss for the period per the income statement.
- Income and expense recognised directly in the entity's equity.
- Amounts recycled to profit or loss.

Income and expense items recognised directly in equity and amounts recycled to profit or loss are presented before tax effects (gross presentation), and their tax effect must be allocated separately.

Statement of changes in total equity

Reflects all the changes in equity attributable to:

- The total balance of recognised income and expense.
- Changes in equity resulting from transactions with shareholders or owners in their capacity as shareholders or owners.
- Other changes in equity.
- Adjustments to equity due to changes in accounting policies and corrections of errors.

Statement of cash flows

The statement of cash flows provides information about the origin and use of monetary assets represented by cash and cash equivalents, classifying changes by activity and indicating the net change in cash and cash equivalents during the period.

Classification of cash flows

Cash flows from operating activities

Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity and changes therein are reported on a net basis (except for interest, dividends received and income tax).

The gross profit or loss for the period must be adjusted in order to eliminate expense and income that did not give rise to a change in cash and cash equivalents, such as:

- Adjustments to eliminate:
  - Valuation adjustments (depreciation and amortisation charge, impairment losses, gains or losses arising from fair value adjustments and changes in provisions and allowances).

  – Activities classified as investing or financing activities (gains or losses on disposals of non-current assets or financial instruments).

  – Receipts and payments relating to financial assets and liabilities the cash flows from which must be presented separately.

- Changes in working capital arising from a difference in timing between the actual flow of goods and services relating to operating activities and the related monetary flow.

- Cash flows relating to interest and dividends received.

- Cash flows relating to income tax.

Cash flows from investing activities

Payments and receipts arising from the acquisition, disposal or repayment on maturity of non-current assets (intangible assets, property, plant and equipment, investment property and non-current financial assets).

Cash flows from financing activities:

- Cash proceeds from the acquisition by third parties of securities issued by the entity or from financing granted by banks or third parties.

- Cash repayments of these amounts borrowed or of other financing instruments issued.

- Dividends paid to shareholders.

Other matters

In preparing the statement of cash flows the following, among other factors, must be taken into account:

- Cash flows from transactions in a foreign currency are recorded in an entity's functional currency by applying the exchange rate at the date of the cash flow, without prejudice to the possibility of applying a representative weighted average exchange rate when there is a significant volume of transactions.

- When hedge accounting is used, the cash flows from the hedging instrument are included in the same line item as those from the hedged item (and this must be disclosed).

- When there are discontinued operations, the cash flows from the various operations are disclosed in the notes to the financial statements.

- Cash flows arising from acquisitions or disposals of groups of assets and liabilities making up a business or line of business are presented as a single line item, namely "Business Unit", as part of the cash flows from investing activities.

Group companies, jointly controlled entities and associates

For the purpose of presenting the financial statements, a company is considered to form part of a group when the two entities are related through a relationship of direct or indirect control as defined by Article 42 of the Spanish Commercial Code for groups of companies or when the entities are controlled by any means by one or more natural or legal persons acting jointly or under single management as a result of agreements or bylaw clauses.

An entity is considered to be an associate when significant influence is exercised over it.

Significant influence over the management of another entity is presumed to exist when the following two requirements are met:

- The head of the group or one or more group companies, including the controlling legal or natural persons, have an ownership interest in the entity, and

- The parent has the power to participate in the financial and operating policy decisions of the investee, but is not in a position to exercise control.

Also, the existence of significant influence by an entity may be evidenced in one or more of the following ways:

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in policy-making processes;
- Material transactions between the entity and its investee;
- Interchange of managerial personnel; or
- Provision of essential technical information.

If an entity, its group or the controlling natural persons hold, directly or indirectly, 20 per cent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case.

A jointly controlled entity is considered to be one that is managed on a joint basis.

Related parties

A party is considered to be related to another when one of the parties exercises, directly or indirectly, control or a significant influence over the financial and operating policy decisions of the other.

In any case, the following are considered to be related parties:

- Group companies, associates and jointly controlled entities.
- Persons that exercise a significant influence. These include close members of those persons' families.
- Members of the key management personnel of the reporting entity or of a parent of the reporting entity (directors and executives) and close members of those persons' families.
- Entities over which any of the persons mentioned in the two preceding points are in a position to exercise significant influence.

- Entities that share a director or executive with the reporting entity, unless the director or executive does not exercise a significant influence over the financial and operating policies of the two entities.

- Persons who are close members of the family of the representative of the director of the entity when the director is a legal person.

- Post-employment benefit plans for the benefit of employees of either the reporting entity or an entity related to the reporting entity.

For the purpose of this standard, close members of the family of a person are, inter alia:

- That person’s spouse or domestic partner;

- That person’s ascendants, descendants and siblings and their respective spouses or domestic partners;

- The ascendants, descendants and siblings of that person's spouse or domestic partner; and

- Dependants of that person or of that person's spouse or domestic partner.

Business combinations and Rules for the preparation of Consolidated financial statements (NOFCAC)

The Spanish National Chart of Accounts includes Recognition and Measurement Standard 19, expressly drafted with a view to regulating the accounting treatment of business combinations, which is closely related with the rules for the preparation of consolidated financial statements (NOFCAC) included in Spanish Royal Decree 1159/2010, of 17 September.

The existence of rules for business combinations and consolidation that have been harmonised with International Accounting Standards is based on three fundamental principles:

- The existence of common accounting bases for business combinations regardless of their legal form.
- The consideration of a business combination as a pure acquisition and not as a mere union of entities.
- The application of an entity approach as opposed to the former parent approach in previous consolidation legislation.

Business combinations

(amended by Royal Decree 1159/2010)

This standard sets out the common accounting principles applicable to all business combinations, regardless of their legal form (acquisition, merger, spin-off, monetary contribution). However, the standard does not apply to transactions between entities in the same group.

Business combinations are accounted for using the acquisition method.

Definition of business

A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return, lower costs or other economic benefits directly to the owners and proportionately to policyholders or participants.

Acquisitions of assets that do not constitute a business

These are accounted for as an acquisition of assets and assumption of liabilities, pursuant to the related standard. The acquisition cost is distributed among the assets and liabilities in proportion to their fair value.

In any case, transactions of this nature do not give rise to goodwill or a gain on a bargain purchase.

Acquisition method

The practical application of the acquisition method in a business combination requires:

- Identifying the acquirer:

The acquirer is the entity that obtains control of the acquiree.

- Determining the acquisition date:

The date on which the acquirer obtains control of the acquiree. In the case of mergers and spin-offs, the acquisition date will generally be the date of the general meeting of the shareholders or equivalent body of the acquiree, provided that the resolution regarding the merger or spin-off plan does not provide expressly that the acquirer will obtain control at a subsequent date.

- Quantifying the cost of the business combination:

The cost of a business combination is the aggregate of:

  - The acquisition-date fair values of the assets transferred, liabilities incurred or assumed, and equity instruments issued by the acquirer.

  - The fair value of any contingent consideration that depends on future events or on the fulfilment of certain conditions. In any case, assets are not recognised for contingent consideration if the difference is negative.

Fees paid to legal advisers and other professionals to effect the combination are recognised as an expense when incurred. In no case does the cost of a business combination include expenses incurred internally in this connection or those incurred by the acquiree in relation to the combination.

- Recognising and measuring the identifiable assets acquired and the liabilities assumed:
  As a general rule, at the acquisition date the identifiable assets acquired and the liabilities assumed are recognised at fair value, provided that fair value can be measured with sufficient reliability. However, there are special rules for the recognition and measurement of the identifiable assets acquired and liabilities assumed in the case of:

  – Non-current assets held for sale
  – Deferred tax assets and liabilities
  – Operating leases and classification of leases
  – Defined benefit pension plans
  – Intangible assets the value of which cannot be calculated by reference to an active market
  – Indemnification assets
  – Reacquired rights
  – Obligations classified as contingent

- Recognising and measuring goodwill or a gain from a bargain purchase:
  Any excess, at the acquisition date, of the cost of the business combination over the value of the identifiable assets acquired less the liabilities assumed in the terms indicated in the preceding section is recognised as goodwill. If the difference is negative, it is recognised as income immediately.

Initial accounting determined provisionally

If the initial accounting required for a business combination to be accounted for using the acquisition method can be determined only provisionally by the end of the period in which the combination is effected, the acquirer must account for the combination using those provisional values.

The provisional values are adjusted in the period required to obtain the information necessary to complete the initial accounting, which in no case shall exceed twelve months from the acquisition date.

Changes in the fair value of the contingent consideration arising as a result of additional information obtained about facts and circumstances that already existed at the acquisition date are recognised as measurement period adjustments. However, changes in the fair value of the contingent consideration arising as a result of events that occurred after the acquisition date, such as reaching a specific share price or reaching a specific milestone in a project, are not treated as measurement period adjustments.

Business combinations achieved in stages

Business combinations achieved in stages are business combinations in which the acquirer obtains control of the acquiree through more than one separate transaction carried out on different dates.

In this case, the goodwill or gain on a bargain purchase is obtained as the difference between:

- The cost of the business combination, plus the acquisition-date fair value of any previously held equity interest of the acquirer in the acquiree; and

- The value of the identifiable assets acquired less the value of the liabilities assumed

Any gain or loss arising as a result of the remeasurement to fair value, at the date on which control is obtained, of the previously held equity interest of the acquirer in the acquiree is recognised in profit or loss.

The cost of the business combination is presumed to be the best reference for estimating the acquisition-date fair value of any previously held equity interest in the acquiree.

Rules for the preparation of consolidated financial statements

The rules for the preparation of consolidated financial statements are structured in six chapters:

- Parties obliged to present consolidated financial statements
- Obligation to present consolidated financial statements, consolidation methods and equity method accounting
- Full consolidation
- Proportionate consolidation and equity method
- Other applicable consolidation rules
- Consolidated financial statements

Parties obliged to present consolidated financial statements

"Parent", "subsidiary", "jointly controlled entity" and "associate" are as defined in the Spanish Commercial Code and Spanish National Chart of Accounts.

In order to identify the parent-subsidiary relationship and, therefore, the obligation to present consolidated financial statements, the key concept of control is used, understood to be the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control exists, not only when it is exercised in real terms, but also when the possibility of its being exercised exists (potential voting rights).

Special purpose entities

Circumstances can arise that give an entity control over another entity, even when it has less than half of the voting rights, or even if it holds no interest in that entity. However, circumstances implying that control (and, therefore, the obligation to present consolidated financial statements) is held may exist, which must be analysed from the standpoint of the group's share of the risks and rewards of the entity and its capacity to participate in operating and financial decisions of the entity.

Obligation to present consolidated financial statements

All parents of a group must present consolidated financial statements.

If at the reporting date any of the group companies has issued securities listed on a regulated market of any EU Member State, International Financial Reporting Standards (IFRSs) must be applied.

However, there are certain cases in which a parent need not present consolidated financial statements:

- For reasons of size. An entity need not present consolidated financial statements when for two consecutive years at the reporting date the group companies taken as a whole do not

exceed the following thresholds:

Assets	EUR 11,400,000
Revenue	EUR 22,800,000
Headcount	250 employees

- For reasons of the existence of a subgroup: a parent need not present consolidated financial statements if it is itself a subsidiary of another entity governed by the legislation of any EU Member State, provided that the following conditions are met:

  – The latter entity owns 50% or more of the shares of the former; and

  – Owners holding at least 10% of the share capital have not requested the presentation of consolidated financial statements in the six-month period preceding the reporting date.

  There are also certain other conditions that have to be met in relation to certain disclosures to be included in the notes to the financial statements.

- For reasons of materiality: this condition is met when the entity obliged to present consolidated financial statements holds interests only in subsidiaries that are not material with respect to the fair presentation of the equity, financial position and results of operations of the group companies.

Consolidation methods

There are two consolidation methods:

- Full consolidation
- Proportionate consolidation

Entities may also account for investees using the equity method.

Full consolidation

This consolidation method applies to companies over which control is exercised.

This method consists of the inclusion in the balance sheet, income statement, statement of changes in equity and statement of cash flows of the entity presenting consolidated financial statements of all the assets, liabilities, income, expenses, cash flows and other items in the financial statements of the group companies, after having made the appropriate uniformity adjustments and eliminations.

Specifically, there are four types of prior uniformity adjustment:

- Uniformity of timing
- Uniformity of measurement
- Uniformity relating to intra-group transactions
- Uniformity for performing aggregation

There are two major types of elimination:

- Investment – Equity elimination
- Intra-group item and result eliminations

Investment – Equity elimination:
This consists of the offset of the carrying amounts representing the equity instruments of the subsidiary owned by the parent against the proportional part of the items of equity of that subsidiary attributable to those equity instruments. This offsetting is performed on the basis of the values resulting from the application of the acquisition method (see section on Business combinations).

This elimination gives rise to the appearance of non-controlling interests, in circumstances in which the parent's ownership interest in the subsidiary is lower than 100%. The non-controlling interests are calculated on the basis of the proportion that each represents of the share capital of each subsidiary, excluding treasury shares and shares held by their subsidiaries.

If the group companies enter into agreements at the acquisition date with non-controlling interests in relation to the equity instruments of a subsidiary (put options or future acquisition obligations), the non-controlling interests are measured at that date at the present value of the amount agreed upon and are presented as a financial liability in the consolidated balance sheet.

Intra-group item and result eliminations

The eliminations of this nature include most notably:

- Elimination of results on intra-group transactions:
  - Inventories
  - Non-current assets and investment property
  - Services
  - Financial assets

- Reclassification and elimination of results arising from valuation adjustments

- Recognition of grants in equity

- Acquisition from third parties of financial liabilities issued by the group

- Elimination of intra-group dividends

Changes in ownership interest that do not result in the loss of control:

When control has been obtained, subsequent transactions that give rise to a change in a parent's ownership interest in a subsidiary that does not result in the loss of control are accounted for in the consolidated financial statements as equity transactions. Therefore, transactions of this nature do not affect the consolidated income statement.

Loss of control:

However, the loss of control of a subsidiary entails the recognition in the consolidated income statement of the gain or loss arising from the transaction.

Also, if there are income and expenses recognised directly in the equity of the subsidiary since the acquisition date that have not yet been allocated to the consolidated income statement, they must be reclassified to the corresponding line items based on their nature, including any translation differences.

Lastly, if following the loss of control the subsidiary is classified as a jointly controlled entity or associate, the fair value of the investment retained is regarded as the fair value on initial recognition, and the related impact on the consolidated income statement is recognised.

Non-controlling interests in subsequent consolidations:
The equity in the results of subsidiaries recognised in the consolidated income statement and in the consolidated statement of recognised income and expense attributable to non-controlling interests must be presented separately as attributable profit or loss and not as an expense or income.

When the losses attributable to non-controlling interests exceed the portion of equity, excluding the profit or loss for the period of the related entity, proportionately corresponding to them, this excess must be attributed to the non-controlling interests, even if this means that the related line item has a debit balance.

Proportionate consolidation and equity method

Proportionate consolidation method

This consolidation method applies to jointly controlled entities.

The method consists of combining line by line in the consolidated financial statements the portion of the assets, liabilities, expenses, income, cash flows and other items in the financial statements of the jointly controlled entity corresponding to the percentage of its equity owned by the group companies.

As in the case of full consolidation, this method also requires that uniformity adjustments be carried out and that other adjustments and eliminations of intra-group transactions be recorded.

The consolidated financial statements must not include any item relating to the non-controlling interests of the jointly controlled entities.

Also, if non-monetary contributions have been made to a jointly controlled entity by group companies, the gains and losses resulting therefrom are only recognised in the proportion corresponding to the share capital owned by the other owners of the jointly controlled entity.

Lastly, jointly controlled entities may, optionally, be accounted for using the equity method, instead of applying the proportionate consolidation method, provided that the equity method is applied to all the jointly controlled entities.

Equity method

This method applies to entities over which a significant influence is exercised.

Under this method, the investment in an entity is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee.

As in the case of full consolidation, this method also requires that uniformity adjustments be carried out and that other adjustments and eliminations of intra-group transactions be recorded. Specifically, eliminations relating to intra-group results affect exclusively the percentage of the results of the investee corresponding to the group companies.

If in the initial recognition of an investment using the equity method goodwill arises, the goodwill is included as a whole in the carrying amount of the investment and this must be disclosed.

If the investee incurs a loss, the amount of the investment is written down but by no more than the carrying amount of the investment calculated using the equity method. Once the carrying amount has

been reduced to zero, any additional losses and the related liability are recognised to the extent that payment obligations have been incurred in this connection.

In a new acquisition of shares of the entity accounted for using the equity method, the additional investment and the new goodwill or gain on a bargain purchase are determined in the same way as the initial investment.

Once the equity method has been applied, it is necessary to determine whether impairment losses have to be recognised on the net investment in the investee. The analysis of the impairment of goodwill is not conducted separately, but rather the investment is treated as a whole. The impairment losses are not allocated to any specific asset, including goodwill, which forms part of the carrying amount of the investee.

Other rules applicable to consolidation:

Translation of foreign currency denominated financial statements:

The financial statements of an entity with a functional currency other than the euro (presentation currency) are translated to euros as follows:

- Assets and liabilities are translated at the closing rate.

- Equity items, including the profit or loss for the period, are translated at the historical exchange rate.

- Any differences between the net amount of the assets and liabilities and the equity items are recognised in a line item in equity called "Translation Differences", net of the related tax effect and after deducting the portion of the differences corresponding to non-controlling interests.

In this regard, the functional currency is the currency of the primary economic environment in which the entity operates, i.e. the currency of the area in which the entity generates and uses cash.

Income tax

Consolidated income tax is accounted for by considering temporary differences to be differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax bases.

Therefore, if in consolidation amounts are changed or added, the amount of the temporary differences may also change. This might occur principally as a result of uniformity adjustments and eliminations of results, unrealised gains and losses as a result of the application of the equity method, the recognition of goodwill on consolidation and if the value in the consolidated financial statements attributable to the investment in a subsidiary, jointly controlled entity or associate differs from the value in the separate financial statements.

Consolidated financial statements

Consolidated financial statements consist of:

- A consolidated balance sheet
- A consolidated income statement
- A consolidated statement of changes in equity
- A consolidated statement of cash flows
- Notes to the consolidated financial statements

As in the case of the Spanish National Chart of Accounts, the information included in consolidated financial statements must be relevant, reliable, comparable and understandable.

Industry adaptations

As a general rule, the industry adaptations that were in force at the date of publication of the new Spanish National Chart of Accounts remain in force and continue to apply insofar as they do not contradict general accounting legislation (Spanish Commercial Code, Limited Liability Companies Law, National Chart of Accounts and other legislation).

Also, the following industry adaptations have come into force since the date of publication of the new Spanish National Chart of Accounts:

- Ministry of Economy and Finance Order EHA/3360/2010, of 21 December, approving the rules on the accounting aspects of cooperatives.
- Ministry of Economy and Finance Order EHA/3362/2010, of 23 December, approving the rules for adapting the Spanish National Chart of Accounts for public infrastructure concession operators.
- Royal Decree 1317/2008, of 24 July, approving the Chart of Accounts for insurance companies, subsequently amended by Royal Decree 1736/2010, of 23 December.

In all three cases these are very specific accounting rules although, due to its similarity to existing International Standards (IFRIC 12), set forth below is a description of the main features of the industry adaptation for concession operators.

Concession operators

As indicated above, the industry adaptation of the Spanish National Chart of Accounts for public infrastructure concession operators is regulated in Ministry of Economy and Finance Order EHA/3362/2010, of 23 December.

This Order, which approves the recognition, measurement and disclosure rules relating to public infrastructure concession arrangements, is obligatorily applicable for all concession operators that enter into concession arrangements with a grantor, albeit exclusively in relation to the accounting treatment of the "concession arrangement". The accounting treatment of all the other transactions that might be carried out by these operators is governed by the general rules of the Spanish National Chart of Accounts. In this regard, in order for there to be a concession arrangement concession infrastructure has to exist.

This industry adaptation is structured in six rules:

- The first, which introduces the definitions required to define the scope of application of the rule.

- The second, which sets forth the rules for accounting for concession arrangements.

- The third, which encompasses both matters common to all concession arrangements and other matters specific to certain sectors of activity (water supply, motorways, tunnels, bridges, etc.).

- The fourth, which governs the disclosures to be included in the notes to the financial statements.

- The fifth, which details the criteria for preparing financial statements.

- And the sixth, which includes a proposal concerning the coding and denomination of accounts.

It should be noted as a general comment on all these rules that they represent an adaptation of the Spanish National Chart of Accounts for concession operators and aim to bring Spanish accounting legislation closer into line with European legislation. Therefore, they were drawn up on the basis of IFRIC 12, introducing into the Spanish accounting framework certain rules that are compatible with international standards. However, it cannot be concluded that the two sets of legislation are the same, since the Spanish industry adaptation contains certain specific features where it was considered necessary to introduce differences, such as in the accounting treatment of borrowing costs.

Spanish National Chart of Accounts for Small and Medium Enterprises (SMEs)

General issues

If the requirements for applying the Spanish National Chart of Accounts for SMEs are met and if it is opted to apply it, it must be applied in full, and may not be applied only partially.

If it is chosen to apply the Spanish National Chart of Accounts for SMEs, it must be applied continuously for at least three years (provided that the related requirements continue to be met).

If an entity carries out a transaction not regulated by the Spanish National Chart of Accounts for SMEs, the transaction is governed by the Spanish National Chart of Accounts, except for the rules governing non-current assets and disposal groups held for sale, which shall in no event apply.

The conceptual framework and structure of the Spanish National Chart of Accounts for SMEs are similar to those of the Spanish National Chart of Accounts.

With respect to the Spanish National Chart of Accounts,

- certain recognition and measurement standards have been eliminated as it is considered that in general terms they do not apply to SMEs.

- certain rules have been simplified in order to make them less complex, fundamentally in relation to financial instruments and finance leases.

Sections eliminated with respect to the Spanish National Chart of Accounts

- Goodwill
- Compound financial instruments.
- Derivatives the underlying for which are unlisted equity instruments whose fair value cannot be determined reliably.
- Financial guarantee contracts.
- Guarantees provided and received.
- Hedge accounting.
- Long-term employee benefits.
- Share-based payment transactions.
- Business combinations.
- Mergers, spin-offs and non-monetary contributions of businesses among group companies.
- The rules relating to the following have also been eliminated from

the Spanish National Chart of Accounts for SMEs as they do not apply:

– Non-current assets and disposal groups held for sale.

– Translation of financial statements to the presentation currency.

Simplifications with respect to the Spanish National Chart of Accounts

- Financial instruments:

  – Reduction of the number of categories of financial assets and financial liabilities.

  – Elimination of the "available-for-sale financial assets" and "other financial assets and financial liabilities at fair value through profit or loss" categories.

- Finance leases: the lessee must recognise the leased asset and a financial liability for the same amount, which will be the fair value of the leased asset calculated at the inception of the lease. Reference to the present value of the financial liability as the limit for the fair value calculation is eliminated.

- Account groups 8 and 9 (reflecting expenses and income recognised directly in equity) are eliminated as a result of the absence of transactions that might give rise to them under the Spanish National Chart of Accounts for SMEs.

Simplifications in the model financial statements

- The formats and disclosures required by the chart of accounts for SMEs are the same as in the abridged model contained in the Spanish National Chart of Accounts, although items and areas not regulated by the Spanish National Chart of Accounts for SMEs are eliminated.

- A statement of cash flows need not be presented.

- The statement of changes in equity consists of only one document and the statement of recognised income and expense is eliminated.

- "Equity" does not include "Valuation Adjustments", in view of the absence of transactions that might give rise to them under the Spanish National Chart of Accounts for SMEs.

- The "Non-current assets held for sale and assets and liabilities in a disposal group held for sale" category does not exist.

Specific rules applicable to micro enterprises

- An entity that is able to apply these rules and decides to do so must apply them continuously for at least three years (provided that the related requirements continue to be met).

- The specific rules must be applied on an across-the-board basis and are as follows:

  – Finance lease and similar arrangements: the lease payments incurred in the period in relation to finance lease and other similar arrangements not involving land or other assets with an indefinite useful life are recognised as an expense in the income statement. If the purchase option is exercised, the related asset is measured at the price of exercising the option.

  – Income tax: the income tax expense is recognised in the income statement for the amount of the tax settlements for the period.

Quick guide to most significant differences with respect to IFRSs

The “IFRSs” column reflects the current treatment under IFRSs.

The purpose of this guide is solely to illustrate the main differences between the two sets of legislation. Therefore, it is not an exhaustive list of differences and does not address disclosure issues. In view of their specific nature, industry adaptations for cooperatives and insurance companies are not included.

Presentation of financial statements

Spanish National Chart of Accounts (SNCA)	IFRSs
The financial statements consist of a balance sheet, an income statement, a statement of changes in equity, a statement of cash flows and notes to the financial statements. The statement of changes in equity is divided into two parts: a statement of recognised income and expense and a statement of changes in total equity.	The financial statements consist of a balance sheet, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and the related explanatory notes. Overall, these financial statements are similar to those under the SNCA, but the composition is different. Under IFRSs, an entity may present all items of income and expense recognised in a period in a single statement or in two statements (an income statement and a statement of comprehensive income). The statement displaying components of other comprehensive income is equivalent to the statement of recognised income and expense under the SNCA, although under IFRSs it forms part of the statement of comprehensive income and if it is presented separately it must always be presented immediately after the income statement.

Spanish National Chart of Accounts (SNCA)	IFRSs
The SNCA provides for the possibility of presenting abridged financial statements with less extensive disclosure requirements and the possibility of not presenting a statement of cash flows.	Such an exemption does not exist and a statement of cash flows must always be presented.
In the balance sheet the current/ non-current distinction is used for assets and liabilities.	This is the same under IFRSs, but they also provide for the possibility of presenting assets and liabilities in order of liquidity.
The income statement is presented by nature.	The same under IFRSs, but they also provide for the possibility of presenting income statement items by function.
The statement of cash flows is presented using the indirect method.	Under IFRSs the statement of cash flows may also be presented using the direct method.
There is no obligation to present a third balance sheet when there are changes in accounting policies, reclassifications or restatements of financial statements.	Under IFRSs a third balance sheet at the beginning of the comparative period must be presented in the event of changes in accounting policies, retrospective restatement or reclassifications of items.

Property, plant and equipment, intangible assets and investment property

SNCA	IFRSs
Property, plant and equipment and intangible assets are recognised initially at acquisition or production cost. Investment property is measured in the same way.	Under IFRSs property, plant and equipment, intangible assets and investment property may be measured using the revaluation model. The revaluation model may only be used for intangible assets in the restricted and uncommon case of the intangible assets having a quoted market price in an active market.
Research expenditure may be capitalised if the same requirements as those established for the capitalisation of development expenditure are met, and it is amortised over its useful life (maximum of five years). Development costs are capitalised if the related requirements are met and they are amortised over their useful life (presumed to be a maximum of five years if there is no evidence to the contrary).	There is a difference in the case of research costs, since under IFRSs they are charged to expense when incurred. Also, for neither case do IFRSs establish a time limit for the amortisation period, which will be the useful life of the related assets.

Capitalisation of borrowing costs

SNCA	IFRSs
Such finance income as might arise from the investment of the borrowings obtained for the acquisition, production or construction of a non-current asset (or, where appropriate, inventories) must be recognised in profit or loss and the borrowing costs incurred during this period must not be capitalised.	Under IFRSs any income earned on the temporary investment of these funds until their expenditure on the acquisition or construction of the asset must be deducted from the total borrowing costs to be capitalised.

Biological assets

SNCA	IFRSs
Under the SNCA biological assets are measured at cost.	There is an IAS to regulate their accounting treatment and they are measured at fair value less costs to sell.

GHG emission allowances

SNCA	IFRSs
The SNCA regulates the accounting treatment of emission allowances through a resolution that provides for their measurement at fair value with a credit to a grant.	Under IFRSs there is no specific rule and, therefore, these rights may be recognised either at fair value with a credit to a grant (conceptually the same as in the case of the SNCA, although grants are treated differently under the two sets of standards) or at acquisition cost.

Leases

SNCA	IFRSs
The SNCA presumes that since land usually has an indefinite useful life, any lease arrangement involving land is treated as an operating lease.	This presumption is not made by IFRSs and the general analysis is carried out in order to classify the lease, signifying that lease arrangements involving land with certain characteristics may be classified as finance leases.
In a sale and leaseback transaction the features of which mean that the lessor is providing finance to the lessee, the classification of the asset does not change following the sale and no gain may be recognised. The proceeds are recognised as a financial liability. The SNCA does not address the specific case of sale and leaseback transactions resulting in an operating lease.	The proceeds from a sale and leaseback transaction resulting in a finance lease must be deferred and amortised over the lease term. They are recognised as deferred income until recognised in profit or loss. Three possible situations arise in the case of sale and leaseback transactions resulting in an operating lease: (i) if it is clear that the transaction is established at fair value, any profit or loss is recognised immediately; (ii) if the sale price is below fair value, any loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used; and (iii) if the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

Financial instruments

SNCA	IFRSs
Available-for-sale financial assets: in the case of equity instruments impairment (permanent and therefore non-reversible) is presumed to exist if the market value of the asset has fallen by more than 40% or if there has been a prolonged fall in market value over a period of 18 months without the value having recovered.	The current IFRSs do not establish any such presumption or regulate the length or extent of the drop in market value. IFRSs presume impairment to exist when there is a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
Recognition of dividends from financial assets: the SNCA indicates that if dividends are clearly paid out of pre-acquisition profits, they are not recognised as income and are deducted from the carrying amount of the investment.	Dividends in separate financial statements are recognised as income regardless of whether they are paid out of pre-acquisition or post-acquisition profits and their potential impact is taken into account in any impairment analysis.

Income tax

SNCA	IFRSs
In relation to the estimated time limit for the recovery of tax losses in order to be able to recognise a deferred tax asset, the Spanish Accounting and Audit Institute (ICAC) has stated in response to a request for a ruling that the period for recovery may not exceed ten years in cases in which tax legislation permits tax losses to be offset over longer periods of time.	IFRSs do not establish any specific time limit except, logically, for the expiry of the related tax losses.

Long-term employee benefit liabilities

SNCA	IFRSs
Actuarial gains and losses on long-term defined benefit plans are recognised immediately in the year in which they arise.	The IAS currently in force provides for the possibility of applying the approach known as the "corridor" whereby a portion of these actuarial gains and losses may be deferred up to certain limits. However, this corridor will be eliminated when the revision of IAS 19 approved in 2011 comes into force on 1 January 2013 and, therefore, all actuarial gains and losses will be recognised immediately.
These actuarial gains and losses are recognised directly in reserves.	In general, actuarial gains and losses are initially recognised in other comprehensive income and are then transferred to reserves.

Grants

SNCA	IFRSs
Grants are initially recognised and presented in equity and are generally recognised as income on a systematic and rational basis.	Grants related to assets may be presented as deferred income or may be deducted in arriving at the carrying amount of the asset and are also recognised as income on a systematic basis. Under IFRSs grants may not be credited directly to equity.
Grants recognised in profit or loss are presented in the statement of recognised income and expense as transfers to profit or loss from equity.	Grants related to income may be presented in the income statement as income from grants or may be deducted in reporting the related expense.

Business combinations

SNCA	IFRSs
The fair value of any contingent consideration in the cost of a business combination must be recognised as an asset, as a liability or as equity, as appropriate, unless this gives rise to the recognition of a contingent asset resulting in a credit to income (i.e. gives rise to a gain on a bargain purchase in the business combination).	This limitation does not exist under IFRSs.
The identifiable assets acquired and liabilities assumed in a business combination are generally recognised at fair value (or on the basis of the specific measurement bases provided for in the standard), except for intangible assets for which there is no active market the recognition of which at fair value could give rise to a credit to income (i.e. gives rise to a gain on a bargain purchase in the business combination).	This limitation does not exist under IFRSs.

Consolidation

SNCA	IFRSs
The rules for the preparation of consolidated financial statements (NOFCAC) introduce an exception to the obligation to present consolidated financial statements when a parent has interests exclusively in subsidiaries that do not represent a significant interest taken individually or as a whole.	Consolidated financial statements must include the parent and all its subsidiaries.
The equity of non-controlling interests is calculated on the basis of their percentage of ownership of the fair value of the assets and liabilities of the subsidiary (i.e. goodwill on consolidation is not attributed to non-controlling interests).	IFRSs also provide for the option of measuring them at their fair value on initial recognition.
Loss of classification as investment in associate or interest in jointly controlled entity and classification as available-for-sale financial asset:	
In this case, under the SNCA the cost of the financial asset is considered to be the consolidated carrying amount on the date of exclusion from consolidation. This means that a valuation adjustment (in equity) arises on the recognition of this investment at fair value.	Under IFRSs the loss of significant influence or joint control are significant economic events treated as a loss of control, i.e. the initial cost of the new financial asset is its fair value and any associated valuation adjustments are derecognised.

SNCA	IFRSs
Changes in ownership interest that do not result in a loss of control:	
In transactions that do not result in a loss of control (accounted for in equity without affecting goodwill or profit or loss) in which non-controlling interests are involved, the equity of the non-controlling interests is calculated as their percentage of ownership of the fair value of the assets and liabilities of the subsidiary plus their share of the goodwill associated with the change that has taken place.	IFRSs do not indicate that goodwill on consolidation should be attributed to non-controlling interests in transactions of this nature.
Recycling of translation differences to profit or loss:	
Under the SNCA the payment of a dividend leads to the transfer to profit or loss of the translation differences associated with the amount paid.	Under IFRSs a dividend is not considered to constitute a disposal for the purpose of recycling translation differences to profit or loss.

Industry adaptation for public infrastructure concession operators

SNCA	IFRSs
Mixed or bifurcated model:	
The concession operator must simultaneously recognise a financial asset and an intangible asset when the terms of the concession arrangement indicate that two types of consideration will be received.	
The SNCA permits the use of the financial asset model or the intangible asset model, rather than the bifurcated model, when either type of asset accounts for at least 90% of the consideration received.	IFRIC 12 also provides for the bifurcated model but does not establish any specific quantitative threshold for the use of the financial asset model or intangible asset model when two types of consideration are received.
Intangible asset model:	
Capitalisation of borrowing costs after commencement of operation of the intangible asset:	
The industry adaptation states that when the infrastructure is ready to come into operation borrowing costs may continue to be capitalised provided that they meet the requirements for being recognised as an asset (capable of being separately identified and reliably measured and with reasonable evidence that the future benefits will be sufficient to make it possible to recover the amount capitalised).	Neither IFRIC 12 nor IAS 23 permit the capitalisation of borrowing costs after commencement of the operation of the intangible asset.

Deloitte in Spain

General description of Deloitte in Spain

Deloitte is the leading professional services firm in Spain. In terms of billings, the number of specialised professionals and geographical coverage, the firm is clearly ahead of its competitors.

The leading economic and financial newspaper in Spain, Expansión, ranked Deloitte as the top firm in its annual ranking of professional services firms. In addition, its position in the Merco Report, which ranks the 100 companies with the best reputation in Spain, has risen every year.

Also, the weekly publication Actualidad Económica (Recoletos Group) has ranked Deloitte since 1998 as one of the best companies to work for in Spain thanks to its career, training and work-environment policies. The Merco People report, which analyses how university students, employees and the general population view Spanish companies, singled the firm out as best company to work for in the professional services sector.

Deloitte's maximum objective, together with the provision of top quality services, is to be a sustainable organisation over time. To this end, it works on its reputation and provides in-depth information on its activities to its stakeholders through its Corporate Responsibility report (a pioneer and unique publication in its sector), which was rated with the maximum mark of "A+" by the internationally renowned Global Reporting Initiative.

In its ongoing dialogue with its stakeholders, Deloitte ensures in-depth communication with its clients through its Client Service Assessment (CSA) programme, the objective of which is to adapt the service provided by Deloitte to client expectations and to cater for the firm's strategic clients.

Team of specialist professionals

In addition to the multidisciplinary nature and quality of the work performed, proximity to its clients is key to enabling Deloitte to offer an excellent and personalised service that makes it possible to understand each organisation in full. Only in this way can the firm's professionals be completely familiar with the special features of each industry, region and geographical area.

Deloitte considers industry specialisation to be a key differentiating factor that enables it to contribute value to its clients. Thus, Deloitte's practice is organised into professional groups each focusing on a particular sector, industry or business. The main benefits of this industry specialisation for clients are as follows:

- Familiarity with the problems of the industry.
- Efficiency in the audit process.
- Industry contacts to the benefit of clients.
- Identification of opportunities for client.

Deloitte has been organised by industrial specialisation for more than two decades, and its personnel recruitment process is carried out on the basis of the specific needs of each industry group, selecting the technical and economic profiles that are best suited to the types of work it performs.

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