

Consolidation Manual

nh | HOTEL GROUP

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Abbreviations

AE	Acquiring Entity
IE	Illustrative Examples
CP	Company Purpose
CEO	Chief Executive Officer
IFRS IC	International Financial Reporting Standards Interpretations Committee
BC	Basis of the conclusions
FASB	Financial Accounting Standards Board
IASB	International Accounting Standards Board
NCI	Non-controlling interests
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
GAAP	Generally Accepted Accounting Principles
SFAS	statement of Financial Accounting Standards (U.S.)
SIC	Standard Interpretations Committee
Db	Debit
[Cr]	Credit

1. Introduction

The consolidated financial statements of NH Hoteles, S.A. and subsidiaries (hereinafter referred to as "**NH Group**" or "**the Group**") are prepared pursuant to the International Financial Reporting Standards (hereinafter "**IFRS**") adopted by the European Union in accordance with the provisions of Regulation (EC) No. 1606/2002 of the European Parliament and by Law 62/2003 of 30 December 2013 on fiscal, administrative and social measures, so as to show a true and fair view of the equity and financial position of NH Group.

1.1. Purpose

The purpose of this Consolidation Manual (hereinafter "**the Manual**") is to present a summary of the main consolidation standards applicable in NH Group in order to ensure a globally accepted, homogeneous and uniform set of financial reporting standards to provide its users with transparent, understandable and comparable information about the financial statements and other financial information. Therefore, the IFRS, together with the regulations explained in this document, form the Consolidation Manual of NH Group.

1.2. Scope

NH Group's Manual is to be applied to all companies included within NH Group's consolidation perimeter as well as joint ventures and associated entities. In those cases in which NH Group has no control but significant influence, the adjustments and reclassifications which are necessary to the financial statements of the associate must be made so that the accounting criteria applied in the consolidation are homogeneous in all the companies integrated into the Group.

1.3. Applicable Standards

The International Accounting Standards Board (IASB) was established in April 2001 as one of the components of the International Accounting Standards Committee Foundation (IASC Foundation), which has been IFRS since 2010. The ISAB has developed a unique set of legally enforceable and globally accepted, comprehensible and high quality financial reporting standards to provide users of financial information with transparent and comparable information about financial statements and other financial information.

The use of these International Financial Reporting Standards (IFRS) has been mandatory from 2005 onwards for all companies which take part in continuous markets such as NH Group.

In 2011, a new consolidation model was published in the IFRS (IFRS 10, IFRS 11 and IFRS 12), which entered into force in the European Union on 1 January 2014 and which allowed early application on a voluntary basis.

1.4. Person responsible for the manual's management and updates

It will be the responsibility of the Director of the NH Group consolidation area to manage and update the Consolidation Manual, which will be carried out at least once a year and immediately should there be any relevant regulatory changes and will, in any event, include special cases.

2. Consolidation of financial statements

2.1. Introduction

The consolidation of financial statements is a part of accounting which has the purpose of preparing the annual accounts to be representative of the true image of a group of companies, given that this is conceived as a single economic entity.

Therefore, by means of the accounting consolidation process, we will obtain the Consolidated Annual Accounts which will group together the "*Consolidated Balance Sheet*", the "*Consolidated Profit and Loss Account*", the "*Consolidated Statement of Changes in Equity*", the "*Consolidated Statement of Cash Flows*" and the "*Consolidated Report*".

The consolidated accounts are drawn up on the basis of the individual accounts of the companies making up the group, which is why the preparation of individual annual accounts for the companies which form part of the group is mandatory.



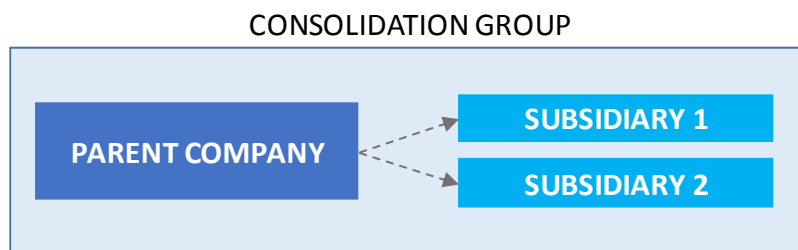
The preparation of the consolidated annual accounts presents a more suitable perspective for the analysis of the group as an economic unit than the joint analysis of the various individual accounts separately. This is mainly for the following reasons:

- The consolidated statements provide clear information on the operations carried out between the group as an entity and the outside world.
- The individual financial statements of the subsidiaries which make up the group may be manipulated or influenced by policies with different purposes.
- The individual financial statements which make up the group may be biased because of intra-group transactions
- Only the book value of the financial investment made in the subsidiaries appears on the individual balance sheet of the parent, but not the real resources of those companies
- The ability of a debtor company belonging to the group to meet its commitments can be compromised by the joint situation of the group
- The consolidated statements can reveal the existence of the group itself to external partners and the fact that the entity with which they participate is within the group
- Usefulness for the decision-making by the parent and, therefore, the group

2.2. NH Group: Consolidation subjects

2.2.1. Group of companies

The concept of group of companies arises for the purposes of the preparation of consolidated annual accounts and will be formed of a parent company and its subsidiaries.



The concept of a group is defined in Appendix A of IFRS 10 as "*A parent and its subsidiaries*". This standard also defines the parent as an entity that controls one or more entities.

We can identify as *parent* or *independent company* that which has the ability to directly or indirectly exercise control over another or others, which will be classified as subsidiary or

companies. Subsidiaries can be all types of companies, regardless of their legal form or the location of their registered office, and may even be domiciled in countries other than the head office of the parent.

Example

The company NHSA holds 80% of the shares in HOTELSA, domiciled in France and 90% of HEMA domiciled in Spain.

All three companies maintain their legal personality so, even though not all are in Spain, all will be included in the group formed by NHSA.



Presumption of control

The concept of control is defined in paragraph 5 et seq. of IFRS 10. The parent will be determined once it is evaluated if it has control over the investee-subsidiary company.

It is considered that a company controls an investee company when it is exposed, or entitled to, variable returns from their involvement in the investee and has the ability to influence those returns through their power over it. Appendix B of IFRS 10 establishes a guide to determine the parent, being if and only if it contains the following elements:

- Power over the investee.
- Exposure, or right, to variable returns from their involvement in the investee.
- Ability to use their power over the investee to influence the amount of investor returns.

To determine if the previous elements apply, the standard offers factors for this purpose:

- Purpose and design of the investee.
- Relevant activities and how decisions about them are made.

- Rights of the investor with ability to direct the relevant activities.
- Variable returns of the investor.
- Ability to use their power over the investee to influence the amount of the yield.

Specifically, it is presumed that control exists when:

- It holds the majority of voting rights.
- It holds the power to appoint or dismiss the majority of the members of the governing body.
- It can hold the majority of the voting rights by virtue of arrangements with third parties.
- It has, using its votes, appointed the majority of the members of the governing body in the current year and the two years immediately prior.

This circumstance and therefore the existence of control will be presumed where the majority of the members of the governing body of the subsidiary are members of the governing body or senior executives of the parent company or of another controlled by it. This last circumstance shall not give rise to consolidation should the company whose administrators have been appointed be related to another company through any of the cases set forth in the first two items of this section.

In spite of the above, there may be circumstances in which control is taken by a company even if it hold half or fewer voting rights, or when management authority has not been explained, such as with the previous entities. It is for these reasons that control should be assessed individually.

Some circumstances which may serve as indications of existence of control are:

- The activity of the entity is directed in the name and in accordance with the needs of the company, thus it obtains benefits or other advantages of the operations which this entity performs.
- The company has decision-making powers in the entity, or the form of their actions which allow it to obtain the majority of the benefits or other advantages are predefined.
- The company has the right to obtain the majority of the benefits from the entity and, therefore, is exposed to most of the risks derived from its activities.
- In order to enjoy the economic benefits of the entity's activities, the company substantially retains all the residual or ownership risks related to it or its assets.

The calculation of voting rights is a determining factor for the designation of parent company. For the determination of voting rights, in addition to those held by the parent company, those which correspond to its subsidiaries must be added, plus those held through others acting on their own but on behalf of the group company and those in which it holds together with any other person.

The number of votes corresponding to the parent company, in relation to the indirect subsidiaries, will be that which correspond to the subsidiary company in the capital of the indirect investee.

Potential voting rights are those derived from financial instruments which are exercisable or convertible, including potential voting rights held by any person outside the group. Potential votes must be analysed without taking the intention of the management to exercise or convert them into account, nor the financial capacity to do so, that is, it will take into their mere tenure into account.

As a consequence of these circumstances, if a company, by threatening to exercise or convert the potential rights, is able to achieve that its requirements are fulfilled, it will have power to direct the actions of others which would be affected by a change in the voting rights.

Example. Computation of voting rights: non-voting shares and treasury stock

NHSA owns 90% of the shares in HOTELSA, a company which holds 10% of the non-voting shares held by third parties and 48% of HEMSA, a company with treasury stock of 5%.

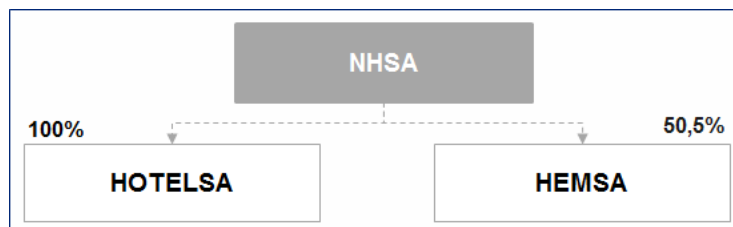
Remarks.

The real amounts of the shareholding in the subsidiary's capital are:

- HOTELSA: 90% of the shares
- HEMSA: 48%

The many control factors for the preparation of consolidated annual accounts are:

- HOTELSA: 100% of the shares and votes
- HEMSA: $48/95 = 50.5\%$ of the votes.



Therefore, HEMSA and HOTELSA are part of the group whose parent is NHSA, since this group has more than 50% of the votes of both.

Example. Computation of control: agreements with third parties and ability to appoint

In its portfolio, NHSA holds:

- 40% of the shares of HOTELSA and an agreement with X who owns 20% to control it.
- 45% of the shares of HEMSA and has the power to appoint seven of the ten members of the administrative bodies.

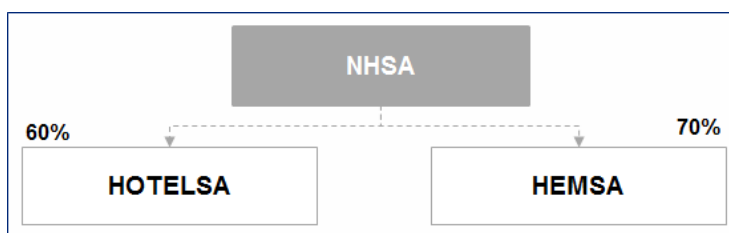
Remarks.

The real amounts of the shareholding in the subsidiary's capital are:

- HOTELSA: 40% of the shares
- HEMSA: 45% of the shares

The many control factors for the purpose of preparing consolidated accounts are:

- HOTELSA: 60% of the votes
- HEMSA: 70% of the shares



Therefore, HOTELSA and HEMSA are part of the group whose parent is NHSA, since it exercises control over them.

Example. Computation of control: purchase options

In its portfolio, NHSA holds:

- 40% of the shares of the HOTELSA and a purchase option over another 20% which can be exercised at any time and it has the financial capacity to do so.

Remarks.

The real amount of the shareholding in the subsidiary's capital is:

- HOTELSA: 40% of the shares

To calculate the percentage of effective control, the two directly owned potentials are added together:

- HOTELSA: $40 + 20 = 60\%$

Therefore, HOTELSA and HEMSA are part of the group whose parent is NHSA

Example. Computation of control with purchase option

In its portfolio, NHSA holds 60% of the shares and votes of HOTELSA.

NHSA sells half of its shareholding to HEMSA and simultaneously acquires purchase options on all of those shareholdings which can be executed at any time by paying a premium on the market price at the time of issue.

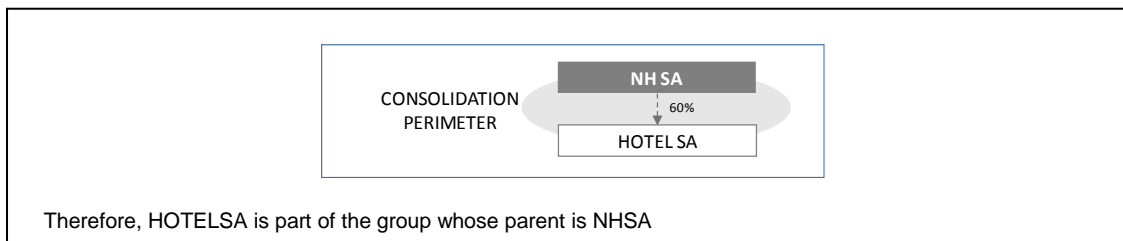
Remarks.

The real amounts of the shareholding in the subsidiary's capital are:

HOTELSA: 30% of the shares

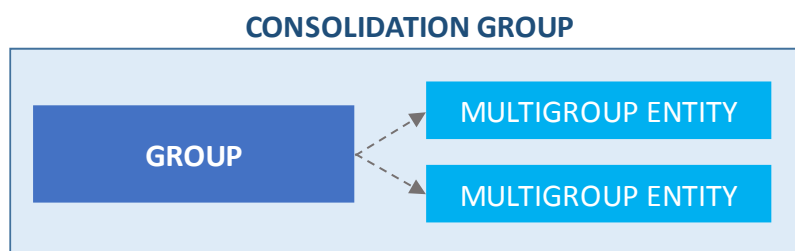
The effective voting rights will be those currently held plus the potential which, in the case of HOTELSA will be: $30\% + 30\% = 60\%$.

The control scheme for consolidation purposes is:



2.2.2. Multi-group companies: consolidated group

Multi-group companies can be defined as those companies which are not included as subsidiaries and which are managed by one or more companies within or outwith the group, but exercising joint control.



Joint control is designated when there is a share of the capital or when there is a statutory or contractual agreement under which strategic decisions, both financial and operating, related to the activity require the unanimous consent of all those exercising joint control of the company.

We can define joint control as the statutory or contractual agreement under which two or more persons, who will be called "joint venturers", agree to share the power to direct financial and operating policies over an economic activity in order to obtain economic benefits in such a manner that strategic decisions, both financial and operational, related to the activity require the unanimous consent of all joint venturers.

The jointly consolidated companies will be integrated using the equity method.

Joint arrangements can be of two kinds:

- a) Joint arrangements which are not through the formation of a company nor the establishment of a financial structure independent of the joint venturers, such as consortia and partnerships, among which are distinguished:
 - Jointly controlled holdings: activities involving the use of assets and other resources held by the joint venturers.
 - Jointly controlled assets: assets which are jointly owned and controlled by the joint venturers.
- b) Joint arrangements through the constitution of an independent legal entity or jointly controlled companies such as Consortia, economic interest groupings or *joint ventures*.

Specifically, IFRS 11 defines a joint arrangement in paragraphs 4, 5, and 6 as an arrangement of which two or more people have joint control. Its main characteristics are:

- The parties are bound by a contractual arrangement

- The contractual arrangement gives two or more of those parties joint control of the arrangement.

In Paragraph 7, the standard defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

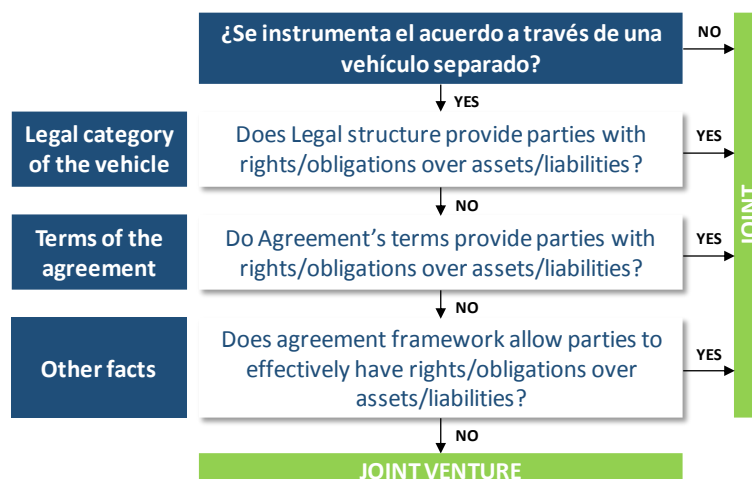
In paragraphs 14, 15 and 16 it defines the type of joint arrangement, the rights and obligations of the parties with respect to the arrangement. This way we can identify:

- Joint operation. Joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.
- Joint venture. Joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

Pursuant to paragraph 20 of IFRS 11 "A joint operator shall recognise in relation to its interest in a joint operation:

- a) *its assets, including its share of any assets held jointly;*
- b) *its liabilities, including its share of any liabilities held jointly;*
- c) *its revenue from the sale of its share of the output arising from the joint operation;*
- d) *its share of the revenue from the sale of the output by the joint operation; and*
- e) *its expenses, including its share of any expenses incurred jointly.*

For its part, paragraph 24 of the same standard states that " A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures unless the entity is exempted from applying the equity method as specified in that standard"



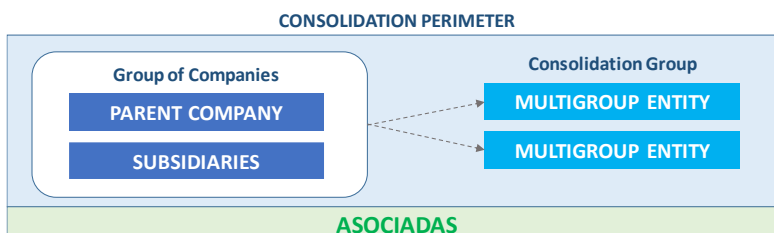
2.2.3. Associate companies: consolidation perimeter

An associate company is one in which one or more companies within the group have a significant influence on its management. Therefore, we detect significant influence when the following requirements are met:

- Shareholding in the company.
- Power to intervene in financial and operating policy decisions of the investee, without having control or joint control over it.

It is presumed that there is significant influence when one or more companies in the group hold at least 20% of the voting rights of a company that is not a member of the group, except when the non-existence of such influence can be clearly demonstrated. The existence of significant influence may be evidenced in the following situations:

- Representation on the board of directors or management body of the investee company;
- Participation in the policy-making process, which may include decisions on dividends or other distributions.
- Transactions of relative importance with the investee.
- Exchange of management personnel.
- Supply of essential technical information.



2.2.4. Types of groups

We can find two types of groups:

- Subordination groups which are those formed by a parent entity and one or more subsidiary entities. The obligation to publish the consolidated annual accounts belongs to the parent company of a subordination group. There will be a parent company to the extent that there is control over one or more companies.
- Coordination or horizontal groups, which are composed of all the entities of the same group domiciled in the same country together with their subsidiaries of the same or different country, subject to the same decision-making unit because they are controlled by a natural person or set of persons or because they are under the management of a single one by agreements or statutory clauses.

When the company is the most active of the group of companies domiciled in the same country, it should include a description of the aforementioned companies in the report, indicating the reason for which they are under a single decision-making unit, and will report on the aggregate amount of the assets, liabilities, equity, turnover and profit or loss of all the mentioned companies.

2.2.5. External partners

Minority interests are external partners who have shareholdings in subsidiaries.

From an economic point of view, the assets of the consolidated group have two types of owners, those of the parent company and the minority interest so they have a similar treatment to a shareholder and will be affected by consolidation adjustments which could modify their equity. Therefore, transactions between the parent company and the external partners are also considered as transactions between shareholders and are presented in equity.

2.2.6. Considerations to determine the obligation to consolidate

Obligation to consolidate

Once the group and the consolidation perimeter have been defined, we must identify the conditions which cause consolidation to be mandatory.

The obligation to prepare consolidated annual accounts arises when there is a group of companies, that is to say, when there is at least one parent company and one or more subsidiary companies, and must include the companies which make up the group in the accounts. This obligation does not exempt the subgroups and individual companies from preparing annual accounts.

The obligation to consolidate is governed by the national regulations of the head office of the parent company, in the case of the NH Group, it will be required to present consolidated annual accounts in the following cases:

- a) If, at the end date of the year, any of the group companies has issued securities admitted to trading on a regulated market of any member state of the European Union, the international financial reporting standards adopted by the Regulations of the European Union shall apply.

- b) If, at the end date of the year, none of the group companies have issued securities admitted to trading on a regulated market of any member state of the European Union, they can elect to apply the applicable local and international accounting standards. If they choose the application according to the Regulations of the European Union, consolidated accounts must be produced on an ongoing basis in accordance with these rules, with the provisions of the previous letter also applying.

2.2.7. Special Purpose Vehicles (SPV)

Special Purpose Vehicles are vehicles, mercantile or not, created to carry out specific and well-defined business projects beforehand, although they can also be used as financial engineering to protect assets on the balance sheet, or hide them, to hide debt of the balance sheet, create fictitious profits or execute transactions quickly and at the desired price.

In this sense, the group's participation in the risks and benefits of the vehicle, as well as its capacity to participate in the financial and operating decisions of the vehicle, must be taken into account. The following circumstances, among others, could indicate control in a SPV:

- The activities of the vehicle are directed in the name and in accordance with the needs of the company, such that it obtains benefits or other advantages of the operations of it.
- The company has a decision-making power in the vehicle, or its actions have been predefined in such a way that allows it to obtain most of the benefits or other advantages of the vehicle's activities.
- The company has the right to obtain the majority of the benefits from the vehicle and, therefore, is exposed to most of the risks derived from its activities.
- The company, in order to enjoy the economic benefits of the vehicle's activities, substantially retains all the residual risks.

2.2.8. NH Group

In accordance with the criteria set forth above, as at 31 December 2014, NH Group consisted of the following companies:

Investee company	Location	Main activity	% shareholding	% voting rights
Subsidiaries				
Airport Hotel Frankfurt Raunheim, GmbH & Co	Munich	Real estate	94%	100%
Artos Beteiligungs, GmbH	Munich	Holding company	94%	100%
Astron Immobilien, GmbH	Munich	Holding company	100%	100%
Astron Kestrell Ltd.	Plettenberg Bay	Hotel Business	100%	100%
Atlantic Hotel Exploitatie B.V.	The Hague	Hotel Business	100%	100%
Blacom, S.A.	Buenos Aires	Investment	100%	100%
Caribe Puerto Morelos, S.A. de C.V.	Mexico DF	Hotel Business	100%	100%
Chartwell de México, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Chartwell de Nuevo Laredo, S.A. de C.V.	Nuevo Laredo	Hotel Business	100%	100%
Chartwell Inmobiliaria de Coatzacoalcos, S.A. de C.V.	Coatzacoalcos	Hotel Business	100%	100%
City Hotel, S.A.	Buenos Aires	Hotel Business	50%	50%
Subsidiaries				
Club Deportivo Sotogrande, S.A.	San Roque	Tourist services	93%	93%
Cofir, S.L.	Madrid	Corporate services	100%	100%

Columbia Palace Hotel, S.A.	Montevideo	Hotel Business	100%	100%
Compañía Servicios Queretaro	Querétaro	Hotel Business	50%	50%
Coperama Servicios a la Hostelería, S.L.	Barcelona	Purchasing centre	100%	100%
DAM 9 B.V.	Amsterdam	Holding company	100%	100%
De Sparrenhorst, B.V.	Nunspeet	Hotel Business	100%	100%
Desarrollo Inmobiliario Santa Fe, S.A. de C.V.	Mexico City	Hotel Business	50%	50%
Donnafugata Resort, S.r.l	Italy	Tourist services	95%	95%
Edificio Metro, S.A.	Buenos Aires	Hotel Business	100%	100%
Establecimientos Complementarios Hoteleros, S.a.	Barcelona	Sports Centres	100%	100%
Expl. Mij. Grand Hotel Krasnapolsky B.V.	Amsterdam	Hotel Business	100%	100%
Expl. Mij. Hotel Best B.V.	Best	Hotel Business	100%	100%
Expl. Mij. Hotel Doelen B.V.	Amsterdam	Hotel Business	100%	100%
Expl. Mij. Hotel Naarden B.V.	Naarden	Hotel Business	100%	100%
Expl. Mij. Hotel Schiller B.V.	Amsterdam	Hotel Business	100%	100%
Exploitatiemaatschappij Caransa Hotel, B.V.	Amsterdam	Without activity	100%	100%
Exploitatie Mij. Tropicshotel B.V.	Hilversum	Hotel Business	100%	100%
Fast Good Islas Canarias, S.A.	Las Palmas	Catering	100%	100%
Fast Good Península Ibérica, S.L.	Madrid	Catering	100%	100%
Franquicias Lodge, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Gran Círculo de Madrid, S.A.	Madrid	Catering	99%	99%
Grupo Financiero de Intermediación y Estudios, S.A.	Madrid	Corporate services	100%	100%
Grupo Hotelero Monterrey, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Grupo Hotelero Querétaro, S.A. de C.V.	Querétaro	Hotel Business	69%	69%
Hanuman Investment, S.L.	Tenerife	Hotel Business	50%	50%
Heiner Gossen Hotelbetrieb, GmbH	Mannheim	Hotel Business	100%	100%
HEM Atlanta Rotterdam B.V.	Hilversum	Hotel Business	100%	100%
HEM Epen Zuid Limburg B.V.	Wittem	Hotel Business	100%	100%
HEM Forum Maastricht B.V.	Maastricht	Hotel Business	100%	100%
HEM Jaarbeursplein Utrecht B.V.	Utrecht	Hotel Business	100%	100%
HEM Janskerkhof Utrecht B.V.	Hilversum	Hotel Business	100%	100%
HEM Marquette Heemskerk B.V.	Hilversum	Hotel Business	100%	100%
HEM Onderlangs Arnhem B.V.	Arnhem	Hotel Business	100%	100%
HEM Spuistraat Amsterdam B.V.	Amsterdam	Hotel Business	100%	100%
HEM Stadhouderskade Amsterdam B.V.	Amsterdam	Hotel Business	100%	100%
HEM Van Alphenstraat Zandvoort B.V.	Hilversum	Hotel Business	100%	100%
Hesperia Enterprises de Venezuela, S.A.	Margarita Island	Hotel Business	100%	100%
Highmark Geldrop B.V.	Geldrop	Hotel Business	100%	100%
Highmark Hoofddorp B.V.	Hoofddorp	Hotel Business	100%	100%
Hispana Santa Fe, S.A. de C.V.	Mexico City	Hotel Business	50%	50%
Hotel Aukamm Wiesbaden, GmbH & Co.	Munich	Real estate	94%	100%
Hotel Ciutat de Mataró, S.A.	Barcelona	Hotel Business	50%	50%
Hotel de Ville B.V.	Groningen	Hotel Business	100%	100%
Hotel Expl. Mij. Amsterdam Noord B.V.	Amsterdam	Hotel Business	100%	100%
Hotel Expl. Mij. Leijenberglaan Amsterdam B.V.	Amsterdam	Hotel Business	100%	100%
Hotel Expl. Mij. Capelle a/d IJssel, B.V.	Capelle a/d IJssel	Hotel Business	100%	100%
Hotel Expl. Mij. Danny Kayelaan Zoetermeer, B.V.	Hilversum	Hotel Business	100%	100%
Hotel Expl. Mij. Stationsstraat Amersfoort, B.V.	Amersfoort	Hotel Business	100%	100%

Investee company	Location	Main activity	% shareholding	% voting rights
Subsidiaries				
Hotel Holding Onroerend Goed dVij Vlieghe B.V.	Hilversum	Hotel Business	100%	100%
Hotel Houdstermaatschappij Jolly, B.V.	Amsterdam	Holding company	56%	56%
Hoteleira Brasil, Ltda.	Brazil	Hotel Business	100%	100%
Hotelería de la Parra, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Hotelería del Mar, S.A.	Mar del Plata	Hotel Business	20%	20%
Hotelería Lancaster, S.A.	Buenos Aires	Hotel Business	50%	50%
Hotelería de Chile	Santiago de Chile	Hotel Business	100%	100%
Hoteles Hesperia, S.A.	Barcelona	Hotel Business	100%	100%
Hotelexploitiemaatschappij Vijzelstraat Amsterdam, B.V.	Amsterdam	Hotel Business	56%	56%
Hoteles Bingen & Viernheim, GmbH & Co.	Munich	Real estate	94%	94%
Iberinterbrokers	Barcelona	Corporate services	75%	75%
Immobiliare 4 Canti S.r.l.	Messina	Hotel Business	50%	50%
Inmobiliaria y Financiera Aconcagua, S.A.	Buenos Aires	Hotel Business	100%	100%
Inmobiliaria y Financiera Chile S.A.	Santiago de Chile	Real estate	100%	100%
Inversores y Gestores Asociados, S.A.	Madrid	Corporate services	100%	100%
Jan Tabak N.V.	Bussum	Hotel Business	81%	81%
JH Belgium, S.A.	Brussels	Hotel Business	56%	56%
JH Deutschland, GmbH	Cologne	Hotel Business	56%	56%
JH Holland N.V.	Amsterdam	Hotel Business	56%	56%
JH USA, Inc.	Wilmington	Hotel Business	56%	56%
Koningshof B.V.	Veldhoven	Hotel Business	100%	100%
Krasnapolsky Belgian Shares B.V.	Hilversum	Holding company	100%	100%
Krasnapolsky Hotel B.V.	Amsterdam	Without activity	100%	100%
Krasnapolsky H&R Onroerend Goed B.V.	Amsterdam	Real estate	100%	100%
Krasnapolsky Hotels & Restaurants N.V.	Amsterdam	Holding company	100%	100%
Krasnapolsky Hotels Ltd.	Somerset West	Hotel Business	100%	100%
Krasnapolsky ICT B.V.	Hilversum	Without activity	100%	100%
Krasnapolsky International Holding B.V.	Amsterdam	Holding company	100%	100%
Latina Chile, S.A.	Santiago de Chile	Hotel Business	100%	100%
Latina de Gestión Hotelería, S.A.	Buenos Aires	Hotel Business	100%	100%
Latinoamericana de Gestión Hotelería, S.L.	Madrid	Holding company	100%	100%
Leeuwenhorst Congres Center B.V.	Noordwijkerhout	Hotel Business	100%	100%
Liberation Exploitation B.V.	Sprang Capelle	Hotel Business	100%	100%
Marquette Beheer B.V.	Hilversum	Real estate	100%	100%
Museum Quarter B.V.	Hilversum	Hotel Business	100%	100%
Nacional Hispana de Hoteles, S.A.	Mexico City	Hotel Business	100%	100%
NH Aguamarina S.A.	Dominican Republic	Corporate services	100%	100%
NH Atardecer Caribeño, S.L.	Madrid	Corporate services	100%	100%
NH Belgium CvbA	Diegem	Holding company	100%	100%
NH Caribbean Management B.V.	Hilversum	Management	100%	100%
NH Central Europe Management GmbH	Berlin	Hotel Business	100%	100%
NH Central Europe GmbH & Co. KG (*)	Berlin	Hotel Business	100%	100%
NH Central Reservation Ooe, S.L.	Madrid	Call Centre	100%	100%
NH Fashion Tapas, S.L.	Madrid	Catering	100%	100%
NH Finance, S.A. (**)	Luxembourg	Financial company	100%	100%
NH Financing Services S.a r.l.	Luxembourg	Financial company	100%	100%
NH Hotel Ciutat de Reus, S.A.	Barcelona	Hotel Business	90%	90%
NH Europa, S.A. (*)	Barcelona	Hotel Business	100%	100%

Investee company	Location	Main activity	% shareholding	% voting rights
Subsidiaries				
NH Hotelbetriebs. u. Dienstleistungs, GmbH	Berlin	Hotel Business	100%	100%
NH Hotelbetriebs u. Entwicklungs, GmbH	Berlin	Hotel Business	100%	100%
NH Hoteles Austria GmbH (*)	Vienna	Hotel Business	100%	100%
NH Hoteles Deutschland GmbH (*)	Berlin	Hotel Business	100%	100%
NH Hoteles España, S.L. (*)	Barcelona	Hotel Business	100%	100%
NH Hoteles France S.R.L.	France	Hotel Business	100%	100%
NH Hoteles Participaties, NV (*)	Amsterdam	Holding company	100%	100%
NH Hoteles Switzerland GmbH	Fribourg	Hotel Business	100%	100%
NH Hotels Czequia, s.r.o.	Prague	Hotel Business	100%	100%
NH Hotels Polska, Sp. Zo.o.	Poland	Hotel Business	100%	100%
NH Hotels USA Inc.	Houston	Hotel Business	100%	100%
NH Hungary Hotel Management, Ltd. (*)	Budapest	Hotel Business	100%	100%
NH Italia S.r.l. (*)	Milan	Hotel Business	56%	56%
NH Lagasca, S.A.	Madrid	Hotel Business	100%	100%
NH Las Palmas, S.A. (*)	Gran Canaria	Hotel Business	75%	75%
NH Logroño, S.A.	Logroño	Hotel Business	76%	76%
NH Management Black Sea, S.R.L.	Bucharest	Hotel Business	100%	100%
NH Marin, S.A. (*)	Barcelona	Hotel Business	50%	50%
NH Private Equity, B.V.	Amsterdam	Hotel Business	100%	100%
NH Rallye Portugal, Lda.	Portugal	Hotel Business	100%	100%
NH The Netherlands B.V. (formerly GTI B.V.)	Hilversum	Holding company	100%	100%
NHOW ROTTERDAM BV	The Hague	Hotel Business	100%	100%
Noorderweb BV	Hilversum	Hotel	100%	100%
Nuevos Espacios Hoteleros, S.A.	Madrid	Hotel Business	100%	100%
Objekt Leipzig Messe, GmbH & Co.	Munich	Real estate	94%	100%
Olofskapel Monumenten B.V.	Amsterdam	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Atlanta Rotterdam, B.V.	Rotterdam	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Bogardeind Geldrop, B.V.	Geldrop	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Capelle aan den IJssel, B.V.	Capelle a/d IJssel	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Danny Kayelaan Zoetermeer, B.V.	Zoetermeer	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij IJsselmeerweg Naarden, B.V.	Naarden	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Kruisweg Hoofddorp, B.V.	Hoofddorp	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Maas Best, B.V.	Best	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Marquette Heemskerk, B.V.	Heemskerk	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Prins Hendrikade Amsterdam, B.V.	Amsterdam	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Stadhouderskade Amsterdam, B.V.	Amsterdam	Real estate	100%	100%
Onroerend Goed Beheer Maatschappij Van Alphenstraat Zandvoort, B.V.	Zandvoort	Real estate	100%	100%
Operadora Nacional Hispana, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Palatium Amstelodamum N.V.	Amsterdam	Hotel Business	100%	100%
Parque de la 93, Colombia	Colombia	Hotel Business	100%	100%
Parque de la 93 B.V.	Amsterdam	Hotel Business	100%	100%
Polis Corporation, S.A.	Buenos Aires	Hotel Business	100%	100%
Resco Sotogrande, S.L.	San Roque	Real estate	100%	100%
NH Resorts Europa, S.L.	Madrid	Hotel Business	100%	100%
Restaurant DVij Vlieghe, B.V.	Amsterdam	Catering	100%	100%
Servicios Chartwell de Nuevo Laredo, S.A. de C.V.	Nuevo Laredo	Hotel Business	100%	100%
Servicios Corporativos Chartwell Monterrey, S.A. de C.V.	Monterrey	Hotel Business	100%	100%
Servicios Corporativos Hoteleros, S.A. de C.V.	Mexico City	Hotel Business	100%	100%

Servicios Corporativos Krystal Zona Rosa, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Investee company	Location	Main activity	% shareholding	% voting rights
Subsidiaries				
Servicios de Operación Turística, S.A. de C.V.	Guadalajara	Hotel Business	100%	100%
Servicios Hoteleros Tlalhepanita, S.A. de C.V.	Mexico City	Hotel Business	100%	100%
Sotogrande, S.A.	San Roque	Real estate	97%	97%
Stadskasteel Oudaaen B.V.	Utrecht	Without activity	100%	100%
Torale, S.A.	Montevideo	Hotel Business	100%	100%
VSOP VIII B.V.	Groningen	Hotel Business	50%	50%
Borokay Beach, S.L.	Madrid	Hotel Business	50%	50%
Capredo Investments, GmbH	Switzerland	Holding company	50%	50%
Consorcio Grupo Hotelero T2, S.A. de C.V.	Mexico City	Hotel Business	10%	10%
Fonfir1, S.L.	Madrid	Real estate	50%	50%
Harrington Hall Hotel, Ltd.	London	Hotel Business	25%	25%
Inmobiliaria 3 Poniente, S.A. de C.V.	Puebla	Hotel Business	27%	27%
Los Alcomques de Sotogrande, S.L.	San Roque	Real estate	49%	49%
Losan Investment Ltd.	London	Hotel Business	30%	30%
Mil Novecientos Doce, S.A. de C.V.	Mexico	Hotel Business	25%	25%
Palacio de la Merced, S.A.	Burgos	Hotel Business	25%	25%
Residencial Martín, S.L.	San Roque	Real estate	49%	49%
Sotocaribe, S.L.	Madrid	Holding company	36%	36%
Varallo Comercial, S.A.	Dominican Republic	Hotel Business	14%	14%

2.3. Business combination

In April 2001, the IASB adopted IAS 22 "Business Combinations" which had originally been issued by the International Accounting Standards Committee in October 1998. In March 2004, the IASB replaced IAS 22 and three related interpretations (SIC-9, SIC-22 and SIC-28) when issuing IFRS 3 "Business Combinations". In January 2008, the IASB issued a revised IFRS 3, which was amended by the "Improvements to IFRS" document of May 2010. Since this date, minor amendments have been made to IFRS 3 in IFRS 9 (2009), IFRS 10 (2011) and IFRS 13 (2011).

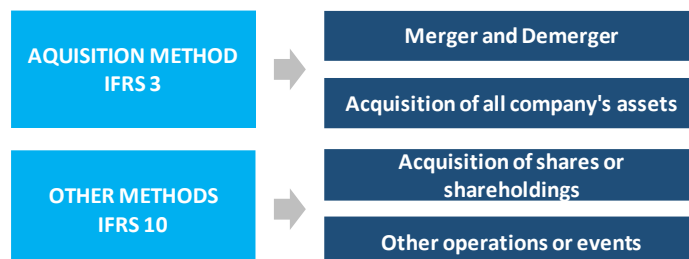
2.3.1. Definition

Business combinations are governed by IFRS 3 which stipulates that, depending on the legal form used, they may originate as a consequence of:

- Fusion or demerger of various companies
- Acquisition of all a company's assets or a part which constitutes one or more businesses.
- Acquisition of shares or shareholdings in the capital of a company, including those received by virtue of a non-monetary contribution in the constitution of a company or subsequent capital increase.
- Acquisition of shares or shareholdings in the capital of a company, including those received by virtue of a non-monetary contribution in the constitution of a company or subsequent capital increase.

- e) Other operations or events whose result is that a company which previously or not has a stake in the capital of a company, acquires control of the latter without making an investment.

Of the previous business combinations, unless it is a business combination involving entities or businesses under common control or the acquiree is a subsidiary of an investment entity, such as defined in IFRS 10 "Consolidated Financial Statements", which require measurement at fair value through profit or loss, they should be accounted for by the acquisition method.



2.3.2. Valuation

With respect to the accounting of the shareholdings in the investor company, the most important aspects in its individual annual accounts are:

a) Initial valuation

Investments in equity of group, multi-group and associated companies will initially be valued at cost, which will be equivalent to the fair value of the consideration provided plus the transaction costs directly attributable to them. This includes the amount of the pre-emptive subscription rights required to make the investment.

If there is an investment prior to its classification as a group, multi-group or associated company, the book value will be considered as the cost of said investment which it should have immediately before being considered as a group. The previous valuation adjustments associated with such investment accounted for directly in equity, will remain in equity until derecognition or impairment occurs.

b) Subsequent valuation

Valued at cost less, where appropriate, of any accumulated impairment losses.

When these balance sheet assets are derecognised, the weighted average cost method for homogeneous groups will be applied.

c) Impairment

At least at year end, the necessary valuation adjustments must be made whenever there is objective evidence that the book value of an investment will not be recoverable.

The impairment is calculated for the difference between the book value of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from said investment.

If this cannot be obtained, it is based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement.

Valuation adjustments for impairment and, if applicable, their reversal, will be recorded as an expense or income in the profit and loss account. The reversal of the impairment shall be limited to the book value of the investment.

Were there to have been an investment in the company prior to qualifying as a group, multi-group or associated company, and prior to that rating, valuation adjustments had been made directly to the net equity derived from such investment, they will be maintained after qualification until their disposal or derecognition, at which time they will be recorded in the profit and loss account, or until the following circumstances occur:

- i. Prior positive adjustments. Valuation adjustments for impairment will be recorded against the equity item which includes the prior valuation adjustments up to the amount of them and the excess, if any, will be recorded in the profit and loss account.
- ii. Prior negative adjustments. When the recoverable amount subsequently exceeds the book value of the investments, the book value will be increased up to the limit of the prior negative adjustment.

If objective evidence of impairment in the investment is obtained, the losses accumulated directly in equity would be recognised in the profit and loss account.

Example. Acquisition of shares through capital increase

NHSA is interested in acquiring 30% of the capital of HOTELSA for which it uses a capital increase carried out on the following terms:

- Increase with 3 new shares for every 2 old.
- The share capital of HOTELSA is composed of 100 shares of nominal 1 euro.
- The theoretical value of the subscription rights amounts to 0.5 euros.
- The operation's expenses amounted to 1%.

Remarks.

The share capital of HOTELSA after the increase will amount to:

Share capital before the increase:	100 shares
Capital increased:	$100 \times 3/2 = 150$ shares
Total capital:	$100 + 150 = 250$ shares
Shares which NHSA needs:	$0.3 \times 250 = 75$ shares
Rights which NHSA needs:	$75 \times 2/3 = 50$ rights
Value of the shareholding (shares):	$75 \times 1 = 75$ euros
Value of the shareholding (rights):	$50 \times 0.5 = 25$ euros
<u>Expenses:</u>	<u>$0.01 \times 100 = 1$ euro*</u>
Total:	101 euros

BALANCE SHEET	DEBIT	CREDIT
Long-term shareholdings	101	-
Banks	-	101

Example. Acquisition of shares through non-monetary contributions.

NHSA has a shareholding representing 30% of HOTELSA, it carries out a capital increase and NHSA uses that increase to subscribe to the corresponding shares through the contribution of a property which is valued for the purpose of capital increase at 200 euros.

HYPOTHESIS A. The property is accounted for at 220 euros.

HYPOTHESIS B. The property is accounted for at 190 euros.

Remarks.

Non-monetary contributions to group, multi-group and associated companies will be accounted for as a non-commercial swap unless otherwise evidenced. Therefore, that which makes the non-monetary contribution should value their shareholding by the book value of that contributed, without being able to account for profits, but to ask for them if they occur.

HYPOTHESIS A.

The value of the shareholding will be the lower of:

- Book value: 220 euros
- Fair value: 200 euros

BALANCE SHEET	DEBIT	CREDIT
Long-term shareholdings in associates	200	-
Property, Plant and Equipment losses	20	-
Investments in constructions	-	220

HYPOTHESIS B.

The value of the shareholding will be the lower of:

- Book value: 190 euros
- Fair value: 200 euros

BALANCE SHEET	DEBIT	CREDIT
Long-term shareholdings in associates	190	-
Investments in constructions	-	190

Example. Investment in group companies, impairment calculation

NHSA has a 60% shareholding in HOTELSA, represented by 200 shares valued at 200 euros. In turn, HOTELSA has a 80% shareholding in JHSA. At 31 December, the following information is known:

- The equity of HOTELSA is 270 euros.
- The consolidated equity of the HOTELSA and JHSA subgroup is 260 euros.

Remarks.

In order to determine the possible impairment, the book value of the shareholding is compared with the proportion corresponding to the equity of the investee, which in this case is the equity of a subgroup, i.e., part of the consolidated annual accounts.

Book value: 200 euros

Value of the assignable CE: $0.6 \times 260 = 162$ euros

Impairment: Recoverable V. - Book V. = $162 - 200 = (38)$

BALANCE SHEET	DEBIT	CREDIT
Impairment losses	38	-
Impairment of shareholdings	-	38

2.3.3. Acquisition method

The acquisition method assumes that the acquiring company will account for the identifiable assets acquired and the liabilities assumed in a business combination at the acquisition date in the consolidated books and, if applicable, the corresponding negative goodwill or negative difference.

Specifically, application of the acquisition method in accordance with IFRS 3 requires:

- a) Identifying the acquiring company.
- b) Determining the acquisition date.
- c) Recognising and valuing the identifiable assets acquired and the liabilities assumed and any non-controlling shareholding in the acquiree.
- d) Recognising and valuing the goodwill or a gain from a purchase under very advantageous conditions.

Taking into account all the relevant steps, the steps to follow in order to analyse a business combination, would be:



2.3.4. Determining if the transaction is a business combination

For each transaction, the company must determine whether it is a business combination, in particular, if all the assets acquired constitute a business.

Otherwise, the acquisition method will not apply, and the transaction must be accounted for as an asset acquisition, and, if applicable, liability assumption. In this case, the cost of the transaction should be distributed between the identifiable assets acquired and the liabilities assumed, based on their relative fair values. These asset acquisition operations will result in neither goodwill nor a negative difference.

Example. Identification of business combinations

HEMSA is acquired without staff and whose only asset is a building on Calle del Rey in Seville.

Remarks.

The acquired company does not constitute a business combination and therefore only the acquisition of assets and, if applicable, liabilities of HEMSA must be registered.

Example. Identification of business combinations

HOTELSA, a hotel company in which 100 people work, and is located in its hotel in Calle Balmés de Barcelona.

Remarks and proposed solution.

We can identify the acquired company HOTELSA as a business combination.

2.3.5. Identification of the acquiring company.

IFRS 10 defines the acquiring company as that which obtains control over another entity. If a business combination has occurred but the application of the IFRS 10 guidance does not clearly indicate which of the merging entities is the acquirer, then the factors included in paragraphs B14 to B18 of IFRS 3 should be considered for its determination. The acquiring company is also considered to be the part of a company, which as a result of the combination is demerged from the entity in which it was integrated and obtains control over another or other businesses.

When, as a consequence of a merger, demerger or non-monetary contribution, a new company is formed, one of the companies participating in the combination which existed prior to it will be identified as acquiring company.

In order to identify the company which acquires control, the economic reality will be taken into account and not solely the legal form of the business combination. There are a number of indicators to identify the acquiring company which are:

- a) Generally, an acquirer will be considered whomever delivers a consideration in exchange for the acquired business or businesses.
- b) If the combination results in the partners or owners of one of the combining companies or businesses retaining or receiving a majority of the voting rights in the combined entity or having the power to elect, appoint or terminate the majority of the members of the management body of the combined entity or represent the majority of the voting shares in the combined entity if they act in an organised manner without another group of owners having a significant voting share, the acquirer will generally be that company.
- c) If the combination means that the partners or owners of one of the combining companies or businesses have the power to appoint the management team of the combined business, that company will normally be the acquirer.
- d) If the fair value of one of the companies or businesses is significantly greater than that of the other or others involved in the transaction, the acquiring company will normally be that with the greater fair value.
- e) The acquiring company is usually the one which pays a premium on the fair value of the equity instruments of the other companies which combine.
- f) If more than two companies or businesses are involved in the business combination, other factors will be considered such as which company initiated the combination or

whether the volume of assets, income or profits of a company or business which combines is significantly greater than that of the others.

- g) In order to form a judgment as to which is the acquiring company, the criterion included in letters a), b) and c), respectively, will be considered preferentially.

As a result of the application of the foregoing events, it may happen that the acquired business coincides with that of the absorbing company, the beneficiary or the company in which the capital increase was carried out.

- h) If the transaction that generates the controlling-controlled relationship has been made through an exchange of equity instruments for which the former partners of the subsidiary have obtained control from the parent company, the transaction will be classified as a reverse business combination in that the acquired equity will be that of the parent company.

In consolidation, when the consideration is monetary, the identification of the acquiring company does not present a problem since it will be the one which makes the investment in the acquisition of the other's shares, i.e., the parent company. When the business combination has been through an exchange of equity instruments, what is known as a reverse acquisition may occur, i.e. the former partners of the subsidiary have obtained control of the parent company.

2.3.6. Determination of the acquisition date.

The acquirer will identify the acquisition date, which is the date on which control over the acquired business is obtained. In accordance with paragraph 9 of IFRS 3, this date will generally be the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree -the closing date. However, the acquirer may obtain control on a date before or after the closing date. For example, the acquisition date will precede the closing date if a written agreement provides that the acquirer obtains control of the acquiree at a date prior to the closing date. An acquirer will consider all relevant facts and circumstances.

The determination of this date is of great importance for the following reasons:

- It is the moment in which the possible goodwill or the negative difference is determined with respect to the business combination by comparison between its cost and the assets acquired less the assumed liabilities. This goodwill will only be recorded in respect of those transactions in which control has been achieved and not in relation to previous or subsequent acquisitions of shareholdings.
- When the business combination results in formation of the group, that date will be the beginning of the period in which the subsidiary's results will be included in the consolidated profit and loss account.

When the total or part of the purchase price may take the form of a deferred or contingent consideration, the moment the consideration is paid will have little or no influence on the determination of the acquisition date.

Companies consolidated for the first time at a date later than the acquisition date

- a) If a company has been exempted from the obligation to consolidate due to size, it may be considered that a subsidiary is added to the group on the start date of the first year of preparation of annual accounts, whether it be because of obligation or voluntarily.

This option will not be applicable if the parent is being consolidated in a higher group on the date that the subsidiary's shareholding is acquired.

- b) When the company required to consolidate is subject to the option provided in the previous section, the following rules will apply:
- The assets and liabilities of a subsidiary in this situation will be included in the consolidated financial statements at their book values on the start date of the first year in which the parent company is obliged to produce consolidated financial statements or voluntarily does so.
 - Goodwill arising from the investment-equity elimination shall be subject to the test for impairment at that time and any loss shall be considered as a minor reserve of the company holding the shareholding. Negative differences will be considered as reserves of the company holding the shareholding.
 - For the purposes of the adjustments and eliminations regulated in the consolidation standards, the results for internal operations which must be deferred are those arising in the first year in which the company was obliged to do so or did so voluntarily.
- c) The provisions set forth in the preceding paragraphs will also apply, with the necessary adaptations, to multi-group and associated companies for the purpose of applying the proportional consolidation method or the equity method for the first time.

Example. Acquisition date, when it does not match the date of the first consolidation.

On 30 June XX, NHSA acquires a shareholding of 200 shares representing 60% of HOTELSA. The group formed by the parent NHSA and the subsidiary HOTELSA will not be obliged to produce consolidated accounts until X+4.

Remarks.

In this case, on 30 June XX the investment and takeover of HOTELSA occurs and therefore that will be the acquisition date for the purpose of the business combination.

1 January X+4 will be the first year in which the group is obliged to prepare consolidated annual accounts, i.e., it is the date of first consolidation.

2.3.7. Recognition and valuation of identifiable assets acquired and liabilities assumed by the independent company

Recognition

On the acquisition date, the identifiable assets acquired and liabilities assumed by the subsidiary will be recognised whenever:

- They meet the definition of asset or liability.
- They are part of the business acquired and not the result of a separate transaction, irrespective of whether some of these assets and liabilities have not previously been

recognised in the annual accounts of the acquired company or to which the acquired business belonged because it did not fulfil the recognition criteria in those annual accounts.

In particular, if the acquired business had an operating lease contract on the acquisition date, of which it was a lessee on favourable or unfavourable conditions compared to the market, the acquiring company must recognise an intangible asset or a provision.

On the acquisition date, the acquirer will classify or designate the identifiable assets acquired and liabilities assumed in accordance with the other registration and valuation standards, considering the contractual agreements, economic conditions, accounting and operating criteria and other relevant conditions which exist on that date.

However, with the exception of the foregoing, the classification of lease contracts and others of a similar nature shall be made on the basis of the contractual conditions and other circumstances existing at the beginning of them or, if the conditions have been modified in a way which will change their classification, on the date of such modification, which may be the acquisition date.

To determine whether an identifiable asset it should be analysed so see if it meets the separability criterion or arises from contractual or legal rights, as set forth in IAS 38 in paragraphs 26 to 28 and IFRS 3 in paragraphs B31 and B34.

Paragraph 15 of IFRS states *“At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other IFRSs subsequently. The acquirer shall make those classifications or designations on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.”*

The same IFRS also allows for two exceptions:

- a) *“classification of a lease contract as either an operating lease or a finance lease in accordance with IAS 17 Leases; and*
- b) *classification of a contract as an insurance contract in accordance with IFRS 4 Insurance Contracts.*

The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

Valuation

In general, the identifiable assets acquired and liabilities assumed by the subsidiary will be valued at their fair value at the acquisition date.

However, non-current assets classified by the acquiree as held for sale are measured at the lower of the book value and their fair value less costs to sell.

- Deferred tax assets and liabilities will be recognised and valued according to the taxation schedule expected at the time of their reversal and should not be updated.

- The assets and liabilities associated with defined benefit pension plans will be accounted for at the present value of the committed remuneration less the fair value of the assets assigned to the commitments with which the obligations will be settled.
- In the event that the recording of an identified intangible asset whose valuation, which cannot be calculated by referencing an active market, will entail accounting for an income in the profit and loss account, in accordance with the provisions of the determination of goodwill of the negative difference section, said asset will be valued by deducting the negative difference initially calculated from its fair value.
- If the acquirer receives an asset as an indemnity against any contingency or uncertainty related to all or part of a specific asset or liability, it will recognise and value the asset at the same time and manner as the element which generates the said contingency or uncertainty.
- The acquirer will value a reacquired right recognised as an intangible asset on the basis of the contractual period remaining until its completion, regardless of whether a third party considers any contractual renewals in the determination of their fair value.
- In the event that the acquired business includes obligations classified as contingencies, the acquiring company will recognise the fair value of assuming such obligations as a liability, provided that such liability is a present obligation arising from past events and its fair value can be measured with sufficient reliability, even if it is not likely that there will be an outflow of resources embodying economic benefits in order to settle the obligation.

If at the year-end date there was a business combination in which the valuation process necessary to apply the acquisition method cannot be concluded, the consolidated annual accounts must be prepared using provisional values.

In no case shall the valuation period be greater than one year from the acquisition date and the provisional adjustments shall include that information relating to facts and circumstances which existed at the acquisition date and which, had they been known, would have affected the amounts recognised on said date.

With regards to the determination of the fair value of the identifiable assets, liabilities and contingent liabilities of the company acquired at the acquisition date, Appendix B of IFRS 3 provides a set of indicators for those values.

Example. Valuation of the assets and liabilities assumed

On 30/12/XX, NHSA acquires 100% of HOTELSA, whose book values and fair values on the balance sheet are:

CONCEPT	Accounting Value	Fair Value
Property, Plant and Equipment	430	490
Current assets	30	30
TOTAL ASSETS	460	520
Long-term loans	200	220
Current liabilities	60	60
Eqty.	200	-
TOTAL EQTY-LIABILITIES	460	280

Remarks.

The balance sheet, together with the temporary differences and assets and liabilities, considering a tax rate of 25% is:

ASSETS	Value		Temporary difference		Tax	
	Accounting	Reasonable	Deductible	Taxable	Assets	Liabilities
Property, plant and Equipment	430	490	-	60	-	15
Current assets	30	30	-	-	-	-
TOTAL	460	520	-	60	-	15

LIABILITIES	Value		Temporary difference		Tax	
	Accounting	Reasonable	Deductible	Taxable	Assets	Liabilities
Equity	200	220	20	-	5	-
Long-term loans	60	60	-	-	-	-
Current liabilities	200	240	-	-	-	-
TOTAL	460	520	20	-	5	-

The table above shows that the total assets acquired and liabilities assumed in the business combination are:

CONCEPT	Fair Value
Property, Plant and Equipment	490
Current assets	30
Deferred tax assets	5
TOTAL ASSETS	525

CONCEPT	Fair Value
Long-term loans	220
Current liabilities	60
Deferred tax liabilities	15
LIABILITIES	295
TOTAL NET ASSETS	230

Example. Valuation of previously transferred rights

On 30/12/XX, NHSA acquired HOTELSA. It is known that:

- The tax rate is 25%.
- NHSA, by means of a contract signed on 01/01/X+2, had assigned a business to HOTELSA in usufruct, with the duration of the 20-year contract being extended for another 20 years.
- The market interest rate for similar operations is 6%

Remarks.

It is additionally known that the RV estimated by a third party under the assumption of contract extension amounts to:

$$100 \times \frac{1 - (1 + 0,06)^{-37}}{0,06} = 1.474 \text{ euros}$$

For the purposes of NHSA's valuation, it will value a reacquired right recognised as an intangible asset on the basis of the contractual period remaining until its completion, i.e. 17 years, regardless of whether a third party considers any contractual renewals in the determination of their fair value, therefore, the values which NHSA should recognise will be:

$$\text{Activo intangible: } 100 \times \frac{1 - (1 + 0,06)^{-16}}{0,06} = 1.048$$

Therefore, the deferred tax liabilities will be: $1,048 \times 0.25 = 262$

Tax effect of recognition of assets acquired and liabilities assumed at their fair value

Temporary differences are those derived from the different accounting and tax valuations, attributed to the assets, liabilities and certain equity instruments of the company, insofar as they have an impact on the future tax burden.

For its part, the tax assessment of an asset, liability or equity instrument, called the tax base, is the amount attributed to said element in accordance with applicable tax legislation. There may be some element which has a tax base even though it lacks a book value and, therefore, is not recognised in the balance sheet.

As the application of the acquisition method in business combinations generally requires valuation of identifiable assets and liabilities at a fair value which may differ from their tax base, temporary differences may arise, which will be classified as:

- Taxable temporary differences, which are those that will result in higher amounts to be paid or lower amounts to be returned for tax in future years, usually to the extent of the assets recovered or the liabilities from which they derive are settled.
- Deductible temporary differences, which are those arise in future years, usually to the extent of the assets recovered or the liabilities from which they derive are settled.

In general, a deferred tax liability will be recognised for all taxable temporary differences, unless they have arisen:

- From the initial recognition of goodwill: However, deferred tax liabilities related to goodwill will be recorded as long as they have not arisen from their initial recognition.
- For investments in subsidiaries, associates and joint ventures, if the investor can control the time of the reversal of the difference and it is also probable that such a difference will not reverse in the foreseeable future.

When the deductible temporary difference arises from investments in subsidiaries, associates or joint ventures, a deferred tax asset will only be recognised if that difference is expected to reverse in the foreseeable future and it is probable that the company will have future taxable income in a sufficient amount.

2.3.8. Determination the cost of the combination

The cost of a business combination for the acquiring company will be determined by the sum of:

- The fair value at the acquisition date of the consideration delivered - deliverable assets, liabilities incurred and financial instruments-.
- The fair value of any contingent consideration which depends on future events and which must be recorded as assets, liabilities or equity according to its nature.

If the fair value of the business acquired is more reliable, it will be used instead of the consideration given. Also, unless there is a more reliable valuation, the fair value of equity instruments or financial liabilities issued will be the listed price.

The acquirer must identify those amounts which are part of the consideration paid as exchange for the control and which other amounts are not part of this exchange. Those transactions which should be accounted for separately should be identified.

In this regard, paragraph 53 of IFRS 3 stipulates that costs related to the acquisition will be those incurred by the acquirer to carry out a business combination. These costs include search fees - assessment, consulting, legal, accounting, valuation, etc.; general administration costs, including having a procurement department; and the costs of registration and issuance of debt and equity securities.

The acquirer will account for costs related to the acquisition as expenses in the periods in which costs have been incurred and services have been reduced, except for the costs of issuing debt or equity securities to be recognised in accordance with IAS 32 and IFRS 9.

Example. Cost of business combination

On 30 December XX, NHSA acquires a shareholding of 200 shares representing 40% of HOTELSA. Additionally, the cost of the shareholding involves delivery of 200 euros and expenses of 10 euros.

Remarks.

The cost of the business combination is as follows:

(+) value of the asset delivered	200 euros
(+) value of the cash delivered	200 euros
(+) value of the operation	10 euros
= Cost of the shareholding	410 euros

2.3.9. Recognition and valuation of the minority interest (external partners) in the acquiree.

IFRS 3 (2008) in paragraph 19 states: *"For each business combination, the acquirer shall measure at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either;*

- (a) *fair value; or*
- (b) *the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.*

All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs".

Therefore, when registering the external partners, it will have to take into account some considerations which are:

- That the choice of one criterion or another only affects the initial time, since it is not possible to continue to value the external partners at fair value at subsequent times.
- That the impairment of goodwill will be attributed to both the parent company and the external partners.
- It may happen that the fair value of a share of the minority shareholding is due to the control premium.
- If fair value is applied, the goodwill will be higher and the negative difference lower.
- In subsequent valuations, the external partners will be recorded based on the percentage corresponding to them in equity.

2.3.10. Consolidation goodwill and consolidation negative difference

For the calculation of the consolidation difference we follow the guidelines of IFRS 3 (2008). At the acquisition date, the consolidation difference is determined by the difference between the following amounts:

- a) The cost of the business combination plus, in the case of a combination in stages-successive acquisitions-, the fair value at the acquisition date of any previous shareholding in the capital of the acquired company.

- b) The proportional part of the equity representing the shareholding in the capital of the subsidiary after incorporating the adjustments derived from the recognition and valuation of the identifiable assets acquired and the liabilities assumed, and of derecognising, as the case may be, goodwill recognised in the individual annual accounts of the subsidiary at the acquisition date.

When the control has been obtained by the acquisition of successive shareholdings, it is necessary to operate as follows:

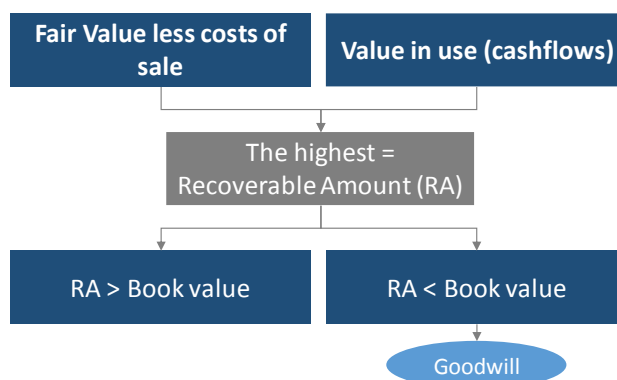
- Unless proven otherwise, it is assumed that the cost of the combination is the best reference to estimate the fair value, on said date, of any previous shareholding of the parent in the subsidiary.
- Shareholdings in the subsidiary's equity held by the group prior to the acquisition of the control will be adjusted to their fair value at the acquisition date, recognising the difference with their previous book value in the items "allocation to profit and loss for the year for financial assets available for sale "or" gains or losses on disposal and others" or "Impairment and profit or loss due to loss of significant influence of shareholdings using the equity method or joint control over a multi-group company" in the consolidated profit and loss account, as appropriate. If applicable, the valuation adjustments associated with these investments accounted for directly in equity will be transferred to the profit and loss account.



Consolidation goodwill and negative difference

If the consolidation difference obtained is positive, its value will be recognised under "Consolidation Goodwill", which will have to take the following into account:

- An asset of the subsidiary will be considered
- This consolidation goodwill will not be amortised, although its possible impairment must be analysed at least annually.



In order to verify the impairment of the cash generating units in which external partners participate, the book value of such unit will be theoretically adjusted before being compared to its recoverable amount. This adjustment is made by adding the goodwill attributable to the external partners at the time of taking control to the book value of the goodwill allocated to the unit.

The theoretically adjusted book value of the generating unit will be compared to its recoverable amount to determine if the unit has impaired. If this is the case, the entity will distribute the impairment loss, reducing the book value of goodwill allocated to the unit.

Because the goodwill is recognised only up to the limit of the parent's shareholding at the acquisition date, any impairment loss on goodwill will be divided between that attributed to the parent and that attributable to external partners, but only the former will be recognised as an impairment loss on the goodwill.

If the impairment loss on the cash generating unit exceeds the amount of goodwill, including the theoretically adjusted amount, the difference will be allocated to the remaining assets.

IFRS 3 in paragraphs 32 to 36 governs the recognition and valuation of goodwill or a gain from a purchase under highly advantageous conditions. Thus, paragraph 32 states:

“The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below:

(a) the aggregate of:

- i. the consideration transferred measured in accordance with this IFRS, which generally requires acquisition-date fair value;*
- ii. the amount of any non-controlling interest in the acquiree measured in accordance with this IFRS; and*
- iii. in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.*

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this IFRS.

The difference between the two options lies in the allocation of goodwill to the external partners or not.

Example. Goodwill without minority interests

NHSA acquires 100% of HOTELSA in exchange for a cash consideration of 160 euros. At the acquisition date, the fair value of HOTELSA's identifiable net assets was 120 euros.

Remarks.

The goodwill would be:

- The fair value of the consideration amounts to 160 euros.
- The value of the identifiable net assets amounts to 120 euros.

Estimated goodwill: 160 – 120 = 40 euros.

The simplified entry for this consolidation would be:

BALANCE SHEET	DEBIT	CREDIT
<i>Net assets acquired</i>	120	-
<i>Goodwill</i>	40	-
<i>Banks</i>	-	160

Example. Goodwill with minority interests

NHSA acquires 60% of HOTELSA in exchange for a cash consideration of 85 euros. At the acquisition date, the fair value of HOTELSA's identifiable net assets was 120 euros.

Remarks.

The calculation of goodwill would be:

- The fair value of the consideration amounts to 85 euros.
- External partners (40% of the RV) amounts to 48 euros
- The value of the identifiable net assets amounts to 120 euros.

Estimated goodwill: 85 + 48 - 120 = 13 euros

The simplified entry for this consolidation would be:

BALANCE SHEET	DEBIT	CREDIT
<i>Assets</i>	120	-
<i>Goodwill</i>	13	-
<i>Bank</i>	-	85
<i>External partners' equity</i>	-	48

Example. Goodwill with assignment of fair value

NHSA acquires 60% of HOTELSA in exchange for a cash consideration of 85 euros. In the RV valuation analysis of the assets and liabilities, the RV of the building has been identified as amounting to 73 and the rest of the assets and liabilities are adequately valued at their fair value. The balance sheet of HOTELSA before the purchase would be:

ASSETS	BALANCE
<i>Building</i>	60
<i>Current assets</i>	125
TOTAL ASSETS	185
LIABILITIES	BALANCE
<i>Equity</i>	129
<i>Current liabilities</i>	56
TOTAL LIABILITIES + EQTY	185

Remarks.

The calculation of goodwill would be:

- The fair value of the consideration amounts to 85 euros.
- External partners (40% of the RV) amounts to $(73 + 125 - 56) \times 40\% = 57$ euros
- The value of the identifiable net assets amounts to 142 euros.

Estimated goodwill: $85 + 57 - 142 = 0$ euros

The simplified entry for this consolidation would be:

BALANCE SHEET	DEBIT	CREDIT
<i>Property, Plant and Equipment</i>	73	-
<i>Current assets</i>	125	-
<i>Bank</i>	-	85
<i>Current liabilities</i>	-	56
<i>External partners' equity</i>	-	57

Example. Calculation of goodwill with fair value and tax effect

(Continuation of previous year). The tax value of the building continues to be 60 euros, while in accounting it has been revalued on the consolidated balance sheet up to 73 euros. Therefore a taxable temporary difference exists.

Required.

The calculation of goodwill without minority interests considering a tax effect of 25% would be:

Remarks and proposed solution

- Tax base: 60 euros
 - Accounting base: 73 euros
- Temporary difference: $60 - 73 = (13)$ euros**

- Deferred tax: $13 \times 25\% = 3.25$ euros

Therefore, the calculation of goodwill will be:

- The fair value of the consideration amounts to 142 euros.
- Deferred tax: 3.25
- New RV of the assets: $142 - 3.25 = 138.75$ euros
- New minority partners: $138.75 \times 40\% = 55.5$ euros
- Consideration: 85 euros

Goodwill: $85 + 55.5 - 138.75 = 1.75$ euros.

The simplified entry for this consolidation would be:

BALANCE SHEET	DEBIT	CREDIT
<i>Property, Plant and Equipment</i>	73	-
<i>Current assets</i>	125	-
<i>Goodwill</i>	1.75	-
<i>Investment in HOTELSA</i>	-	85
<i>HOTELSA current liabilities</i>	-	56
<i>External partners' equity</i>	-	55.50
<i>Deferred tax</i>	-	3.25

2.3.11. Subsequent consolidations

Changes in net equity: reserves in consolidated companies

In subsequent consolidations, the elimination of the investment-equity will be carried out on the same terms as those established for the acquisition date. The surplus or defect of the net assets generated by the subsidiary from the acquisition date will be presented in the consolidated balance sheet in accordance with the following criteria:

- a) The portion attributable to the parent which corresponds to reserves will be shown under the heading "reserves" and will be broken down in the consolidated report under "Reserves in consolidated companies".
- b) The part of this amount which corresponds to the subrogations "adjustments for changes in value" and "grants, donations and legacies received" will be included in the equity according to their nature and the origin and nature of the income and expenses included in such sub-groupings must be included in the report.
- c) The part of the surplus or defect of the net assets generated by the subsidiary company attributable to the external partners must be included in the sub-group "external partners" of the equity.

For the calculation of changes in equity, the following circumstances shall be taken into account:

- Transfers made to the profit and loss account due to changes in value and the grants, donations and legacies received, existing at the acquisition date, should be eliminated.
- Changes in equity will be calculated excluding profit or loss for the year.
- Adjustments to income from previous years for intra-group operations will be taken into account.

In any case, the valuation adjustments corresponding to the investment in the capital of the subsidiary made subsequent to its belonging to a group will be eliminated beforehand.

External partners

The valuation of the external partners in subsequent consolidations is made taking into account the adjustments and limitations foreseen in the global integration method.

The shareholding in the gains or losses of the subsidiaries recognised in the profit and loss account and in the consolidated statement of recognised income and expenses which responds to external partners will be presented separately as an attribution of the profit or loss and not as income or expenses.

When there is a surplus between the losses attributable to the external partners of a subsidiary and the equity portion, excluding the profit or loss of the year of the aforementioned company to which they proportionally corresponds, with both amounts after the adjustments and eliminations provided for in the global integration method, this surplus will be attributed to the external partners, although this implies a debit balance in that item.

In the case of indirect shareholdings, the calculation of the shareholding of external partners, both in profit or loss and in the rest of the equity, will be calculated taking into account the interrelation between the companies.

If the "external partners" are classified as a financial liability, changes in the fair value of this item will be recognised in the consolidated profit and loss account, under "value adjustments of external partners classified as liabilities" within the financial margin, unless there is evidence to the contrary that the change in value is due to another reason.

If the put options granted to the external partners which qualify this item as a financial liability are not finally exercised, it will be considered that there has been a sale of equity instruments to external partners on their maturity date which will be accounted for as a change in the shareholding without loss of control.

In subsequent consolidations, the fair value adjustments of derivative financial instruments which the parent has accounted for in its individual accounts should be eliminated when such instruments are to be classified as contingent considerations of the business combination from the perspective of the consolidated accounts.

Example. Subsequent consolidation.

On 01/01/XX, NHSA acquires a shareholding in HOTELSA which represents 60% of the share capital:

The balance sheets of NHSA and HOTELSA at 01/01/XX are:

CONCEPT	NHSA	HOTELSA
Non-Current Assets	300	300
HOTELSA shareholdings	200	-
Current assets	100	100
TOTAL ASSETS	600	100
Share capital	100	100
Legal	200	100
Non-current liabilities	200	150
Current liabilities	100	50
TOTAL EQTY-LIABILITIES	600	400

- The non-current assets of HOTELSA have a fair value of 400 euros.
- Corporation tax is 25%.

The balance sheets of NHSA and HOTELSA at 31/12/X+2 are:

CONCEPT	NHSA	HOTELSA
Non-Current Assets	500	400
HOTELSA shareholdings	200	-
Current assets	100	100
TOTAL ASSETS	800	500
Share capital	100	100
Legal	300	200
Profit(Loss)	100	50
Non-current liabilities	200	100
Current liabilities	100	50
TOTAL EQTY-LIABILITIES	800	500

HYPOTHESIS A. There have been no intra-group transactions and the increase in value corresponds to a depreciable asset with a useful life of 5 years.

Charge the HOTELSA reserves account 30 euros for a fixed asset transaction.

Pay the HOTELSA profit and loss account 10 euros for an inventories transaction.

Remarks.

The calculation of the shareholding cost is 200 euros according to the balance sheet.

The assets acquired and liabilities assumed in the business combination are then determined. The balance sheet of the subsidiary together with the temporary differences and assets and liabilities for said differences is, on 01/01/XX, as follows:

	Value		Temporary difference		Tax	
ASSETS	Accounting	Reasonable	Deductible	Taxable	Assets	Liabilities
Non-current assets	300	400	-	100	-	25
Current assets	100	100	-	-	-	-
TOTAL	400	500	-	100	-	25

DATE	Value		Temporary difference		Tax	
LIABILITIES	Accounting	Reasonable	Deductible	Taxable	Assets	Liabilities
Equity	200	300	-	-	-	-
Non-current liabilities	150	150	-	-	-	-
Current liabilities	50	50	-	-	-	-
TOTAL	400	500	-	-	-	-

The table above shows that the total assets acquired and liabilities assumed in the business combination are:

CONCEPT	NHSA
Non-Current Assets	400
Current assets	100
TOTAL ASSETS	500
Non-current liabilities	150
Current liabilities	50
Deferred tax liabilities	25
TOTAL LIABILITIES	230
TOTAL EQTY AND LIABILITIES	275

The consolidation margin amounts to: $200 - 60\% \times 275 \text{ euros} = 35 \text{ euros}$ which, being positive, will be accounted for in the item "Consolidation goodwill".

The first elimination of investment-equity entry will be as follows:

- The equity accounts are derecognised at their book value.
- The assets acquired and the liabilities assumed will have to be adjusted by the difference between their book value and their fair value, since these items are to be valued at their fair value.
- It will reflect the goodwill.
- Assets and liabilities for temporary differences will be reflected.
- External partners are accounted for by the percentage corresponding to them in total equity at 01/01/XX = $40\% \times 275 = 110 \text{ euros}$.

BALANCE SHEET	DEBIT	CREDIT
Share capital	100	-
Legal	100	-
Non-current assets	100	-
Consolidation goodwill	35	-
Group companies L/T shareholdings	-	200
Deferred tax liabilities	-	25
External partners	-	110

Accounting for the amortisation of the increase in value corresponding to the depreciable asset.

Annual amortisation: $100 - 5 = 20 \text{ euros}$ a year, therefore:

- Year X 20 Allocation to reserves 40 euros
- Year X+1 +1.20
- Year X+2 +1.20 Allocation to profit or loss: 20 euros

BALANCE SHEET	DEBIT	CREDIT
Profit (Loss)	15	-
Legal	28	-
Deferred tax liabilities	17	-
Non- current assets:	-	60

PROFITS AND LOSSES	DEBIT	CREDIT
Depreciation	20	-
Tax	-	5
Profit or loss (Balance)	-	15

In the equity of the subsequent consolidation date, the profit or loss of the year which has been generated by the group is not included and the adjustments for intra-group transactions will be taken into account.

To calculate changes in equity, we do so by item:

Change of reserves Calculation of reserve in consolidated companies:

- HOTELSA reserves on the BALANCE SHEET at 31/12/XX + 2: 200
- Adjustment for intra-group operations: 0
- Adjustment for allocations to profit or loss: 0
- HOTELSA adjusted reserves at 31/12/X+2: 200
- HOTELSA reserves at 01/01/X: 100
- Change of reserves: 100 euros
- Reserves in consolidated companies: $60\% \times 100 = 60$ euros.
- Allocation of external partners: $40\% \times 100 = 40$ euros.

PROFITS AND LOSSES	DEBIT	CREDIT
Legal	100	-
Reserves in consolidated companies	-	60
External partners	-	40

Therefore, we do not find change in subsidies and the changes to value adjustments will be:

- Distribution of the NHSA profit of loss:

PROFITS AND LOSSES	DEBIT	CREDIT
Profit (Loss) for the year	86	-
Profit or loss of the parent	-	86

- Distribution of the HOTELSA profit of loss:

PROFITS AND LOSSES	DEBIT	CREDIT
Profit (Loss) for the year	50	-
Profit or loss attributable to the parent company	-	30
External partners	-	20

Therefore, the consolidated balance sheet would be:

	CLOSE		AGGREGATED	ELIM.		BALANCE SHEET
ASSETS	N	H		N	H	CONSO.
Non-current assets	500	400	900	100	60	940
Current assets	100	100	200	-	-	200
Shareholding in HOTELSA	200	-	200	-	200	-
Contingency goodwill	-	-	-	38	-	38
TOTAL	800	500	1,300	-	-	1,178

DATE	CLOSE		AGGREGATED	ELIM.		AGGREGATED
LIABILITIES	N	H		N	H	CONSO.
Share capital	100	100	200	100	-	100
Legal	300	200	500	228	-	272
Profit(Loss)	100	50	150	150	-	0
Non-current liabilities	200	100	300	-	-	300
Current liabilities	100	50	150	-	-	150
Deferred tax liabilities	-	-	-	18	30	12
Reserves in companies	-	-	-	-	60	60
Contingencies	-	-	-	-	168	168
External partners	-	-	-	-	116	116
Profit or loss attributable to the parent company	-	-	-	-	116	116
TOTAL EQTY AND LIABILITIES	800	500	1,300	634	634	1,178

- The reserve account only appears for the parent company: 272 euros
- The external partners are:
Value assigned on acquisition date: 108 euros
Allocation of change of reserves: 40 euros
Allocation of profit or loss: 20 euros
Balance of external partners: 168 euros
- Deferred tax liabilities are:
Recognised on the acquisition date: $0.3 \times 100 = 30$ euros
Less that attributed due to amortisation: $30 - 5 \times 3 = 18$ euros
Balance of deferred tax liabilities: $30 - 18 = 12$ euros

Change of the shareholding without loss of control

When, as a result of a business combination for the acquisition of equity instruments of another company, control has been obtained over it, subsequent operations which change the shareholding without loss of control will be considered in the consolidated accounts as a transaction with own equity securities. Consequently, in the elimination of investment-equity and in the calculation of the external partners, the following rules will apply:

- a) The amount of consolidated goodwill or recognised negative difference or other assets or liabilities in the consolidated balance sheet shall not be changed.
- b) In the event of a reduction in shareholding without loss of control, the profit or loss recognised in the individual annual accounts should be eliminated exclusively for the purpose of consolidation, a circumstance which will cause an adjustment in the company's reserves that reduces its participation.

- c) The amount of the "valuation adjustments" and of the "grants, donations and legacies received" of the subsidiary will be quantified based on the shareholding percentage of the group companies in the company's capital, once the operation is realised.
- d) The shareholding of the external partners in the equity of the subsidiary will be shown in the consolidated balance sheet according to the shareholding percentage which third parties outside the group hold in the capital of said company, once the operation is realised, including, as a result, the shareholding percentage in the goodwill recorded in the consolidated accounts associated to the change produced.
- e) If necessary, the adjustment necessary to comply with the provisions of letters a), c) and d) will cause a change in the company's reserves which reduces or increases its shareholding.

When the reduction in the shareholding percentage causes a significant loss in the individual annual accounts of the investor company, this circumstance will be taken into account to assess the impairment of goodwill in consolidation.

Additional investments or reductions of the investment without changes to the shareholding

When a parent company makes a new investment or divestment in the capital of a subsidiary, which does not imply a change in the shareholding in the subsidiary, the consolidation difference calculated at the acquisition date will not be modified; it occurs when the parent performs a capital increase.

In the event of a reduction in the investment, the profit or loss recognised in the individual annual accounts should be eliminated exclusively for the purpose of consolidation, a circumstance which will cause an adjustment in the company's reserves that reduces its participation.

Loss of control of the subsidiary

When there is a loss of control of a subsidiary, the following rules must be taken into account for the configuration of the consolidated annual accounts:

- a) The profit or loss recognised in the individual accounts which reduces its shareholding should be adjusted according to the following criteria:
 - The amount originating in the reserves in consolidated companies generated from the acquisition date will be recognised as reserves of the company which reduces its shareholding.
 - The amount originating in income and expenses generated by the subsidiary in the year up to the date of loss of control must appear according to its nature.

- The amount originating in income and expenses recognised directly in the equity of the subsidiary from the acquisition date, pending allocation to the consolidated profit and loss account, will be reclassified to the corresponding item according to its nature. For this purpose, conversion differences will be shown under "*Exchange differences*" in the consolidated profit and loss account.
- The profit or loss remaining after making the previous adjustments shall be shown in the consolidated profit and loss account, with the appropriate breakdown within the item "*Result of loss of control of consolidated shareholdings*".

If the loss of control originates without producing a divestment in the investee, the result of the operation will also be shown in this item in the consolidated profit and loss account.

- b) If the subsidiary becomes a multi-group or associate, the equity method will be consolidated or initially applied, or as the case may be, for the purposes of its initial valuation, the fair value of the shareholding retained at that date. The adjustment counterpart necessary to measure the new investment at fair value shall be accounted for in accordance with the criteria included in section (a).
- c) The shareholding in the subsidiary's equity held after the loss of control, which does not belong to the consolidation perimeter, will be valued considering, for the purposes of its initial valuation, the fair value at the date on which it ceases to belong to the said perimeter, with the rule set forth in letter a. It is also applicable to account for the necessary counterpart adjustment to measure the new investment at fair value.
- d) An adjustment should be recognised in the consolidated profit and loss account to show the shareholding of the external partners in the income and expenses generated by the subsidiary in the year up to the date of loss of control, and in the transfer to the profit and loss account of the income from expenses directly accounted for in equity.

IFRS 10 governs the loss of control in paragraphs 25 and 26, stating:

"If a parent loses control of a subsidiary, the parent:

- a) derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position.*
- b) recognises any investment retained in the former subsidiary and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs. The remeasured value at the date that control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with IFRS 9 or the cost on initial recognition of an investment in an associate or joint venture, if applicable*
- c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest ,*

Likewise, in paragraphs B97 to B99 of IFRS 10, it sets out guidelines for accounting for loss of control:

A parent might lose control of a subsidiary in two or more arrangements. However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single

transaction. In determining whether to account for the arrangements as a single transaction, a parent shall consider all the terms and conditions of the arrangements and their economic effects. One or more of the following indicate that the parent should account for the multiple arrangements as a single transaction:

- a) They are entered into at the same time or in contemplation of each other*
- b) They form a single transaction designed to achieve an overall commercial effect.*
- c) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.*
- d) One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. An example is when a disposal of shares is priced below market and is compensated for by a subsequent disposal priced above market.*

“If a parent loses control of a subsidiary, it shall derecognise:

- a) the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost; and*
- b) the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them).*

“If a parent loses control of a subsidiary, it shall recognise:

- a) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;*
- b) if the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution; and*
- c) any investment retained in the former subsidiary at its fair value at the date when control is lost.*

It shall reclassify to profit or loss, or transfer directly to retained earnings if required by other IFRSs, the amounts recognised in other comprehensive income in relation to the subsidiary.

It shall recognise any resulting difference as a gain or loss in profit or loss attributable to the parent.

Example. Sale of shareholding in the subsidiary producing the its discontinuance as a group

On 01/01/X, NHSA acquired a shareholding in HOTELSA which represents 70% of the share capital for 300 euros. On 30/06/X+2, NHSA sell the shareholding in HOTELSA for 800 euros.

Other data:

- The book values and fair values of HOTELSA's net assets acquired coincide.
- The change of reserves corresponds to undistributed profits.
- After the sale of HOTELSA, NHSA continues to the parent of the group.
- The profit of NHSA was 500 euros.

- The tax effect is ignored

- The equity in HOTELSA has evolved according to the following table:

CONCEPT	01/01/XX	31/01/XX	31/12/X+1	30/06/X+2	31/12/X+2
Share capital	200	200	200	200	200
Legal	200	200	300	400	400
Subsidies	0	140	105	88	70
70	0	100	100	50	100
TOTAL EQTY	400	640	705	738	770

Remarks.

The consolidation difference on the acquisition date would be: $300 - 0,7 \times (200 + 200) = 20$.

NHSA's profit accounted for in its annual accounts would be:

- Value of the sale of the shareholding: 800 euros
- Book value of the shareholding: 300 euros

Profit or loss of the sale 500 euros

The calculation of profit for consolidation purposes is:

- Value of the sale of the shareholding: 800 euros
- Consolidated book value of the shareholding: 537 euros
- + EQTY on date of sale: $0,7 \times 738 = 517$
- + Goodwill: 20

Consolidated profit or loss: 263 euros

Distribution of the HOTELSA profit or loss:

- From reserves generated since the acquisition date: $0,7 \times 200 = 140$
- From subsidies obtained since the acquisition date pending allocation: $0,7 \times 88 = 62$
- From income and expenses for the year up to the date of disposal: $0,7 \times 50 = 35$
- Profit or loss for loss of control: 263

Total: $140 + 62 + 35 + 263 = 500$ euros

The part of the balance sheet corresponding to reserves in consolidated companies will result in the following adjustment:

BALANCE SHEET	DEBIT	CREDIT
Profit or loss (P)	140	-
Legal	-	140

The following adjustments will correspond to the profit and loss account:

- Elimination of profit from reserves generated in previous years.

PROFITS AND LOSSES	DEBIT	CREDIT
Profit	140	-
Profit (Loss)	-	140

- Transfer of the capital subsidy.

PROFITS AND LOSSES	DEBIT	CREDIT
Profit	88	-
GDL transferred	-	88

- Elimination of the profit from the profit or loss for the year up to the disposal and the part corresponding to the subsidies transferred, as well as the recognition of the profit or loss for group purposes by the disposal of the shareholding.

PROFITS AND LOSSES	DEBIT	CREDIT
Profit	272	-
Profit or loss due to the loss	-	263
Profit (Loss)	-	9

- Recognition of external partners up to the date of disposal.

PROFITS AND LOSSES	DEBIT	CREDIT
Profit or loss attributable to the parent company	360	-
Profit or loss attributable to the external partners	41	-
Profit or loss (Balance)	-	401

An adjustment should be recognised in the consolidated profit and loss account to show the shareholding of the external partners in the income and expenses generated by the subsidiary in the year up to the date of loss of control, and in the transfer to the profit and loss account of the income from expenses directly accounted for in equity.

Allocation of profit or loss: $0.3 \times 50 = 15$

Allocation of the subsidy $0.3 \times 88 = 26$

Total: 41

Acquisition of control without transferring consideration

When obtaining control over the subsidiary results in a company which was previously an investee and becomes under the control of the parent without transferring consideration, it will be governed by IFRS 3 of acquisition in stages - see section 2.3.

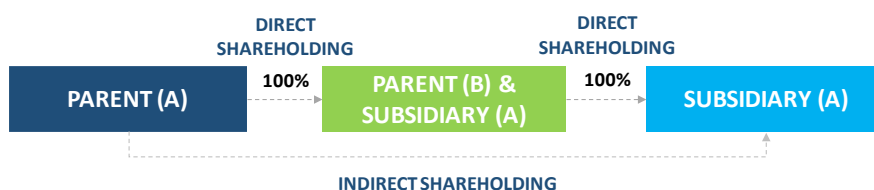
The determination of consolidation goodwill or negative difference will be obtained, in this case, by comparing the fair value of the previous shareholding held by the parent company, with the proportional part which corresponds to the recognition and valuation of assets acquired and liabilities assumed.

When the parent company controls the subsidiary without participating in its capital and the amount of identifiable assets acquired and liabilities assumed by the subsidiary, it will be attributed in full to the external partners, without the recognition of consolidation goodwill or negative difference.

As an example, the reduction of capital will be acquisition of control without consideration which does not equally affect all shareholders, the acquisitions of treasury shares in the company and the elimination of statutory clauses limiting the voting rights.

Indirect shareholdings

The term indirect is used when a company, a subsidiary of a parent, is in turn the parent of another subsidiary. We can also define it as control of a company through a conduit company.



In order to carry out the elimination of investment-equity in the cases of indirect shareholdings, it will be carried out in stages:

- a) The elimination of investment-equity corresponding to the subsidiary which does not have a direct shareholding in the capital of any other subsidiary will be eliminated.
- b) Successive eliminations of investment-equity will be made, based on the quantification of the equity, forming the *"Reserves in consolidated companies"*, *"Valuation adjustments"* and *"Grants, donations and legacies received"*.

In determining the goodwill, the chronology of the shareholdings and the reporting entity must be taken into account. Consequently, the elimination of investment-equity in a subsidiary which participates in a subgroup, will be carried out applying the following criteria:

- a) In the subgroup's consolidated accounts, the valuations resulting from applying the acquisition method will be maintained on the date on which the subsidiary acquired the control of those which make up the subgroup.
- b) In the consolidated group, the aforementioned method will be applied considering all identifiable assets and liabilities assumed by each subsidiary as if it were a single acquired entity, a circumstance which logically could cause variations between the valuations granted to the equity elements in the consolidated accounts of the subgroup, and those which should appear in the consolidated group. A new analysis should be carried out on the allocation of previously recognised goodwill between the different cash generating units of the group.

Shareholding in the capital of the parent

Shareholding in the capital of the parent will be included in equity, reducing own funds and, under no circumstances, be recognised as financial assets of the group.

Expenses arising from transactions with equity instruments of the parent company, as well as any other result from their disposal, must be eliminated by adjusting the reserves of the company which carried out the transaction.

Example. Investments in shares of the parent company

NHSA and HOTELSA form a group in which NHSA is the parent owning 80% of HOTELSA. On 01/01/X, HOTELSA acquired a shareholding in NHSA which represents 5% of the share capital for 200 euros.

During year X, HOTELSA disposed of half the shareholding in NHSA, recognising a profit of 20 euros.

Remarks.

First, the elimination of the profit should be carried out with the shareholding of the parent company.

BALANCE SHEET	DEBIT	CREDIT
<i>Profit (Loss)</i>	20	-
<i>Legal</i>	-	20

PROFITS AND LOSSES	DEBIT	CREDIT
<i>Profits</i>	20	-
<i>GDL transferred</i>	-	20

Subsequently, it should be reclassified as long-term investments with related parties.

BALANCE SHEET	DEBIT	CREDIT
<i>Shares and shareholdings parent company</i>	100	-
<i>Long-term shareholdings with related parties</i>	-	100

After the proposed adjustments, the consolidated balance sheet and the consolidated profit and loss account, in relation to the described operations, would be:

DATE	COMPANY		AGGREGATED BALANCE SHEET	ELIMINATION		CONSO.
ACCOUNTS	N	H		N	H	
<i>Ownership interest</i>	-	100	100	-	100	-
TOTAL ASSETS	-	100	100	-	100	-
<i>Items of the parent company</i>	-	-	-	100	-	(100)
<i>Profit (Loss)</i>	-	20	20	20	-	-
<i>Legal</i>	-	-	-	-	20	20
TOTAL EQTY + LIABILITIES	-	20	20	120	20	20

Cross-shareholdings between subsidiaries

In cross-shareholdings between subsidiaries, the goodwill or negative difference must be calculated without affecting the calculation of the equity of their interrelationship.

In order to calculate the reserves in consolidated companies from cross-shareholding subsidiaries, and to determine the shareholding in the valuation adjustments and in the grants, donations and legacies received by the subsidiary, the change in the equity of each of them shall be calculated taking into account such interrelation.

As previously mentioned, the chronology of the shareholdings will have to be taken into account. If the cross-shareholdings occur prior to taking a shareholding in the parent, it will be necessary to make the calculations derived from the interrelation which had not previously been considered in the consolidated annual accounts. If the cross investment occurs once control exists, neither the goodwill nor the additional consolidation negative difference will be recognised.

2.1.1. Exceptions to the acquisition method

Acquisition of a subsidiary which does not constitute a business

A business is defined as the integrated set of activities and assets which can be directed and managed for the purpose of providing a return, lower costs or other economic benefits directly to its owners or investees.

The book value of the shareholding will be distributed based on the relative fair value of the various identifiable assets acquired and liabilities assumed, without recognition of consolidation goodwill or consolidation negative differences.

Transfers of shareholdings between group companies

In the case of transfers between group companies of shareholdings in the capital of another company of that group, the amounts of equity valuations, goodwill and the pre-existing consolidation negative difference shall not be altered, deferring the profit or loss of such operation until they are carried out against third parties. It will be understood to have been realised against third parties when they are disposed of or the subsidiary stops being part of the group.

The profit or loss to be deferred is that which would result on the basis of the value of the shareholding on the transfer date taking into account the proportional part of the reserves and the profit or loss for the year generated by the subsidiary, as well as the valuation adjustments, grants, donations and legacies received since the acquisition date. The profit or loss recognised in the company's individual annual accounts which disposes of its shareholding should be adjusted according to the following criteria:

- a) The amount originating in the reserves in consolidated companies generated from the acquisition date will be recognised as reserves of the company which disposes of its shareholding.
- b) The amount originating in income and expenses generated directly in the equity of the subsidiary from the acquisition date, pending allocation to the consolidated profit and loss account, should appear in the consolidated balance sheet according to its nature.
- c) The amount originating in income and expenses recognised directly in the equity of the subsidiary from the acquisition date, pending allocation to the consolidated profit and loss account, should appear in the consolidated balance sheet according to its nature.
- d) The remaining profit or loss will be eliminated against the shareholding in the subsidiary which has been transferred.

Business combinations between group companies

If a company constituting a business acquires the management of a subsidiary as a result of a non-monetary contribution or a demerger, the integration of the identifiable assets and liabilities assumed in the consolidated accounts will be carried out at the book values held in the individual annual accounts if, prior to acquiring said condition, this company and the parent were under the control of a single management.

In cases of indirect shareholdings, if the parent company or subgroup produces consolidated annual accounts, the identifiable assets and liabilities assumed which constitute a business will

be valued at the values they had in the consolidated annual accounts of the largest group or subgroup in which the aforementioned assets are integrated, provided that the parent-subsidiary relationship has been made by virtue of a non-monetary contribution from the subsidiary's equity instruments. In the event that the company is exempt from the obligation to consolidate, the values existing in the individual annual accounts before the operation will be taken.

Example. Business combinations between group companies: values in individual accounts

The businessman Mr "NH" holds 100% of NHSA and HOTELSA. NHSA increases its share capital by 200 euros with an issue premium of 200 euros, Mr "NH" subscribes to the increase by contributing shares in HOTELSA.

The balance sheets of the companies just before the increase are:

Concept	NHSA	HOTELSA
Non- current assets	900	500
Current assets	100	100
TOTAL ASSETS	1,000	600
Share capital	400	200
Legal	200	100
Non-current liabilities	300	200
Current liabilities	100	100
TOTAL EQTY AND LIABILITIES	1,000	600

The fair value of HOTELSA is 400 euros.

Remarks.

The structure of the companies before the capital increase would be that Mr NH would own 100% of NHSA and 100% of HOTELSA.

As a result of the capital increase, the accounting entries which NHSA would have to make are:

- In relation to the issue.

BALANCE SHEET	DEBIT	CREDIT
Shares issued	400	-
Share capital	-	200
Share premium	-	200

- In relation to receiving the shareholding.

BALANCE SHEET	DEBIT	CREDIT
Group companies L/T shareholdings (H)	300	
Reserves (1)	100	
Shares issued		400

An adjustment will have to be made for the difference between HOTELSA's fair value and book value:

Fair value: 400 euros

Book value: 300 euros

+ Assets: 200

- Liabilities: 100

Adjustments: 100 euros

As a result of the capital increase, the accounting entry which HOTELSA would have to make is:

- In relation to the exchange of equity instruments.

BALANCE SHEET	DEBIT	CREDIT
Group companies L/T shareholdings (N)	300	-
Group companies L/T shareholdings (H)	-	300

Graphically, the structure of the companies after the capital increase would be:



The balance sheets of the companies just before the increase are:

Concept	NHSA	HOTELSA
Non- current assets	900	500
Current assets	100	100
Shareholding in HOTELSA	300	-
TOTAL ASSETS	1,300	600
Share capital	600	200
Legal	100	100
Share premium	200	-
Non-current liabilities	300	200
Current liabilities	100	100
TOTAL EQTY AND LIABILITIES	1,300	600

Elimination investment-equity.

BALANCE SHEET	DEBIT	CREDIT
Group companies L/T shareholdings (H)	200	-
Reserves (H)	100	-
Group companies L/T shareholdings	-	300

An adjustment will have to be made for the difference between the fair value and book value of HOTELSA in NHSA:

Fair value: 400 euros

Book value: 300 euros

+ Assets: 200

- Liabilities: 100

Adjustments: 100 euros

The consolidated balance sheet would be:

	CLOSE		AGGREGATED	ELIM.		BALANCE SHEET
	N	H		N	H	CONSO.
ASSETS						
Non-current assets	900	500	1,400	-	-	1,400
Current assets	100	100	200	-	-	200
Shareholding in the group	300	-	300	-	300	-
Contingency goodwill	-	-	-	-	-	-
TOTAL	1,300	600	1,900	-	300	1,600
	CLOSE		AGGREGATED	ELIM.		AGGREGATED
	N	H		N	H	CONSO.
LIABILITIES						
Share capital	600	200	800	200	-	600
Legal	100	100	200	100	-	100
Premium	200	-	200	-	-	200
Non-current liabilities	300	200	500	-	-	500
Current liabilities	100	100	200	-	-	200
TOTAL EQTY AND LIABILITIES	1,300	600	1,900	300	300	1,600

3. Consolidation methods

3.1. Global consolidation

3.1.1. Introduction

The global integration method consists of the inclusion in the balance sheet, the profit and loss account, the statement of changes in equity and the cash flow statement of the company required to consolidate all assets, liabilities, income, expenses, cash flows and other items of the annual accounts of the group companies once the previous homogenisations and the relevant eliminations have been made.

This process is reflected in what is called a consolidation worksheet, and has the following structure:

(A) Consolidated balance sheet

	CLOSE		HOMOG.		AGGREGATED	ELIM. & AJUST		BALANCE SHEET
ASSETS	Parent (P)	Subsidiary (S)	P	S		P	S	CONSO.
Cash								
...								
TOTAL								
DATE	31/12/XX	31/10/XX	P		AGGREGATED	ELIM. & AJUST		AGGREGATED
LIABILITIES	Parent (P)	Subsidiary (S)	P	S		P	S	CONSO.
Equity								
Other Eqty								
Liabilities								
TOTAL								

(B) Consolidated profit and loss account

DATE	CLOSE		HOMOG.	AGGREGATED	ELIM. & AJUST	PL
ACCOUNTS	Parent (P)	Subsidiary (S)				CONSO.
Turnover						
PROFIT (LOSS)						

(C) Consolidated statement of recognised income and expense

DATE	CLOSE		HOMOG.	AGGREGATED	ELIM. & AJUST	CONSO.
ACCOUNTS	Parent (P)	Subsidiary (S)				
Items						
TOTAL						

(D) Consolidated statement of changes in total equity

DATE	CLOSE		HOMOG.	AGGREGATED	ELIM. & AJUST	CONSO.
ACCOUNTS	Parent (P)	Subsidiary (S)				
Items						
TOTAL						

(E) Consolidated statement of cash flows

DATE	CLOSE		HOMOG.	AGGREGATED	ELIM. & AJUST	CONSO.
ACCOUNTS	Parent (P)	Subsidiary (S)				
Operation						
Investment						
Financing						
TOTAL						

3.1.2. Homogenisation of accounts

Temporal homogenisation

Temporal homogenisation is regulated in article 16 of the NOFCAC (Spanish Standards on the Formulation of Consolidated Annual Accounts) and in IFRS 10 from which we can extract the following:

- a) The consolidated annual accounts shall be established on the same date and period as the annual accounts of the company required to be consolidated.
- b) If a subsidiary closes its year at a date different from that of the parent by more than three months, its inclusion in the consolidated annual accounts will be made through interim accounts referring to the same date and period to which they refer in the consolidated accounts.
- c) Including the accounts of subsidiaries whose end date does not differ by more than three months, before or after, from the closing date with the consolidated accounts is permitted with the following qualifications:
 - i. The duration of the reference year coincides with the consolidated annual accounts.
 - ii. When operations or events take place between the end date of the year of the subsidiary and that of the consolidated accounts; in this case, if the operation has been carried out with a group company, the relevant adjustments and eliminations must be made, reporting on all of them in the report.
 - iii. If in subsequent years the subsidiary changes its end date by adjusting it to the end date of the consolidated annual accounts, this change will be treated, for the sole purposes of the consolidated annual accounts, as a change in accounting criteria

- d) When a company enters or leaves the group, the profit and loss account, the statement of changes in equity and the cash flow statement of the company to be included in the consolidation must be referred to only in the part of the year which the company has formed part of the group

Example. Temporal homogenisation

NHSA and HOTELSA form a group whose parent is NHSA, the balance sheets and the profit and loss accounts, with their end dates, are the following:

Balance sheet

DATE	31/12/XX	31/10/XX	DATE	31/12/XX	31/10/XX
ASSETS	N	H	LIABILITIES	N	H
Cash	100	80	Equity	300	200
Other assets	600	500	Liabilities	400	380
TOTAL	700	580	TOTAL	700	580

Profits and losses

DATE	31/12/XX	31/10/XX
ACCOUNTS	N	H
Turnover	500	400
Expenses	(400)	(300)
Profit (Loss)	100	100

Hypothesis A. In November and December, there are no intra-group operations.

Hypothesis B. In December RURASA sold land for 100 euros cash, which was its book value.

Remarks.

Hypothesis A. Given that the end date of HOTELSA is less than three months compared to the parent company, and there have been no intra-group transactions, it is not appropriate to make homogenisation adjustments, so the financial statements can be aggregated.

Hypothesis B. Since the amount of the land disposed of represents 20% of the item "Other assets", this operation must be considered as a significant event and, therefore, even though the end date of HOTELSA is less than three months from that of NHSA, since a significant operation occurred between these dates, a homogenisation entry will be made, which will consist of reflecting the operation in HOTELSA.

BALANCE SHEET	DEBIT	CREDIT
Cash	100	-
other expenses	-	100

If the operation had been between group companies, the relevant elimination and adjustment would also occur, reporting on them in the report.

Once the above information has been adjusted, both financial statements are aggregated as follows:

Aggregated balance sheet

DATE	31/12/XX	31/10/XX	HOMOGENISATION		AGGREGATED
ASSETS	N	H	P	H	CONSO.
Cash	100	80	100	-	280
Other assets	600	500	-	(100)	1,000
TOTAL	700	580	100	(100)	1,280

DATE	31/12/XX	31/10/XX	HOMOGENISATION		AGGREGATED
LIABILITIES	N	H	P	H	CONSO.
Equity	300	200	-	-	500
Liabilities	400	380	-	-	780
TOTAL	700	580	-	-	1,280

Value homogenisation

Value homogenisation is regulated in article 17 of the NOFCAC and in IFRS 10 from which we can extract the following:

- a) Assets and liabilities, income and expenses, and other items in the annual accounts of group companies should be valued using uniform methods and in accordance with the valuation principles and standards established in the Group's Accounting Policy Manual.

It is not obligatory that uniformity implies converging to the criteria of the parent but it is the usual *praxis*.

- b) When an element of the annual accounts has been valued according to non-uniform criteria with respect to those applied in consolidation, that element must be revalued, in accordance with such criteria, with the necessary adjustments being made.
- c) Adjustments will not have to be made when the result of the new valuation offers little of interest in order to achieve the true image of the group.
- d) If the group performs several activities, where some are subject to the general accounting standard and others to accounting standards specific to the financial sector, or because of the item accounted for, the specific regulations must be respected without prejudice to explaining the criteria used in detail.
- e) For those criteria which have options, the corresponding homogenisation between companies should be performed considering the objective of a true image, a circumstance which will motivate the homogenisation of operations considering the criteria applied by the company whose relevance within the group is greater for the aforementioned operation.
- f) When the specific regulations do not have options, the criterion applied by that entity in its individual accounts must be maintained. Specifically, subject to value homogenisation will be:
 - i. Amortisation criteria and valuation of inventories.
 - ii. Global estimates of provisions.
 - iii. Allocation of financial costs.

Example. Value homogenisation

NHSA and HOTELSA form a group whose parent is NHSA, the balance sheets and the profit and loss accounts, with their end dates, are the following:

Balance sheet

DATE	31/12/XX	31/10/XX	DATE	31/12/XX	31/10/XX
ASSETS	N	H	LIABILITIES	N	H
Cash	100	80	Equity	100	100
Other assets	600	500	Other Eqty	200	100
			Liabilities	400	380
TOTAL	700	580	TOTAL	700	580

Profits and losses

DATE	31/12/XX	31/10/XX
ACCOUNTS	N	H
Turnover	700	500
Procurements	(200)	(100)
Other expenses	(400)	(300)
Profit (Loss)	100	100

HOTELSA follows the AWP criterion in the valuation of inventories, whereas the group follows FIFO. If it had followed FIFO, the result would have been €10 higher.

Required.

To analyse if homogenisation is necessary.

Remarks and proposed solution.

In this case, what occurs is:

- Adjust the amount of the inventories and results in the balance sheet.

BALANCE SHEET	DEBIT	CREDIT
Inventories	10	-
Profit(Loss)	-	10

The aggregated balance sheet would be:

Aggregated balance sheet

DATE	31/12/XX	31/10/XX	HOMOGENISATION		AGGREGATED
ASSETS	N	H	P	H	CONSO.
Cash	100	80	10	-	190
Other assets	600	500	-	-	1,100
TOTAL	700	580	10	-	1,290
DATE	31/12/XX	31/10/XX	HOMOGENISATION		AGGREGATED
LIABILITIES	N	H	P	H	CONSO.
Profit (Loss)	100	100	-	10	210
Other Eqty	200	100	-	-	300
Liabilities	400	380	-	-	780
TOTAL	700	580	-	10	1,290

Homogenisation by internal operations

The homogenisation by internal operations, is to synchronise the financial statements of the companies which consolidate to subsequently be able to carry out the intragroup eliminations which come from them. Therefore, adjustments will have to be made when:

- i. In the annual accounts of group companies, the amounts of investees derived from internal operations are not the same, either due to incorrect application of accounting principles or differences between acquisition value and reimbursement value.
- ii. There is some item pending registration.

Example. Homogenisation by internal operations

NHSA and HOTELSA form a group whose parent is NHSA, the balance sheets and the profit and loss accounts, with their end dates, are the following:

Balance sheet

DATE	31/12/XX	31/10/XX	DATE	31/12/XX	31/10/XX
ASSETS	N	H	LIABILITIES	N	H
Cash	100	80	Equity	100	100
Other assets	600	500	Other Eqty	200	100
			Liabilities	400	380
TOTAL	700	580	TOTAL	700	580

Profits and losses

DATE	31/12/XX	31/10/XX
ACCOUNTS	N	H
Turnover	700	500
Procurements	(200)	(100)
Other expenses	(400)	(300)
Profit (Loss)	100	100

On 31/12, HOTELSA bought merchandise on credit from NHSA for the amount of 120 euros. At the close of the balance sheet, HOTELSA had not accounted for the purchase as it had not received the merchandise.

Remarks.

In this case, what is appropriate is to account for the operation in HOTELSA whose daily adjustments are:

BALANCE SHEET	DEBIT	CREDIT
Inventories	120	-
change Inventories	-	120
PL	DEBIT	CREDIT
Procurements	120	-
Liabilities	-	120

The aggregated balance sheet would be as follows:

Aggregated balance sheet

DATE	31/12/XX	31/10/XX	HOMOGENISATION		AGGREGATED
ASSETS	N	H	P	H	CONSO.
Inventories	100	80	120	-	300
Other assets	600	500	-	-	1,100
TOTAL	700	580	10	-	1,400
DATE	31/12/XX	31/10/XX	HOMOGENISATION		AGGREGATED
LIABILITIES	N	H	P	H	CONSO.
Profit (Loss)	100	100	-	-	200
Other Eqty	200	100	-	-	300
Liabilities	400	380	-	120	900
TOTAL	700	580	-	10	1,400

For their part, profits and losses would be:

Aggregated profits and losses

DATE	31/12/XX	31/10/XX	HOMOGENISATION		AGGREGATED
ACCOUNTS	N	H	P	H	CONSO.
Turnover	700	500	-	-	1,200
Procurements	(200)	(100)	120	(120)	(300)
Expenses	(400)	(300)	-	-	(700)
Profit (Loss)	100	100	-	-	200

Homogenisation for the aggregation

When the terminology, content and formal structure of the financial statements of any of the consolidated companies do not coincide with the consolidated annual accounts, the necessary reclassifications must be made to the structure of the individual accounts in order to coincide with those of the consolidated accounts.

Specifically, subject to homogenisation for the segregation will be:

- The structure of the financial statements. If the subsidiary presents its individual annual accounts in an abbreviated format, the necessary reclassifications must be made to match the financial statements to that of the structure of the parent company.
- The coding for accounts which reflect the same concept.

3.1.3. Aggregation

The consolidation phase consists of adding together the different headings or items of identical or similar nature of the homogenised individual annual accounts corresponding to the companies which make up the whole of the consolidation.

3.1.4. Equity elimination

The elimination of the investment-equity is the offsetting of the book values representing the equity instruments of the subsidiary which the parent owns, directly or indirectly, with the proportional share of the subsidiary's equity items attributable to said shareholdings.

In the elimination of investment-equity, several aspects should be considered such as:

- Direct shareholdings.
- Other types of shareholding.
- First consolidation.
- Subsequent consolidations.
- Problems of external partners
- Consolidation differences.
- Reserves in consolidated companies.

Example. Elimination of investment-equity: first consolidation. Direct shareholdings

On 31/12/XX, NHSA acquires 100% of HOTELSA for 100 euros. The assets acquired and liabilities assumed in book values and fair values are:

CONCEPT	Accounting Value	Fair Value
Non-current assets	200	220
Current assets	30	30
R&D	-	10
TOTAL ASSETS	230	260
Non-current liabilities	100	110
Current liabilities	60	60
Eqty.	70	90
TOTAL EQTY-LIABILITIES	230	260

- Tax rate of 25%
- In the balance sheet of HOTELSA its own development project valued at 10 euros is not accounted for.

Remarks.

The cost of the business combination is 100 euros (headline).

The balance sheet of the subsidiary together with the temporary differences and assets and liabilities for said differences is as follows:

ASSETS	Value		Temporary difference		Tax	
	Accounting	Reasonable	Deductible	Taxable	Assets	Liabilities
Non-current assets	200	220	-	20	-	5
Current assets	30	30	-	-	-	-
R&D	-	10	-	10	-	2.5
TOTAL	230	260	-	30	-	7.5

LIABILITIES	Value		Temporary difference		Tax	
	Accounting	Reasonable	Deductible	Taxable	Assets	Liabilities
Non-current liabilities	100	110	10	-	2.5	-
Current liabilities	60	60	-	-	-	-
Equity	70	90	-	-	-	-
TOTAL	230	260	10	-	2.5	-

The table above shows that the total assets acquired and liabilities assumed in the business combination is that which is shown below:

CONCEPT	Fair Value
Non-current assets	220
Current assets	30
R&D	10
Deferred tax assets	2.5
TOTAL ASSETS	262.5
CONCEPT	Fair Value
Non-current liabilities	110
Current liabilities	60
Deferred tax liabilities	7.5
TOTAL LIABILITIES	177.5
TOTAL NET ASSETS	85

The consolidation difference will therefore be: $100 - 85 = 15$ euros which, being positive, will be accounted for in the item Consolidation goodwill.

Subsequently, the elimination of investment-equity entry is carried out. For this, the following will have to be considered:

- The equity accounts are derecognised at their book value.
- The assets acquired and the liabilities assumed will have to be adjusted by the difference between their book value and their fair value, since these items are to be valued at their fair value.
- The consolidation difference will be reflected if applicable.
- The external partners will be reflected, if any.

BALANCE SHEET	DEBIT	CREDIT
Equity	70	-
Non-Current Assets	20	-
Goodwill	15	-
Development	10	-
Deferred tax assets	2.5	-
Long-term group shareholdings	-	100
Deferred tax liabilities	-	7.5
Non-current liabilities	-	10

Example. Elimination of investment-equity with external partners

On 31/12/XX, NHSA acquires 80% of HOTELSA for 70 euros. The assets acquired and liabilities assumed in book values and fair values are:

CONCEPT	Accounting Value	Fair Value
Non-current assets	200	220
Current assets	30	30
R&D	-	10
TOTAL ASSETS	230	260
Non-current liabilities	100	110
Current liabilities	60	60
Eqty.	70	90
TOTAL EQTY-LIABILITIES	230	260

- Tax rate of 25%
- In the balance sheet of HOTELSA its own development project which is valued at 10 euros is not accounted for.

Remarks.

The cost of the business combination is 70 euros.

The balance sheet of the subsidiary together with the temporary differences and assets and liabilities for said differences is as follows:

ASSETS	Value		Temporary difference		Tax	
	Accounting	Reasonable	Deductible	Taxable	Assets	Liabilities
Non-current assets	200	220	-	20	-	5
Current assets	30	30	-	-	-	-
R&D	-	10	-	10	-	2.5
TOTAL	230	260	-	30	-	7.5

DATE	Value		Temporary difference		Tax	
LIABILITIES	Accounting	Reasonable	Deductible	Taxable	Assets	Liabilities
Non-current liabilities	100	110	10	-	2.5	-
Current liabilities	60	60	-	-	-	-
Equity	70	90	-	-	-	-
TOTAL	230	260	10	-	2.5	-

The table above shows that the total assets acquired and liabilities assumed in the business combination are:

CONCEPT	Fair Value
Non-current assets	220
Current assets	30
R&D	10
Deferred tax assets	2.5
TOTAL ASSETS	262.5
CONCEPT	Fair Value
Non-current liabilities	110
Current liabilities	60
Deferred tax liabilities	7.5
TOTAL LIABILITIES	177.5
TOTAL NET ASSETS	85

The consolidation difference will be: $70 - 0.8(85) = 2$ euros which, being positive, would be accounted for in the item Consolidation goodwill.

To carry out the elimination entry the following will have to be considered:

- The equity accounts are derecognised at their book value.
- The assets acquired and the liabilities assumed will have to be adjusted by the difference between their book value and their fair value, since these items are to be valued at their fair value.
- The consolidation difference will be reflected if applicable.
- The external partners must be accounted for by the percentage corresponding to total net assets: $0.2 \times 85 = 17$ euros.

BALANCE SHEET	DEBIT	CREDIT
Equity	70	-
Non-Current Assets	20	-
Goodwill	2.5	-
Development	10	-
Deferred tax assets	2.5	-
Long-term group shareholdings	-	70
Deferred tax liabilities	-	7.5
Non-current liabilities	-	10
External partners	-	17
TOTAL	104.5	104.5

Example. Impairment of goodwill when there are external partners

On 31/12/XX, NHSA acquires 80% of HOTELSA for 500 euros. The assets acquired and liabilities assumed at fair value are:

CONCEPT	Fair Value
ASSETS	1,000
LIABILITIES	(500)
TOTAL NET ASSETS	500

Additionally, the following is known:

- The asset amortises at 100 euros per year
- At 31/12/X+3, NHSA observes signs of impairment in the company controlled by HOTELSA, verifying that the value in use is 700 euros and the fair value is 750 euros with selling costs of 30 euros.

Remarks.

Supposing that HOTELSA is formed solely by a single cash generating unit, the cost of the combination will amount to 500 euros and the assets acquired and liabilities assumed in the business combination would be:

CONCEPT	Fair Value
ASSETS	1,000
LIABILITIES	(500)
TOTAL NET ASSETS	500

The consolidation differential is: $500 - 80\% \times 500 = 100$ euros which, being positive, will be accounted for in the item "Consolidation goodwill".

In order to verify the impairment of the cash generating units in which external partners participate, the book value of such unit will be theoretically adjusted before being compared to its recoverable amount. This adjustment is made by adding the goodwill attributable to the external partners at the time of taking control to the book value of the goodwill allocated to the unit.

Therefore, its calculation will be:

(+) Book value of the assets	1,000	
(-) Cumulative amortisation (3x100)	(300)	
(=) Net book value of the assets	700	
(+) Value of group goodwill	100	
(+) Value of external partners' goodwill	125	(100 / 0.8 = 125 euros)
(=) Book value of HOTELSA	825	

The calculation of the recoverable amount of the investment in HOTELSA will be the highest value between the value in use which amounted to 700 euros and the fair value less costs of sale ($750 - 25 = 725$ euros), therefore, the value in use will apply.

The adjusted amount of the cash generating unit will be compared with its recoverable amount to determine if that unit has impaired, for which the following calculation will be made:

(+) Book value of HOTELSA	825
(-) Recoverable amount	725
(=) Impairment	100

The impairment will be irreversible when it is applied to the goodwill and the part which is applied to the rest of assets will be reversible, therefore the 100 euros allocated to the goodwill of the group is "irreversible" and the 25 euros of expenses incurred allocated to the net assets is "reversible".

3.1.5. Elimination of intra-group items by internal operations

The credits and debts, income and expenses and cash flows between group companies must be eliminated in full in the consolidated annual accounts, once the adjustments from homogenisation have been made.

In order to make the timely elimination of operations between group companies, the following points have to be considered:

- Internal operations are those carried out between two companies of the group from the moment in which both form part of it. Profits and losses are both those recorded in the profit and loss account and income and expenses directly attributed to equity.
- The full profit and loss generated, both in the current and previous years since the acquisition date, from internal operations must be eliminated and deferred until it is realised against third parties outside the group.

Losses on internal transactions may indicate an impairment in the amount due and the profit on internal transactions may indicate the existence of a recovery in the impairment. Where appropriate, both concepts must be presented in the consolidated annual accounts according to their nature.

- The foregoing shall also apply where a third party acts in its own name and on behalf of a group company.
- When one of the companies participating in the internal operation ceases to be part of the group it will also be understood as profits and losses against third parties as long as the asset which includes the profit and loss does not remain within it. Allocation of results in the consolidated profit and loss account or, where applicable, in the consolidated statement of recognised income and expenses shall, where applicable, appear as a lower or higher amount in the relevant items.
- If an asset is subject, for the purposes of the preparation of the consolidated annual accounts, to a value adjustment, the amortisation, impairment losses and profit and loss of disposal or derecognition from the balance sheet shall be calculated, in the consolidated annual accounts, on the basis of their adjusted value.
- Impairment losses relating to assets which have been eliminated by internal operations should be eliminated in the consolidated annual accounts. Provisions derived from guarantees or similar granted to other companies in the group will also be eliminated. Both eliminations will give rise to the corresponding adjustment in results.
- The elimination of profits and losses from internal operations carried out during the year will affect the consolidated income or the total amount of income and expenses directly attributed to equity, while the elimination of profits and losses from internal operations in previous years will change the amount of equity, affecting reserves, valuation adjustments or the grants, donations and legacies received, which are pending to be attributed to the profit and loss account.
- The adjustment in profit or loss attributable directly to equity and other equity items will affect the company which disposes of the asset or provides the service and, therefore, the amount attributable to the external partners of that company .
- The classification of equity, income, expenses and cash flows will be made from the group's point of view, without being modified by internal operations. In the event that the internal operation coincides with a change of allocation from the group's point of view, that change of allocation will be reflected in the consolidated annual accounts in accordance with the rules established for that purpose in the General Accounting Plan, specifically that noted in the following articles.

- The references in the articles of this subsection to fixed assets or real estate investments also apply to non-current assets held for sale.
- The previous sections shall be applied taking into account the situation of the group of companies as an accounting object.

In the elimination of intragroup items from internal operations, in addition to the above, the following aspects must be taken into account:

- The elimination for intragroup profit or loss will be done by the total, regardless of the parent-subsidiary relationship which exists.
- Allocation of unrealised intragroup profits or losses will be made proportionally to the interests of the group and external partners, depending on the shareholding in the subsidiary's capital.

It should also be analysed if, for consolidation purposes, fair value is applied and not to individual effects, it would have to be eliminated as it would be a profit or loss for the group since it would have been recorded as a consequence of the valuation at fair value, even if there was no internal transaction .

In relation to the expenses inherent to intra-group operations, it may be considered that:

- The form of operation is that which the treatment corresponding to it as an accounting object provides in the consolidated annual accounts.
- If the inherent expenses are not to be included as the acquisition price for group purposes, they must be eliminated, reducing the value of the asset and accounting for it as an expense for group purposes.
- If the inherent expenses are to be included as the acquisition price for group purposes, they will not be eliminated
- Application of the principle of relative importance

Example. Elimination of debits/credits and expenses/income

NHSA and HOTELSA form a group. On 01/01/XX, NHSA rented an office to HOTELSA for which it will pay 1,000 euros at the beginning of each month. On 30/12/XX, NHSA lent 1,000 euros to HOTELSA to be returned on 30/12/X+1 together with 8% interest accrued at the end of the period.

Remarks.

Regarding the rent, there is no adjustment on the balance sheet, as there has been no intra-group profit or loss and there are no reciprocal items. However, in relation to the loan the debit/credit in the amount of 1,000 euros will have to be eliminated.

BALANCE SHEET	DEBIT	CREDIT
Other S/T debtors	1,000	-
S/T credit	-	1,000

With regard to adjustments and eliminations in profit and loss, the income/expense in relation to the rent must be eliminated. With respect to the loan, there is no adjustment in profit and loss as no interest accrued in this year:

BALANCE SHEET	DEBIT	CREDIT
Income from lease agreements	12,000	-
Leases and royalties	-	12,000

After the proposed adjustments, the consolidated balance sheet and profit and loss account, in relation to the described operations, would be:

ASSETS	COMPANIES		AGGREGATED BALANCE SHEET	ELIMINATIONS		CONSOLIDATED BALANCE SHEET
	NHSA	HOTELSA		NHSA	HOTELSA	
S/T credits	1,000	-	1,000	-	1,000	-
LIABILITIES	COMPANIES		AGGREGATED BALANCE SHEET	ELIMINATIONS		CONSOLIDATED BALANCE SHEET
	NHSA	HOTELSA		NHSA	HOTELSA	
S/T debtors	-	1,000	1,000	1,000	-	-

ACCOUNTS	COMPANIES		PL	ELIMINATIONS		PL
	NHSA	HOTELSA		NHSA	HOTELSA	
Income from lease agreements	12,000	-	12,000	12,000	-	-
Leases and royalties	-	(12,000)	(12,000)	-	12,000	-

Example. Elimination of 100% of intra-group profit or loss regardless of the shareholding percentage in the subsidiary's share capital.

NHSA holds 60% of the shares of HOTELSA. HOTELSA sold merchandise on credit to NHSA for an amount of 2,000 euros with an included profit of 200 euros. At year end, HOTELSA had not disposed of the inventories and the debt still remains.

Remarks.

As there has been a profit or loss in the transaction between the two companies belonging to the group, and whilst the inventories subject to the transaction are not disposed of, it will not be considered realised for group purposes, therefore:

- Elimination of 100% of credit/debit

BALANCE SHEET	DEBIT	CREDIT
Suppliers EG	2,000	-
Customers EG	-	2,000

- Elimination of 100% of profit or loss and adjustment of the value of inventories in the acquirer, as these will be overvalued in the amount of the intra-group generated profit or loss.

BALANCE SHEET	DEBIT	CREDIT
change Inventories	200	-
Inventories	-	200

- Elimination of 100% of expense-income

PL	DEBIT	CREDIT
Sales	2,000	-
Purchases	-	2,000

- After the proposed adjustments, the balance sheet, profits and losses will be as follows:

ASSETS	COMPANIES		AGGREGATED BALANCE SHEET	ELIMINATIONS		CONSOLIDATED BALANCE SHEET
	NHSA	HOTELSA		NHSA	HOTELSA	
Customers	-	2,000	2,000	-	2,000	-
Inventories	2,000	-	2,000	(200)	-	1,800
LIABILITIES	COMPANIES		AGGREGATED BALANCE SHEET	ELIMINATIONS		CONSOLIDATED BALANCE SHEET
	NHSA	HOTELSA		NHSA	HOTELSA	
Profit (Loss) for the year	-	200	200	-	(200)	-
Suppliers EG	-	2,000	2,000	2,000	-	-

ACCOUNTS	COMPANIES		PL	ELIMINATIONS		PL
	NHSA	HOTELSA		NHSA	HOTELSA	
Sales	-	2,000	2,000	2,000	-	-
Purchases	(2,000)	-	(2,000)	-	2,000	-
change Inventories	2,000	(1,800)	200	(200)	-	-
Profit (Loss)	-	200	200	-	(200)	-

Among the typical internal eliminations, we find:

- Profit or loss from inter-company inventories operations
- Profit or loss from inter-company fixed assets operations
- Profit or loss from inter-company services operations
- Profit or loss from financial assets operations
- Profit or loss from inter-company reciprocal items operations
- Elimination of intra-group dividends
- Elimination of portfolio provisions.

Eliminations of profit or loss from inventories operations

Internal inventories transactions shall be deemed transactions in which a group company buys inventories from another of the group, irrespective of whether for the selling company they constitute inventories or fixed assets or real estate investments.

The profit or loss of these operations, which will be equal to the difference between the book value and the sales price, shall be deferred until the year in which they are realised, in accordance with the following rules:

- When the acquired goods or products of which the acquired inventories are part are disposed of to third parties.

- In the case of losses, they will also be understood to be realised when there is an impairment in the book value of the inventories and up to the limit of such impairment. To this end, the corresponding impairment loss must be provided for.
- When inventories are included as costs in fixed assets or real estate investments, the rules of these assets must be applied.

When the operation is carried out in the same period, all adjustments must be made against the profit and loss account. Conversely, if the movements are carried out in different years, the movement must be made against reserves.

Registration procedure in a single period

In operations only between two companies belonging to the group, the elimination entries would be the following:

1) Elimination of the profit or loss

- a) In the operation, a profit is generated:

BALANCE SHEET	DEBIT	CREDIT
Profit(Loss)	X	-
Inventories	-	X

This adjustment is intended to correct the value of inventories since they were previously overvalued by the amount of the profit, so this adjustment causes them to appear accounted for what they cost the group, eliminating the internal profit or loss. In turn, this adjustment corrects the profit or loss of the company which sold it by decreasing it by the amount of the operation.

- b) In the operation, a loss without impairment occurs:

BALANCE SHEET	DEBIT	CREDIT
Inventories	-	X
Profit(Loss)	X	-

This adjustment is intended to correct the value of inventories as they may be undervalued by the amount of the losses so they appear accounted for as they cost the group, so this process would eliminate the internal profit or loss.

The accounting for impairment for group purposes would involve part of the loss because if the intra-group transaction had not been carried out, the selling company should have accounted for an impairment loss, hence the loss is understood to have been realised for this amount.

This adjustment also corrects the profit or loss of the company which sold it by increasing the amount of the operation not yet realised.

2) Elimination of debit or credit, if applicable

BALANCE SHEET	DEBIT	CREDIT
Suppliers EG	X	-
Customers EG (seller)	-	X

This adjustment is intended to eliminate the debits and reciprocal credits for intra-group operations from the consolidated balance sheet.

The entries to make would be:

- a) Elimination of expense-income

PROFITS AND LOSSES	DEBIT	CREDIT
<i>Sales</i>	X	-
<i>Purchases</i>	-	X

This adjustment eliminates the reciprocal income and expenses for intra-group operations from the consolidated profit and loss account, eliminating sales and purchases which have not been with third parties.

- b) Adjustment of balances in case of existence of intra-group profit

PROFITS AND LOSSES	DEBIT	CREDIT
<i>change Inventories</i>	X	-
<i>Profit(Loss)</i>	-	X

- c) Adjustment of balances in case of existence of intra-group profit

PROFITS AND LOSSES	DEBIT	CREDIT
<i>Profit(Loss)</i>	X	-
<i>Impairment losses</i>	X	-
<i>change Inventories</i>	-	X

This adjustment is intended to correct the inventories variation balances and the profit and loss account and to account for the impairment loss for group purposes.

When more than two companies participate in an operation, it will be necessary to calculate the profit or loss achieved in each company as appropriate in each specific case. Here are some specific assumptions:

Registration procedure in subsequent years

As we have already anticipated, in case of an operation from previous years, the adjustments will be made against reserves.

1) If the profit or loss has not yet been realised

In the event that a profit is generated, the adjustment in the balance sheet would be:

BALANCE SHEET	DEBIT	CREDIT
<i>Legal</i>	X	-
<i>Inventories</i>	-	X

This adjustment is intended to correct the value of inventories overvalued by the amount of the profit so they appear accounted for as what they actually cost the group, i.e., it would eliminate the internal profit or loss. It would also correct the equity of the company which sold it by decreasing it by the amount of the profit or loss of the operation since, for group purposes, it has not yet been realised.

The elimination of the debit/credit would be as follows:

BALANCE SHEET	DEBIT	CREDIT
<i>Suppliers EG</i>	X	-
<i>Customers EG seller</i>	-	X

No adjustments would correspond to the profit and loss account.

2) If the profit or loss is realised in this year

The balance sheet entry would be:

BALANCE SHEET	DEBIT	CREDIT
<i>Legal</i>	X	-
<i>Profit(Loss)</i>	-	X

This balance sheet adjustment recognises the profit in the year in which it is realized.

The effect on profits and losses would be:

BALANCE SHEET	DEBIT	CREDIT
<i>Profit (Loss)</i>	X	-
<i>Changes in inventories</i>	-	X

This adjustment is intended to recognise the change in inventories generated by their outflow and the change in balance of the profit and loss account for the recognition of profit or loss in the period in which it is generated.

Specific cases

a) Allocation of fixed assets or investment property

In the event that, as a result of an internal operation, a fixed asset or real estate investment item is allocated as inventories, this change of allocation must be included in the consolidated profit and loss account for the amount of the net cost of internal profit or loss.

b) Sale and purchase with cost offset

In the case of a sale and purchase made in terms of cost offset between two group companies, it will be accounted for in the parent's annual accounts as an investment in the subsidiary, in the proportion of the parent's shareholding in the subsidiary.

In the consolidated annual accounts, the contribution operation should not have repercussions, and should be treated as an increase in the investment without increasing the shareholding percentage, which will mean that the valuations of the consolidated assets will not be altered.

Eliminations of profit or loss from internal fixed assets or real estate investment operations

Internal fixed assets or real estate investment operations are those in which a group company buys such elements from another of the group, irrespective of whether for the selling company they constitute fixed assets, real estate investments or inventories.

The profit or loss of these operations, which would be equivalent to the difference between the book value and the sales price, shall be deferred until the year in which they are realised, applying the following rules:

- Another asset is disposed of to third parties, to which the depreciation of the acquired asset has been included as a cost.
- In the event that the amortisation is not included as a cost of an asset, the profit or loss will be understood to be realised in proportion to the depreciation, impairment or reduction in the balance sheet of each year.
- In the case of losses, they will also be understood to be realised when there is an impairment in the book value of the fixed assets and real estate investments and up to the limit of such impairment. To this end, the corresponding impairment loss must be recorded.
- When the depreciation of the asset is included in the inventories as a cost, the rules of these must be applied.

The treatment of eliminations varies depending on whether the assets of the internal operations are depreciable or non-depreciable assets:

Non-depreciable assets

1) Elimination of non-depreciable assets on the balance sheet

For the elimination of the debit/credit in the short or long term, the following entries are made:

BALANCE SHEET	DEBIT	CREDIT
<i>Suppliers linked fixed assets</i>	X	-
<i>S/T linked credits</i>	-	X

For the elimination and deferral of profit or loss in the year in which the operation is carried out, as well as for the correction of the value of the asset:

BALANCE SHEET	DEBIT	CREDIT
<i>Profit (Loss)</i>	X	-
<i>Fixed assets</i>	-	X

For the deferral of profit or loss in previous years, as well as for the correction of the value of the asset:

BALANCE SHEET	DEBIT	CREDIT
<i>Legal</i>	X	-
<i>Fixed assets</i>	-	X

For the recognition of the profit or loss from an operation in previous years:

BALANCE SHEET	DEBIT	CREDIT
<i>Legal</i>	X	-
<i>Profit (Loss)</i>	-	X

2) Elimination of non-depreciable assets on the balance sheet

For the elimination of profit or loss in the year in which the operation is carried out, as well as for the correction of the balance of the profit or loss account:

PROFITS AND LOSSES	DEBIT	CREDIT
<i>Profit from fixed assets</i>	X	-
<i>Profit (Loss)</i>	-	X

For the recognition of profit or loss on an operation from previous years, as well as for the correction of the balance of the profit or loss account:

PROFITS AND LOSSES	DEBIT	CREDIT
<i>Profit (Loss)</i>	X	-
<i>Profit from fixed assets</i>	-	X

Depreciable assets

The results of intra-group transactions with depreciable assets will be allocated in proportion to the depreciation, impairment or reduction in the balance sheet of each year, provided that such depreciation is not included as cost of an asset.

In the case of results generating losses, they will also be understood to be realised when there is an impairment in the book value of the fixed assets and real estate investments and up to the limit of such impairment.

The internal profit or loss realised in each of the remaining years of life of the fixed assets, as a general criterion, allows the profit or loss to be recognised in the year to be equal to the difference between the share of depreciation provided for by the acquiring company and the share of depreciation which would have been provided for by the seller had there been no intra-group transaction.

In the particular case of applying straight line depreciation, the internal profit or loss realised annually by the group can also be calculated by dividing the total internal profit or loss by the number of years of useful life pending of the fixed assets.

The distribution of the profit or loss between the years of life pending can be summarised in the following table:

Year	TAC seller	TAC buyer	P/L of the year	P/L of the previous year	P/L realised	P/L pending
X	-	-	-	-	-	-
X+1	-	-	-	-	-	-
X+2	-	-	-	-	-	-

The internal profit or loss realised in previous years will be equal to the sum of the profits or losses recognised in the consolidated accounts corresponding to them, while the accumulated amount will be the sum of the recognised profit or loss in the year and the total recognised in previous years.

The profit or loss to be deferred at the end of each year will be obtained from the difference between the total internal profit or loss and that calculated up to that date.

The adjustments to make would be:

1) Adjustments/eliminations on the balance sheet

For the elimination of the debit/credit in the short or long term, if applicable:

BALANCE SHEET	DEBIT	CREDIT
<i>Suppliers of the fixed assets</i>	X	-
<i>S/T linked credits</i>	-	X

For the elimination and deferral of profit or loss in the year in which the operation is carried out, as well as for the correction of the value of the asset:

BALANCE SHEET	DEBIT	CREDIT
<i>Profit (Loss)</i>	X	-
<i>Fixed assets</i>	-	X

For the recognition of profit or loss in previous years, that of the current year and deferred from previous years from an operation in previous years, as well as for the correction of the value of the asset:

BALANCE SHEET	DEBIT	CREDIT
<i>Legal</i>	X	-
<i>Profit (Loss)</i>	-	X
<i>Fixed assets</i>	-	X

2) Adjustments/eliminations in the profit and loss account

For the elimination of profit or loss in the year in which the operation is carried out, as well as for the correction of the balance of the profit or loss account:

BALANCE SHEET	DEBIT	CREDIT
<i>Profit from fixed assets</i>	X	-
<i>Profit (Loss)</i>	-	X

For the correction of excess depreciation, as well as for the correction of the balance of the profit or loss account:

BALANCE SHEET	DEBIT	CREDIT
Profit (Loss)	X	-
Fixed asset depreciation	-	X

When, as a result of an internal operation, inventories are affected as a fixed asset or real estate investment, as previously indicated, the change of allocation must be included in the consolidated profit and loss account under "work performed by the company for its non-current assets", for the amount of the net cost of the internal profit or loss.

Eliminations of profit or loss from internal services operations

Internal services operations are all those in which a group company acquires services to another of the group - including financial services.

In the profits or losses produced in these operations, which will be equal to the difference between the acquisition price or production cost and the sales price, it shall continue according to the following sections:

- When the services acquired are not included as a cost of an asset the profit or loss is understood to be realised, because the service has been consumed at a group level.
- When the acquired services are included as a cost of an asset, they must be deferred up to the year in which they are realised in accordance with the appropriate inventories or fixed assets regulations.
- In the case of losses, the profit or loss will also be understood to be realised when there is an impairment with respect to the acquisition price or production cost of the assets, net of depreciation and up to the limit of such impairment.
- When these services are included as a cost of a fixed asset or real estate investment, they will be recorded in the consolidated profit and loss account in a specific item called "works performed by the company for its non-current assets".

Example. Leases between group companies when these are not included as a cost

NHSA and HOTELSA form a group. On 01/01/X, NHSA rented an office to HOTELSA for which it will pay 2,000 euros monthly.

Remarks.

As the lease is between group companies, there is no adjustment in the balance sheet because the service has been consumed at a group level. However, in the profit and loss account, the income/expense is eliminated:

PROFITS AND LOSSES	DEBIT	CREDIT
Income from lease agreements	24,000	
Leases and royalties		(24,000)

After the proposed adjustments, the consolidated profit and loss account, in relation to the described operations, would be:

ACCOUNTS	COMPANIES		AGGREGATED P&L	ELIMIN.	CONSOLIDATED P&L
	NHSA	HOTELSA			
Income from lease agreements	24,000	-	24,000	(24,000)	-
Leases and royalties	-	(24,000)	(24,000)	24,000	-

Example. Royalty between group companies when it is not included as a cost.

NHSA and HOTELSA form a group. NHSA and HOTELSA have signed a contract dated 30/12/XX by which HOTELSA cedes its brand to NHSA to use it in the manufacture of its products over the next two years for amounts of 40,000 euros and 50,000 euros respectively, payable at the beginning of each financial year.

HOTELSA includes margins in its prices of 10,000 euros in the first year and 15,000 euros in the second.

This amount paid by NHSA is included as a cost of its products in relation to which we have the following information:

Year	Initial Estimate	Production	Sales	Production Costs
X + 1	1,000	20,000	19,000	60,000
X + 2	2,000	25,000	26,000	77,500

Remarks.

YEAR X.

As the contract has been signed at the end of year X and does not include any deposit nor any consideration, there is no adjustment to either the balance sheet or profit and loss account.

YEAR X + 1

As the royalty is included as production costs and final inventories remain, an adjustment must be made to the balance sheet:

- Defer part of the HOTELSA profit for the amount of 1,000 euros.
- Correct the value of final inventories by the same amount, which is deducted from the following calculations:
- Allocated cost of the royalty to each unit produced: $10,000/20,000 = 0.5$ euros per unit.

In this case, the Company follows the FIFO criterion so that the final inventories, in this case, are overvalued at $2,000 \times 0.5 = 1,000$ euros.

BALANCE SHEET	DEBIT	CREDIT
Profit or loss on HOTELSA	1,000	
Merchandise		(1,000)

The adjustment in profits and losses will be:

- Eliminate the income/expense in profits and losses for an amount of 40,000 euros.
- Correction of the changes in inventories balances and P&L.

PROFITS AND LOSSES	DEBIT	CREDIT
Changes in inventories	1,000	-
Profit or loss on HOTELSA	-	(1,000)
Income from lease agreements	40,000	-
Lease rentals	-	40,000

After the proposed adjustments, the consolidated balance sheet and the consolidated profit and loss account, in relation to the described operations, would be:

ACCOUNTS	COMPANIES		BALANCE SHEET	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		P	H	
<i>Inventories</i>	6,000	-	6,000	-	1,000	5,000
<i>Profit (Loss)</i>	-	10,000	10,000	1,000	-	9,000
<i>Legal</i>	-	-	-	-	(240)	(240)
ACCOUNTS	COMPANIES		PROFITS AND LOSSES	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		P	H	
<i>Income from lease agreements</i>	-	40,000	40,000	40,000	-	-
<i>Leases and royalties</i>	(40,000)	-	(40,000)	-	(40,000)	-
<i>Changes in inventories</i>	6,000	-	6,000	1,000	-	5,000
<i>Consolidated profit or loss</i>	-	10,000	-	-	(1,000)	9,000
<i>Total balance P&L</i>	-	10,000	10,000	-	(1,000)	9,000

YEAR X + 2.

As the royalty is included as production costs and final inventories remain, an adjustment must be made to the balance sheet:

- Realise the profit of the previous year as a result of the initial inventories disposed of in this year for the amount of 1,000 euros.
- Defer part of the NHSA profit for the amount of 600 euros and correct the value of the final inventories by the same amount.

Allocated cost of the royalty to each unit produced: $15,000/25,000 = 0.6$ euros

As in the previous case, the Company using the FIFO method overvalues its inventories at $1,000 \times 0.6 = 600$ euros.

BALANCE SHEET	DEBIT	CREDIT
<i>Reserves in H</i>	1,000	-
<i>Profit or loss in H</i>	-	1,000
<i>Profit or loss in H</i>	600	-
<i>Merchandise</i>	-	600

Likewise, it would be appropriate to make an adjustment in profit and loss:

- Eliminate the income/expense in profits and losses for 50,000 euros.
- Correction of the changes in inventories balances and profits and losses.

PROFITS AND LOSSES	DEBIT	CREDIT
<i>Profit or loss in H</i>	400	-
<i>Changes in inventories</i>	-	400
<i>Income from lease agreements</i>	50,000	-
<i>Leases and royalties</i>	-	50,000

After the proposed adjustments, the consolidated balance sheet, profit and loss account and recognised income and expenditure, in relation to the described operations, would be:

ACCOUNTS	COMPANIES		BALANCE SHEET	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		P	H	
<i>Inventories</i>	3,100	-	3,100	-	600	2,500
<i>Profit (Loss)</i>	-	15,000	15,000	600	1,000	15,400
<i>Legal</i>	-	-	-	1,000	-	(1,000)

ACCOUNTS	COMPANIES		PROFITS AND LOSSES	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		P	H	
Income from lease agreements	-	50,000	50,000	50,000	-	-
Leases and royalties	(50,000)	-	(50,000=	-	50,000	-
Changes in inventories	-	-	-	-	400	400
Profit (Loss)	-	15,000	15,000	400	-	15,400
Total transfer	-	15,000	15,000	400	-	15,400

With regard to financial services, it is possible to raise the problem when the interests are activated and, therefore, considered a higher price of the asset. In the case of fixed assets which require a period of time of more than one year to be in a condition to be used, the financial expenses accrued prior to the commissioning of the fixed assets will be included in the acquisition price or production cost.

As for inventories, if they need more than a year to be able to be sold, they will be included in the acquisition process or production cost.

Eliminations of profit or loss from internal financial assets operations

Internal financial assets operations are considered to be all those in which a group company acquires financial assets to another of the group also, excluding shareholdings in the capital of group companies.

In the profits or losses produced in these operations, which will be equal to the difference between book value and the sales price. It will be understood to be realised when the aforementioned financial assets are disposed of to third parties or amortised. Likewise, they will be treated as losses when there is an impairment in the book value of the assets and up to the limit of such impairment.

When the fair value is applied to the equity element in the consolidated accounts, the internal result will be reclassified to the amount of the change in fair value in the corresponding equity item.

Concept of a financial asset

A financial asset is any asset that is cash, an equity instrument of another company or involves a contractual right to receive cash or another financial asset, or to exchange financial assets or liabilities with third parties under potentially favourable conditions.

Financial assets will be classified in some of the following categories:

- Loans and receivables
- Investments held to maturity
- Financial assets held for trading
- Other financial assets at fair value with changes in profit and loss.
- Equity investments in group, multi-group or associate companies.
- Available-for-sale financial assets.

In this chapter, we will study the most important and representative aspects of financial instruments.

1. Intra-group transfer of non-group financial assets held to maturity

Included in this category are debt securities with fixed maturity date, receivables of a determined or determinable amount which are traded on an active market and which the company has the effective intention and ability to hold them until their maturity.

Investments held to maturity will initially be measured at fair value, plus transaction costs directly attributable to them.

Subsequently, investments held to maturity will be measured at their amortised cost. Accrued interest will be recorded in the profit and loss account, applying the effective interest rate method.

The relevant valuation adjustments must be made at least at year end.

Example. Transfer of an obligation of a company outwith the group between group companies with a profit. The asset is classified as held to maturity. Explicit returns.

NHSA and HOTELSA form a group. NHSA subscribes to an obligation with "W", outwith the group, with the following characteristics:

- Issue date: 01/01/X
- Amortisation date: 31/12/X + 1
- Nominal: 1,000 euros
- Annual interest of 10%
- Surrender value: 1,000 euros

On 31/12/X, NHSA sells the obligation to HOTELSA for 1,030.

Remarks.

YEAR X.

As there is no implicit return, the effective interest rate coincides with the explicit interest rate (10%), therefore, the amortised cost table in NHSA is:

Year	Flow	Finan. I/E	Share capital	Amortised Cost
01/01/X	-	-	-	1,000
31/12/X	100	100	-	1,000
31/12/X + 1	100	100	-	1,000
31/12/X + 1	1,000	-	1,000	-

As the financial asset has not been disposed of to third parties the profit or loss is not considered realised, therefore, adjustments in the balance sheet will be made:

- Define the profit or loss:
 - Sales price: 1,030
 - Book value: 1,000
 - Profit or loss: 30
- Value correction of the financial asset.

BALANCE SHEET	DEBIT	CREDIT
NHSA profit or loss	30	-
S/T Debt securities	-	30

Likewise, it is appropriate to make adjustments in profit and loss:

- Eliminate the profit or loss.

- Correct the balance of the profits and losses.

PROFITS AND LOSSES	DEBIT	CREDIT
Profit and shareholdings	30	-
Profit (Loss)	-	30

After the proposed adjustments, the balance sheet and the recognised consolidated profit and loss account, in relation to the described operations, would be:

ACCOUNTS	COMPANIES		BALANCE SHEET	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		P	H	
IFT	-	1,030	1,030	-	30	1,000
Profit (Loss)	-	-	30	30	-	-

ACCOUNTS	COMPANIES		PROFITS AND LOSSES	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		P	H	
Profit and shareholdings	30	-	30	30	-	-
Consolidated profit or loss	30	-	30	-	30	-

YEAR X + 1

As the financial asset has not been amortised, the profit or loss is not considered realised, therefore, adjustments in the balance sheet and the profit and loss account will be made:

- Balance sheet adjustment:

BALANCE SHEET	DEBIT	CREDIT
Legal	30	-
NHSA profit or loss	-	30

- Adjustment to profit and loss accounting for the profit and correcting the balance in profits and losses:

BALANCE SHEET	DEBIT	CREDIT
Profit (Loss)	30	-
Profit and shareholdings	-	30

After the proposed adjustments, the consolidated balance sheet and the consolidated profit and loss account, in relation to the described operations, would be:

ACCOUNTS	COMPANIES		BALANCE SHEET	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		P	H	
IFT	-	-	-	-	-	-
Profit (Loss)	-	-	-	-	30	30
Legal	-	-	-	30	-	(30)
ACCOUNTS	COMPANIES		PROFITS AND LOSSES	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		P	H	
Profit and shareholdings	-	-	-	-	30	30
Consolidated profit or loss	-	-	-	30	-	30

2. Intra-group transfer of non-group financial assets held for trading

Included in this category are debt securities, regardless of maturity, or equity instruments, quoted, provided they are held for trading when:

- It originates from or was acquired for the purpose of selling it in the short term.

- b) They form part of a portfolio of financial instruments identified and managed jointly with the aim of which there is evidence of recent actions to obtain profits in the short term.
- c) They are derivative financial instruments, provided they are not financial guarantee contracts and have not been designated as hedging instruments.

Financial assets included in this group must initially be valued at their fair value which, unless there is evidence to the contrary, will be the transaction price which will be equivalent to the fair value of the consideration given, without transaction costs.

Subsequently, it will be valued without deducting the transaction costs which could be incurred on its disposal, allocating the changes to the profit and loss account for the year.

In order to be able to calculate the fair value when the financial assets have not been disposed of, the following will have to be assessed:

- If there is a change in the fair value, the intra-group profit and loss shall be understood to be realised by the amount of the change in fair value because, as the group is an accounting object, it will also value those assets at fair value. Therefore, the valuation at the close of the balance sheet will be the same regardless of whether or not the intra-group operation existed.
- If there is no change in the fair value, the intra-group profit or loss will not be understood to be realised until they are disposed of since, for the purposes of the group, no profit or loss has been produced and, therefore, it will have to be eliminated.

3. Intra-group transfer of non-group financial assets available for sale

This category includes those debt securities and equity instruments of other companies which are not classified in any of the previous categories.

Financial assets included in this group will initially be valued at their fair value which, unless there is evidence to the contrary, will be the transaction price which will be equivalent to the fair value of the consideration given, plus transaction costs which are directly attributable.

Subsequently, they will be valued at their fair value without deducting the transaction costs which could be incurred on their disposal, with the changes being directly allocated to equity until the financial asset is derecognised or impaired, at which point the amount recognized will be allocated to the profit and loss account.

At least at year end, the necessary valuation adjustments shall be made whenever there is objective evidence that the value of an available-for-sale financial asset or group of available-for-sale financial assets with similarly collectively valued risk characteristics has impaired as a result of one or more events which have occurred after their initial recognition and which cause:

- In the case of debt instruments acquired, a reduction or delay in the estimated future cash flows, which may be down to the debtor's insolvency or;
- In the case of investments in equity instruments, the lack of recoverability of the asset's book value. In any case, the instrument shall be presumed to have impaired in the event of a fall of forty per cent in its listed price within a year and a half without

the recovery of its value, notwithstanding it being necessary to recognise an impairment loss before this period has elapsed or the listed price having decreased by the aforementioned percentage.

Below shows the accounting procedure to follow in the recognition of these assets:

a) Acquisition

BALANCE SHEET	DEBIT	CREDIT
<i>I.F.T.</i>	X	-
<i>Banks</i>	-	X

b) Subsequent valuation

BALANCE SHEET	DEBIT	CREDIT
<i>I.F.T.</i>	X	-
<i>Profit of financial assets held for sale</i>	-	X

c) Tax burden

BALANCE SHEET	DEBIT	CREDIT
<i>Deferred tax</i>	X	-
<i>Liabilities for taxable temporary differences</i>	-	X

d) Adjustments at 31/12

BALANCE SHEET	DEBIT	CREDIT
<i>Profit on available-for-sale financial assets</i>	X	-
<i>Deferred tax</i>	-	X
<i>Valuation adjustments to available-for-sale financial assets</i>	-	X

e) Sale with gains in subsequent periods

BALANCE SHEET	DEBIT	CREDIT
Banks	X	-
I.F.T. equity instrument	-	X
Profits of DV	-	X

Example. Transfer of financial assets between group companies with profit, classified as available for sale, without changes in fair value at year end, with respect to the transaction price.

NHSA and HOTELSA form a group. On 15/10/XX, NHSA acquires 200 HEMSA shares at a price of 25 euros. On 30/12/XX, NHSA sells the 200 HEMSA shares to HOTELSA at a price of 26 euros. On 31/12/XX, the listed price is 26 euros.

Remarks.

As the financial asset has not been disposed of to third parties and is valued at fair value with allocation to equity, the calculation of the change in fair value and its allocation to equity and tax liabilities for the purposes of the group is as follows:

- Value at 31/12/X: $200 \times 26 = 5,200$ euros
- Initial value: $200 \times 25 = 5,000$ euros
- Change in Fair Value: 200 euros
- Allocation to Equity: $200 \times 0.75 = 150$ euros
- Allocation to financial liabilities: $200 \times 0.25 = 50$ euros

The adjustments on the balance sheet would be:

- Elimination of the intra-group profit or loss for 200 euros. (NHSA)
- Accounting for the valuation adjustments and the tax liability, for the purposes of the group, by valuation at fair value.

BALANCE SHEET	DEBIT	CREDIT
Profit (Loss)	200	-
Valuation adjustments	-	150
Liabilities for DT	-	50

The adjustment in profits and losses would be:

- Elimination of the profits from available-for-sale financial assets and the balance correction of the profit and loss account.

PROFITS AND LOSSES	DEBIT	CREDIT
Profit of DPV	200	-
Profit (Loss)	-	200

The consolidated balance sheet and consolidated profit and loss account would be as follows:

ACCOUNTS	COMPANIES		BALANCE SHEET	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		P	H	
IFT	-	5,200	5,200	-	-	5,200
Profit (Loss)	200	-	200	200	30	30
Adjustment for sale	-	-	-	-	150	(150)
Liability for ID	-	-	-	-	60	(60)
ACCOUNTS	COMPANIES		PROFITS AND LOSSES	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		P	H	
Profit and shareholdings	200	-	200	200	-	-
Consolidated profit or loss	200	-	200	-	200	-

Example. Transfer of financial assets between group companies with profit, classified as available for sale, from an acquired company.

NHSA and HOTELSA have formed a group since 31/12/X -1. On 15/10/X-1, HOTELSA acquires 200 HEMSA shares at a price of 25 euros.

On 31/12/X-1, the listed price is 26 euros. On 30/12/Xx, HOTELSA sells the 200 HEMSA shares to NHSA at a price of 27 euros.

At year end, the shares remain within the group.

Remarks.

Year X + 1.

- Value at 31/12/X - 1: $200 \times 26 = 5,200$ euros
- Initial value: $200 \times 25 = 5,000$ euros
- Change in Fair Value: 200 euros

Year X

- Transfer value: $200 \times 27 = 5,400$ euros.
- Accounting value: $200 \times 26 = 5,200$ euros.
- Profit or loss of disposal: 200 euros

Transfer of the 200 euros recorded in the previous year in equity to profit and loss, therefore, the total recognised income and expenses in the year was 400 euros.

For the purposes of the group, as the financial asset has not been disposed of to third parties and is valued at fair value with allocation to equity, the change in fair value shall be calculated:

- Value at 31/12/X: $200 \times 27 = 5,400$ euros
- Initial value: $200 \times 26 = 5,200$ euros
- Change in fair value: 200 euros

The value adjustments of year X - 1 are eliminated in the investment-equity since they were equity at the time of taking control.

Subsequently, transfers of valuation adjustments as a result of the disposal of the available for sale assets at the acquisition date (taking control of the group) should be eliminated.

BALANCE SHEET	DEBIT	CREDIT
Profit (Loss)	200	-
Valuation adjustment	-	200

With respect to the profit and loss account, the available for sale profits, generated from the date of taking control, should be eliminated, as well as, for the balance correction of the profit and loss account.

PROFITS AND LOSSES	DEBIT	CREDIT
Profit of DPV	400	-
Profit (Loss)	-	400

The consolidated balance sheet and consolidated profit and loss account would be:

ACCOUNTS	COMPANIES		BALANCE SHEET	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		P	H	
IFT	-	5,400	5,400	-	-	5,400
Profit (Loss)	400	-	400	400	-	-
Adjustment for sale	-	-	-	200	-	200

ACCOUNTS	COMPANIES		PROFITS AND LOSSES	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		P	H	
Profit of DPV	400	-	400	400	-	-
Consolidated profit or loss	400	-	400	-	400	-

4. Acquisition by a group company of financial assets which for the other group company are financial liabilities

Investments held of the financial assets, to maturity, will initially be measured at their fair value, plus transaction costs directly attributable to them.

Subsequently, investments held to maturity will be measured at their amortised cost. Accrued interest will be recorded in the profit and loss account, applying the effective interest rate method.

At least at year end, the appropriate value adjustments of the financial assets must be made, recording, where applicable, the impairment of the investments.

Financial liabilities for the issuer will initially be measured at their fair value, which, unless there is evidence to the contrary, will be the transaction price, which will be equivalent to the directly attributable fair value.

Subsequently, investments held to maturity will be measured at their amortised cost. Accrued interest will be recorded in the profit and loss account, applying the effective interest rate method.

At least at year end, the corresponding valuation adjustments of the financial liabilities must be made, recording the corresponding impairment.

Example. Acquisition by a group company of financial assets which for the other group company are financial liabilities

NHSA and HOTELSA form a group. On 01/01/X, NHSA subscribes to a bond of HOTELSA with the following characteristics:

- Issue value 9,800 euros.
- Nominal 10,000 euros.
- Annual coupon of 500 euros payable on 31/12.
- Three year duration.
- Amortisation premium: 1,000 euros
- Not traded on an active market.

NHSA disposes of the bond, after the receiving the coupon on 31/12/X + 1.

Remarks.

Notes. They are valued at amortised cost in both companies and there are no external costs therefore the effective interest rate is the same for both the seller and the buyer.

YEAR X

Both the acquirer company and the seller will have to account for the financial asset/liability according to the following amortised cost table:

Effective interest rate: $9,800 = 500/(1+i) + 500/(1+i)^2 + 11,500/(1+i)^3$ $i = 8.843096\%$.

Year	Flow	Finan. I/E	Share capital	Amortised Cost
01/01/X	-	-	-	9,800
31/12/X	500	867	(367)	10,167
31/12/X + 1	500	899	(399)	10,566
31/12/X + 2	500	934	(434)	11,000
31/12/X + 2	11,000	-	11,000	-

Adjustments will be made to the balance sheet by eliminating the financial asset in the buyer's and the financial liability in the issuer's.

BALANCE SHEET	DEBIT	CREDIT
L/T Debt	10,167	-
Debt securities	-	10,167

In turn, the financial expenses/income will be eliminated:

PROFITS AND LOSSES	DEBIT	CREDIT
Finance income	867	-
Finance costs	-	867

The consolidated balance sheet and the consolidated profit and loss account, in relation to the described operations, would be:

ACCOUNTS	COMPANIES		BALANCE SHEET	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		P	H	
IFT	10,167	-	10,167	-	10,167	-
Profit (Loss)	867	(867)	-	867	(867)	-
Non-current liabilities	-	10,167	10,167	10,167	-	-
ACCOUNTS	COMPANIES		PROFITS AND LOSSES	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		P	H	
Financial income	867	-	867	867	-	-
Financial expense	-	(867)	(867)	-	867	-
Consolidated profit or loss	867	(867)	-	-	-	-

YEAR X + 1

In year X + 1, there are no adjustments to the balance sheet, whereas the profit and loss account eliminates the financial expenses/income.

PROFITS AND LOSSES	DEBIT	CREDIT
Finance income	899	-
Finance costs	-	899

The consolidated balance sheet and the consolidated profit and loss account, in relation to the described operations, would be:

ACCOUNTS	COMPANIES		PROFITS AND LOSSES	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		P	H	
Financial income	899	-	899	899	-	-
Financial expense	-	(899)	(899)	-	899	-
Consolidated profit or loss	899	(899)	-	-	-	-

Acquisition of financial liabilities issued by the group to third parties

In the preparation of the consolidated financial statements, in the acquisition of financial liabilities issued by group companies to third parties, a profit or loss can be recorded by the difference between the book value of the liability at the acquisition date and its acquisition price.

This profit or loss will be recognised in the consolidated profit and loss account under "profits from operations with financial liabilities of the group" or "losses on operations with financial liabilities of the group", as applicable.

In the years subsequent to the acquisition of these assets to third parties, the adjustments will be eliminated by the application of fair value or by any other concept.

Elimination of internal dividends

Internal dividends shall be those registered as income for the year of a group company which have been distributed to another belonging to it.

These dividends will be eliminated, considering them as reserves of the beneficiary company. In the case of interim dividends, they will be eliminated against the equity item representing them in the company which distributed them.

These dividends, for consolidation purposes, should be classified according to the year which corresponds to the profit to which they refer:

- Interim dividend, when the interim dividend is distributed on the profit for the same period, but not yet approved by the Shareholders' Meeting.
- Supplementary dividend or against reserves, when the dividend distributed in the year is made against the profits of the previous year already approved by the General Shareholders' Meeting.

Since dividends refer to profits from different periods, the consolidation adjustment to be made is different.

The entries made by the paying company in the year of the payment:

BALANCE SHEET	DEBIT	CREDIT
<i>Interim dividend</i>	X	-
<i>Cash</i>	-	X

The entries made by the receiving company in the year of the payment will be:

BALANCE SHEET	DEBIT	CREDIT
<i>Cash</i>	X	-
<i>Financial income</i>	-	X

Subsequently, the necessary adjustments must be made in the year of payment to avoid duplication of the profit or loss:

BALANCE SHEET	DEBIT	CREDIT
<i>Financial income</i>	X	-
<i>Active dividend</i>	-	X

Example. Distribution of dividends charged to reserves

NHSA and HOTELSA form a group. The first owns 80% of the second. During the year, HOTELSA distributes dividends charged to reserves for 300 euros.

Remarks.

A balance sheet adjustment should be made since dividends received should not be included in the profit and loss account, but rather in the reserve account, as follows:

BALANCE SHEET	DEBIT	CREDIT
Profit(Loss)	240	-
Legal	-	240

Likewise, the elimination must be made in profit and loss, as this operation for group purposes does not involve any income:

PROFITS AND LOSSES	DEBIT	CREDIT
Finance income	240	-
Profit (Loss)	-	240

Subsequently, the consolidated balance sheet and profit and loss account, in relation to the described operations, would be:

ACCOUNTS	COMPANIES		PL	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		NHSA	HOTELSA	
EQTY AND LIABILITIES	-	-	-	-	-	-
Profit (Loss)	240	-	240	240	-	-
Legal	-	-	-	-	(240)	(240)

ACCOUNTS	COMPANIES		PL	ELIMINATIONS		PROFITS AND LOSSES
	NHSA	HOTELSA		NHSA	HOTELSA	
Financial income	240	-	240	240	-	-
Consolidated profit or loss	240	-	240	-	(240)	-

Example. Distribution of interim dividends

NHSA and HOTELSA form a group in which the first owns 80% of the second. During the year, HOTELSA distributes interim dividends of the year for 300 euros.

Remarks.

An elimination on the balance sheet will have to be done because the one who distributed it has to account for it as a credit and the recipient as equity.

BALANCE SHEET	DEBIT	CREDIT
Profit(Loss)	240	-
Legal	-	240

An elimination will have to be made in profit and loss, as this operation for group purposes does not involve any income:

PROFITS AND LOSSES	DEBIT	CREDIT
Finance income	300	-
Balances of profits and losses	-	300

After the proposed adjustments, the balance sheet and the recognised consolidated profit and loss account, in relation to the described operations, would be:

ACCOUNTS	COMPANIES		PL	ELIMINATIONS		BALANCE SHEET
	NHSA	HOTELSA		NHSA	HOTELSA	
Dividends	-	300	300	-	(300)	-
EQTY AND LIABILITIES	-	-	-	-	-	-
Profit (Loss)	300	-	300	(300)	-	-
ACCOUNTS	COMPANIES		PL	ELIMINATIONS		PROFITS AND LOSSES
	NHSA	HOTELSA		NHSA	HOTELSA	
Financial income	300	-	300	(300)	-	-
Consolidated profit or loss	300	-	300	-	(300)	-

3.2. Consolidation by the equity method

3.2.1. Introduction

The equity method consists of replacing the book value of the financial investment with the amount corresponding to the percentage represented by such investment on the fair value of the assets acquired and liabilities assumed by the associated entity. The percentage applicable shall be that resulting from the shareholding in the capital of the equity method company (hereinafter "**EMC**") excluding own shares. However, if the company consolidated by the equity method has shareholdings in other consolidated companies, the accounts to be used in the consolidation are its consolidated annual accounts.

A company is an associate when one or more companies within the group exercise significant influence on its management. There is significant influence in the management of the other company when the two following requirements are met:

- One or more group companies share in the company
- They have the power to intervene in financial and operating policy decisions of the investee, without having control or joint control over it.

Unless there is evidence to the contrary, it is presumed that there is significant influence when one or more companies in the group hold at least 20% of the voting rights of a company that is not a member of the group. There are also other circumstances which allow the shareholding to evidence the existence of significant influence, such as those detailed below:

- Representation on the board of directors or equivalent management body of the investee company;
- Participation in the policy-making process, which may include decisions on dividends and other distributions.
- Transactions of relative importance with the investee.
- Exchange of management personnel.
- Supply of essential technical information

3.2.2. Concept

In the equity method, the investment in a company is initially registered at cost and will subsequently be increased or decreased recognising the percentage corresponding to the investor in the change in equity produced in the investee after the acquisition.

When a company is subject to the equity method, the accounts of that company to be considered will be the consolidated annual accounts. In the event that the aforementioned accounts were not prepared, under any of the reasons for exemption provided for in the consolidation rules, the individual annual accounts will be used.

It will be necessary to homogenise the information when the investee uses criteria different from those of the group, and these differences are significant and provided that the information to make the necessary adjustments is available.

3.2.3. Specifications for global integration

Temporal homogenisation

The general temporal homogenisation rules follow the same rules as those applied in the global integration method.

Value homogenisation

The general rule is that all assets and liabilities, and income and expenses of the companies included in the consolidation perimeter should be use uniform valuation methods between them.

However, in equity method, a qualification should be noted "when differences are significant and whenever the necessary information is available". The difficulty of obtaining financial statements at the consolidation dates obliges consolidation, with estimates sometimes being necessary to correct them with the latest information and relevant facts available.

Homogenisation for the aggregation

In the integration by equity method the proportionate share of the equity to the company does not apply since there is no aggregation.

Consolidation adjustments and eliminations for internal operations.

The adjustments and eliminations, as we shall see in the following section, apply to the extent that they affect the equity and profit or loss of the associate company.

3.2.4. Equity method procedure

First application of the equity method procedure

In the first application of the equity method, the shareholding in the company will be valued on the consolidated balance sheet by the amount that the investment percentage on the fair value of the group companies represents on the company's equity, once the identifiable assets and assumed liabilities of the investee company recognized and valued, a circumstance which will require recognition of the investment at its cost.

When there are previous shareholdings, the cost of each of the individual transactions will be considered to determine the cost of the investment in the EMC.

In the event that the first application of the equity method occurs as a consequence of a partial disposal with loss of control of a subsidiary, the initial value will be the fair value of the shareholding retained at that date.

If the difference between the amount to which the shareholding was accounted for in the individual accounts and the value is positive, the goodwill shown will be included in the book value of the investment under "equity method shareholdings" and will be included in the report. Therefore, there will be no separate assets corresponding to goodwill of equity method companies accounted and their recoverability will be analysed jointly with the value of the investment.

If, exceptionally, the difference is negative, it will be recognised in the consolidated profit and loss account as a positive result in the item "negative consolidation difference". However, before recognising the aforementioned income, the amounts described above must be reassessed.

The profit or loss generated by the EMC will be recognised from the date when the significant influence is acquired or joint control in the case of multi-group companies.

It should be noted that in the first consolidation, consolidation reserves will not be accounted for and this method will not include external partners at any time, including only the shareholding they hold in the associate.

Example. First application of the equity method procedure: goodwill

On 01/01/XX, the group formed by NHSA and HOTELSA acquires a shareholding in HEMSA which represents 20% of the share capital and voting rights. The balance sheet of HOTELSA on 01/01/XX is:

CONCEPT	HOTELSA
Non- current assets	400
Current assets	100
TOTAL ASSETS	500
Share capital	100
Legal	100
Valuation adjustments	70
Deferred tax liabilities	30
Non-current liabilities	100
Current liabilities	100
TOTAL EQTY AND LIABILITIES	500

- With this investment, the group acquires significant influence in HOTELSA.
- The non-current assets of HOTELSA have a fair value of 500 euros and a useful life of 5 years.

- Corporation tax is 30%.
- The amount paid for the shareholding is 100 euros.

Remarks.

As HEMSA is a company in which NHSA has significant influence, it is necessary to apply the equity method.

The cost of the shareholding is 100 euros.

The assets acquired and liabilities assumed as a result of the shareholding acquired are as follows:

CONCEPT	RURALSA
Non-current assets	500
Current assets	100
TOTAL ASSETS	600
Non-current liabilities	100
Current liabilities	100
Deferred tax liabilities (*)	60
TOTAL LIABILITIES	260
TOTAL NET ASSETS	340

(*) Corresponds to the one which existed plus the one corresponding to the increase in the value of non-current assets due to their fair value valuation.

The consolidation differential will therefore be: $100 - 0.2 \times 340 = 32$ euros, which, if positive, should be recognised in the item "Equity method shareholdings", and its amount should be reported in the consolidated group report.

The item which includes the investment in HOTELSA is reclassified so that the annual accounts include the information of the company accounted for by the equity method:

BALANCE SHEET	DEBIT	CREDIT
Equity method shareholdings	100	-
Associate companies L/T shareholdings	-	100

In turn, in the consolidated balance sheet, only the reclassification of the item where the investment would have been included will occur:

DATE	COMPANY		AGGREGATED BALANCE SHEET	ELIMINATION		CONSO.
ACCOUNTS	N	H		N	H	
HEMSA shareholdings	100	-	100	-	100	-
Equity method shareholding	-	-	-	100	-	100
TOTAL ASSETS	-	-	-	-	-	-
Share capital	-	-	-	-	-	-
TOTAL EQTY + LIABILITIES	-	-	-	-	-	-

Included in the value of the equity method item is:

- Goodwill: 32 euros
 - Increase in non-current assets for their fair value valuation: $0.2 \times 100 = 20$ euros
 - Deferred tax liabilities corresponding to the increase of non-current assets: $0.2 \times 30 = 6$ euros
 - The proportional part of HEMSA's accountable equity: $0.2 \times 270 = 54$ euros
- Total: $32 + 20 - 6 - 54 = 100$ euros**

In the following years, the increase in the value of the assets acquired will be amortised by their fair value valuation. This amortisation is realised based on the useful life of said assets.

Net increase in non-current assets: $20 - 6 = 14$ euros

Annual amortisation share: $14/5 = 3$ euros

BALANCE SHEET	DEBIT	CREDIT
Profit or loss (N)	3	-
Equity method shareholding	-	3

PROFITS AND LOSSES	DEBIT	CREDIT
Fixed asset depreciation	4	-
Deferred tax	-	1
Profit or loss (balance)	-	3

Adjustments to the initial value of the shareholding

The book value in the consolidated balance sheet of the company's shareholding is modified, increased or decreased, by the proportion corresponding to the group companies, by the changes in the equity of the investee since the initial valuation, once eliminating the proportion of unrealised profit or loss generated in transactions between said company and group companies.

These eliminations of profit or loss include both those arising from transactions in which the company is a transferor and those in which it acts as the acquirer. When the elimination originates in a transaction carried out by a company included in the global integration consolidation perimeter, the counterpart of the elimination of profit or loss referred to in the previous section will be the shareholding in the EMC.

The entry to make would be:

DEBIT	CREDIT	VALUE
[Db] Equity method shareholdings	-	Percentage of the assets' RV
[Db] Goodwill	-	Cost – percentage of the assets' RV
-	[Cr] Cost of the shareholding	Book value of the investment in the shareholder company
-	[Cr] Negative difference of the consolidation	Cost – percentage of the net assets' RV

Subsequent consolidations

Subsequent to the acquisition and registration of the shareholding, the investor will recognise the value adjustment of its shareholdings in the associate's net assets, which it will recognise in its consolidated balance sheet according to their nature.

The "Reserves in consolidated companies" account will appear from the second consolidation as these companies have already contributed profits or losses within the group. The equity elimination in subsequent consolidations would be:

DEBIT	CREDIT	VALUE
[Db] Equity method shareholdings	-	Percentage of the assets' RV
-	[Cr] Book value of the shareholding	Book value of the investment in the shareholder company
-	[Cr] PL - profit sharing of	Profit of the associate x investor's

	the EMC	shareholding percentage
-	[Cr] Reserves in companies of the EMC	Cumulative profits attributable to the percentage of the group
-	[Cr] Valuation adjustments of the EMC	Percentage of the group
-	[Cr] EMC valuation differences	
-	[Cr] EMC grants	Percentage of the group

The higher value, if any, attributed to the shareholding as a result of the recognition and valuation of the identifiable assets of the investee company and of the liabilities assumed, must therefore be reduced in subsequent years, with a charge to the consolidated profit or loss or to another corresponding equity item and, to the extent that it is depreciated, cause the corresponding equity elements to be derecognised or disposed of to third parties. In the same way, the charge to consolidated profit or loss will occur when there are losses due to impairment of the previously recognised value of equity of the investee company, with the limit of the goodwill allocated to them at the date of first equity method.

In each year following the first application of the procedure:

- a) The changes in the value of the shareholding corresponding to the profit or loss of the year of the investee will be part of the consolidated profit or loss, explicitly included in the consolidated profit and loss account under the heading "*profit/loss sharing of companies accounted for using the equity method*".
- b) In the event that the investee incurs losses, the reduction of the representative account of the investment shall be limited to the book value of the investment calculated by the equity method, unless other items which are part of the net investment of the investor in the investee company such as accounts receivable or payable are provoked. In that case, the excess losses on investment in equity instruments will be applied to the other items which form part of the net investment in reverse order to the liquidation priority.
- c) Once the value of the shareholding has been reduced to zero, additional losses affecting liabilities will only be recognised to the extent that legal, contractual, implied or tacit liabilities have been incurred. Losses will be recognised in the consolidated annual accounts when they reach the amount of unrecognised losses. The income and expenses of the investee which have not been recognised in profit and loss will be treated in a similar way to them.
- d) If the investee company subsequently obtains gains, they will be recognised in the consolidated annual accounts when they reach the amount of unrecognised losses. The income and expenses of the investee which have not been recognised in profit and loss will be treated in a similar way to them.
- e) Changes in the value of the shareholding corresponding to changes in equity, whether due to changes in equity of the investee which it has not recognised in its profits or losses or reserves generated from prior year profits or losses, will be shown in the corresponding equity headings or subgroups depending on their nature.
- f) The profits distributed by the investee company accounted for as income will be eliminated, being considered reserves of the company which owns the shareholding. In

the case of interim dividends, the book value of the shareholding will be reduced with a charge to the profit or loss of the company which received them.

- g) Where there are potential voting rights, the proportions in the profit or loss for the year and in changes in the equity of the EMC will be determined from the effective ownership at that time, which will not take into account the possible exercise or conversion of potential voting rights.

Example. Accounting for the profit or loss obtained by the associate company.

NHSA is the head of the group and has a shareholding in HOTELSA which represents 20% of the share capital and voting rights. This company is classified as an associate. Suppose that in year XX, HOTELSA obtained a profit of 100 euros.

Remarks.

For group purposes, the proportional part of the profit or loss must be recognised.

Part of the profit corresponding to the investor company: $0.2 \times 100 = 20$ euros

BALANCE SHEET	DEBIT	CREDIT
EMC shareholding	20	-
Profit or loss attributable to NHSA	-	20

PROFITS AND LOSSES	DEBIT	CREDIT
Profits or losses attributable to NHSA	20	-
Shareholding over the profit	-	20

Equity method reserves

The movement of reserves in companies consolidated using the equity method has to take three variations into account:

- Those variations due to the inclusion of the profit or loss of the previous year must include all consolidation adjustments.
- In the variations due to the payment of dividends by the equity method company, the dividends paid out will generate the reduction of equity method reserves in the paying company and those receiving will increase the consolidated reserves of the company receiving them.
- In the variations due to increases or reductions in the shareholding in group companies, a movement of reserves will be generated in the cases described.

Modification of the shareholding

In a new acquisition of shareholdings in the equity method company, the additional investment and the new goodwill or negative difference in consolidation will be determined in the same way as the first investment considering the percentage of the equity corresponding to it. If goodwill and a negative consolidation difference arose in relation to the same investee, the negative difference would be reduced to the limit of the implied goodwill.

In a reduction of the investment with a decrease in the shareholding in the company, in which however the significant influence is maintained, the item representing the investment will be valued using the rules established above, for the amounts corresponding to the percentage of shareholding which is retained. The profit or loss derived from the operation will be adjusted by the allocations to consolidated profit or loss prior to the disposals due to:

- The profit or loss obtained by the investee company.
- The application of the fair value to the equity elements of the investee on the first equity method date.
- Value adjustments allocated directly to equity which correspond to the reduction in the percentage of the shareholding.

In accordance with IFRS 11, the variation in the financial investment does not generate joint control but must be assimilated to the loss or gain of control. IAS 28.24 provides that the change from associate to joint venture or joint venture to associate without a change of status -equity method- does not imply a revaluation of the shareholding.

When a new acquisition of shareholdings does not imply an increase in the shareholding percentage, the calculated goodwill nor, if applicable, the negative consolidation difference will not be modified implicitly.

In turn, when a reduction of shareholdings in the company does not imply a reduction in the shareholding percentage, the value of the item representing the investment and reserves in equity method companies will be reduced by the amount obtained as a result of the reduction, eliminating the profit or loss which, if applicable, has been registered by the investor company. The treatment of the dilution, according to an IASB ED, must be as written off, unlike other local regulations which interpret it as a partial sale.

If the increase or reduction of the shareholding percentage without additional investment or divestment implies a change in the value of the shareholdings in the investee company, the corresponding profit or loss will be recognised in the item "*Shareholding in profits/losses of equity method companies*" in the consolidated profit and loss account.

IFRSs provide that a significant loss of influence with consolidation perimeter outflow is a significant economic fact similar to selling all of the shareholdings so that the investment must be derecognised and re-recognised at its fair value.

Example. Equity method procedure: increase in shareholding without increase in investment

On 01/01/XX, NHSA acquired a shareholding in HOTELSA which represents 20% of the share capital and voting rights. Other data to take into account for the case are:

- With this investment, the group acquires significant influence in CHSA.
- The amount paid for the shareholding is 60 euros.
- On 01/01/X + 1, CHSA acquires own shares which represent 20% of its capital.
- The book values and fair values coincide.
- There have been no intra-group operations.

The balance sheet of HOTELSA is:

CONCEPT	01/01/XX	31/12/X+1
Non- current assets	300	400

Current assets	100	100
TOTAL ASSETS	400	550
CONCEPT	01/01/XX	31/12/X+1
Share capital	100	100
Legal	150	250
Share premium	-	(20)
Profit(Loss)	100	120
Non-current liabilities	50	100
Current liabilities	400	550
TOTAL EQTY AND LIABILITIES	400	600

Remarks.

As HOTELSA is a company in which NHSA has significant influence, it is necessary to apply the equity method.

YEAR X+2

The cost of the shareholding is 60 euros.

We then determine the assets acquired and the liabilities assumed as a result of the acquired shareholding.

CONCEPT	01/01/XX
Non- current assets	300
Current assets	100
TOTAL ASSETS	400
CONCEPT	01/01/XX
Non-current liabilities	100
Current liabilities	50
TOTAL LIABILITIES	150
TOTAL NET ASSETS	250

The determination of the consolidation differential will be: $60 - 0.2 \times 250 = 10$ euros which, being positive, will be accounted for in the item "Shareholdings in EMC".

The calculation of the reserves will be:

- HOTELSA reserves on the balance sheet at 31/12/X + 2: 250
- Adjustment for intra-group operations: 0
- HOTELSA adjusted reserves at 31/12/X + 2: 250
- HOTELSA reserves at 01/01/X: 150
- Change of reserves: 100 euros

Consolidated reserves: $0.2 \times 100 = 20$ euros

The elimination entry of investment-equity, prior to treasury stock will be:

BALANCE SHEET	DEBIT	CREDIT
Shareholdings in EMC	80	-
Long-term shareholdings in associates	-	60
EMC consolidated reserves	-	20

Included in the value of the equity method item is:

- Adjusted goodwill: 10 euros
- Reserves in EMC consolidated companies: 20 euros
- The proportional part of HOTELSA's accountable equity at the start: $0.2 \times 250 = 50$ euros

Total: $10 + 20 + 50 = 80$ euros

As a result of the treasury stock changes the shareholding percentage becomes $20/80 = 25\%$, which generates the following changes:

- The equity of HOTELSA amounts to: 330 euros
- The amount corresponding to the group would be: $0.25 \times 330 = 82.5$

Therefore, the entry will be:

BALANCE SHEET	DEBIT	CREDIT
Shareholdings in EMC	82.5	-
Long-term shareholdings in associates	-	60
EMC consolidated reserves	-	20
Profit or loss (NHSA)	-	2.5

Included in the value of the equity method item is:

- Adjusted goodwill: 10 euros
 - Reserves in EMC consolidated companies: 20 euros
 - The proportional part of HEMSA's accountable equity at the start: $0.2 \times 250 = 50$ euros
- Profit from the increase in value of the shareholding: $82.5 - 80 = 2.5$ euros

Total: $10 + 20 + 50 + 2.5 = 82.5$ euros.

Impairment loss

Once the equity method procedure has been applied and the losses of the investee company have been recognised, the investor should assess whether it is necessary to recognise additional impairment losses in relation to the net investment in the investee.

The analysis of goodwill impairment will not be carried out separately, so impairment losses are not allocated to any particular asset which forms part of the book value of the investment in the investee.

The recoverable amount of an investment in an associate company will be valued for each shareholding, except when the associate does not generate cash flows which are largely independent of those of other assets of the entity.

Example. Impairment in the equity method procedure

In year XX, NHSA acquired 40% of the capital of HOTELSA. In X+3, the value of the equity method shareholding amounts to 300 euros and the recoverable value amounts to 270 euros.

Remarks.

Calculation of impairment:

- Recoverable value: 270
- Value of the NH shareholding: 300 euros
- Impairment: 30 euros

The adjustments proposed after eliminating the impairment in the individual accounts, in relation to the impairment, would be:

BALANCE SHEET	DEBIT	CREDIT
Profit or loss (N)	30	-
Shareholding in EMC (*)	-	30

PROFITS AND LOSSES	DEBIT	CREDIT
Impairment and profit and loss for losses	30	-
Profit (Loss)	-	30

(*) The equity method company shareholding account has been adjusted directly. The equity method shareholding impairment account could also have been used.

It is important to note that this impairment may be reversed in future years.

Loss of position of associate or multi-group company

In the case of associate, joint control or multi-group companies, the equity method will no longer apply from the date on which there is no significant influence.

If applicable, the specific registration applicable to associates or multi-groups which qualify them as disposal groups held for sale should be considered.

If, after the loss of the position of a multi-group or associate company, a shareholding in its equity is maintained, without it being part of the consolidation perimeter, it will be valued considering its cost as the consolidated book value on the date on which it ceases to belong to the consolidation perimeter.

In those cases in which the associate or multi-group company becomes a subsidiary, continue in accordance with that established in the acquisition method.

External partners

In the equity method, as has already been advanced, no minority interests are calculated given that the allocation of the Own Funds of the associate company is calculated by the shareholding percentage.

However, the associate companies do not always depend directly on the parent company but can be owned by a subsidiary company which has minority partners named indirect minority interests:

- The shareholding of external partners will be calculated according to the proportion represented by their indirect shareholding in the capital of each associate company and will be recorded in the account "*External partners*".
- The share in the profits or losses will be recorded in the account "*Profits or losses attributed to external partners*".

Consequently, indirect or minority shareholders may be registered in minority-owned companies by the equity method company.

3.3. Acquisition in stages

Understood as acquisition in stages is the obtaining of control through two or more separate transactions. The IASB considers a change of control to be a significant economic event. Thus, only goodwill is identified and net assets are accounted for at fair value in the transaction which achieves control, and not in relation to prior or subsequent acquisition of shareholdings.

3.3.1. Applicable Standards

The acquisition in stages is regulated internationally by IAS 39 (financial instruments: recognition and measurement), IAS 28 (investments in associates and joint ventures) and IAS 27 (separate financial statements), depending on the influence on the joint management.



3.3.2. Calculation of the goodwill or negative difference.

The goodwill or negative difference will be obtained from the difference between the following amounts:

- The acquisition cost, plus the fair value at the acquisition date of any previous investment of the acquiring company in the acquiree and,
- The value of the identifiable assets acquired less that of the liabilities assumed in the terms included in the business combinations.

Any profit or loss arising as a result of the valuation at fair value at the date of obtaining control of the acquirer's previous shareholding in the acquiree will be recognised in the profit and loss account. If, beforehand, the investment in the investee had been valued at its fair value, the valuation adjustments pending to be allocated to the profit or loss for the year will be transferred to the profit and loss account.

3.3.3. Transactions with minority interests

Once control is achieved and the acquisition accounted for, all subsequent transactions with subsidiaries' shareholdings which do not result in loss of control between the parent and minority interests will be accounted for as transactions with own equity instruments, therefore:

- Additional acquisitions will not generate new goodwill
- No profit or loss shall be recognised in the disposals

3.3.4. Acquisition of significant influence in stages in the integration by the equity method

The valuation criterion implies the accounting of the shareholding in the multi-group or associate company by the amount in the individual annual accounts of the group company, and reporting on the differences between said value and the amount representing the shareholding percentage which the group companies hold over the fair value of the net assets of the EMC.

4. Conversion of annual accounts

4.1. Conversion of annual accounts in foreign currency

In April 2001, the IASB adopted IAS 21 "The Effects of Changes in Foreign Exchange Rates" which had originally been issued by the International Accounting Standards Committee in 1983.

The latest amendment to IAS 21 was made in December 2005 to require that certain types of exchange differences arising from monetary items should be recognised separately as equity. Other IFRSs have made minor modifications to IAS 21, such as IFRS 9, IFRS 10, IFRS 11, IFRS 13.

The phenomenon of globalisation has meant an increase in two aspects:

- a) In financial and trade relations. Which imply that the individual annual accounts reflect all these transactions made in currencies other than the functional currency of the company.
- b) In direct investments in companies located abroad. These investments may be through subsidiaries with independent legal personality or branches which lack their own personality, in both cases, it will be necessary to convert their financial statements to the presentation currency which, in the case of NH Group, is the euro.

Four methods have traditionally been proposed:

- Monetary-non monetary method
- Temporal method
- Current-non current method
- Exchange rate at close method

The international standard states in paragraphs 38 and 39 of IAS 21 that *"An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented."*

The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

- (a) *assets and liabilities for each statement of financial position presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position;*
- (b) *income and expenses for each statement of comprehensive income or separate income statement presented (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions; and*
- (c) *all resulting exchange differences shall be recognised in other comprehensive income.*

A functional currency is that of the main economic environment in which the company operates. That is, the currency of the environment in which the company generates and uses cash. Excepting proof to the contrary, it shall be assumed that the functional currency of companies domiciled in Spain is the euro.

The presentation currency is the currency in which the annual accounts are drawn up and must be expressed, in this case, in euros.

Once the functional currency is defined, the information will not be changed unless there is a change in the circumstances which determined the choice of said currency. When this happens, the procedures for conversion to the new functional currency will be applied prospectively from the date of the change .

When the functional currency of a company is not known exactly, the following factors can be considered:

- The currency which fundamentally influences the sales prices of goods and services; often this will be the currency in which sales prices of its products are denominated and settled.
- The currency of a country whose competitive forces and regulations fundamentally determine the sales prices of its goods and services.
- The currency mainly used in the costs of labour, materials and other costs incurred in the production of goods or the provision of services, which will often be the currency in which these costs are denominated and settled.
- The currency in which the funds from the financing activities are generated, i.e., that which corresponds to the debt and equity instruments issued.
- The currency in which the amounts received for operating activities are held.

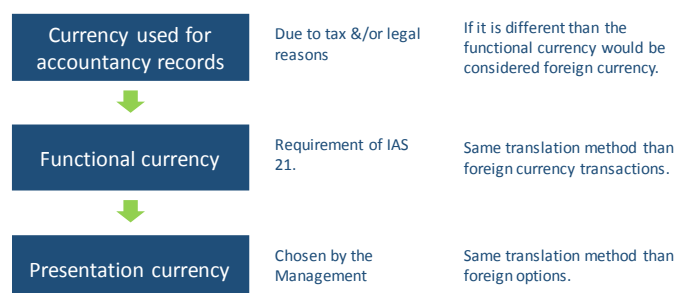
To convert the balance sheet and profit and loss account of a company into a functional currency, the procedure would be:

	ITEM	TRANSFORMATION
BALANCE SHEET	Monetary items	Closing exchange rate
	Non-monetary items	Historical exchange rate of the transaction
	Non-monetary items at RV	Exchange rate at the time of valuation.
	Own resources	Historical exchange rate
P & L	Current income and expenses	Exchange rate at the time of the transaction
	Referring to non-material items	Historical exchange rate of the non-material item
TRANSLATION DIFFERENCE		Allocated to the profit and loss account.
PROCEDURE	The balance sheet is transformed by the difference of the profit or loss for the year	
	The P&L is transformed and squared with the balance from the balance sheet with translation differences, positive and negative	

In deciding whether the founding currency of a company with the consolidation perimeter is the same as that of the company required to consolidate, the following factors will also be considered:

- If the activities are carried out of a significant degree of autonomy, or conversely they are an extension of the activities of the parent company.

- If the proportion representing the transactions between the consolidated company and the parent company is small, or on the contrary is high.
- If the cash flows of the consolidated company directly affect the cash flows of the parent company and are available to be sent to it.
- If the cash flows of the consolidated company's activities are sufficient to meet the current and future debt obligations which arise in the normal course of the activity.



4.2. Translation of financial statements into a functional currency other than the presentation currency

The translation of the annual accounts of a company whose functional currency is different from the euro will be carried out in accordance with the following rules:

- Assets and liabilities will be translated at the closing exchange rate. The closing exchange rate is the average spot exchange rate on that date.
- Equity items, including profit or loss for the year, will be translated at the historical exchange rate.
- The difference between the net amount of the assets and liabilities and the equity items will be recorded under an equity heading, denominated "translation differences", net of the tax effect, and once the part of this difference which corresponds to the external partners is deducted.

As a summary, the procedure will be:

	ITEM	TRANSFORMATION
BALANCE SHEET	Monetary items	Closing exchange rate
	Non-monetary items	Closing exchange rate
	Non-monetary items at RV	Closing exchange rate
	Own resources	Historical exchange rate. The reserves according to the exchange rate which generated them
P & L	Current income and expenses	Exchange rate at the time of the transaction. A weighted average is allowed
TRANSLATION DIFFERENCE		Allocated to the profit and loss account.
PROCEDURE	The profit and loss is translated.	
	The balance is converted and squared with the translation difference. The profit and loss account will appear for the balance obtained from being translated.	

A historical exchange rate will be considered:

- For the equity items existing at the acquisition date of the units which are consolidated: the exchange rate on the transaction date.
- In the case of income and expenses, including those recognised in equity: the exchange rate at the date of each transaction. In particular, the transfer to the profit and loss account or the book value of the non-financial assets and liabilities, income and expenses recognised in equity will be carried out in accordance with the historical exchange rates recognised for the aforementioned income and expenses. However, a weighted average rate for the period, which is representative of the exchange rates existing on the transaction dates, may be used, provided they have not changed significantly.
- Reserves generated after the transaction dates as a result of undistributed profits or losses: the effective exchange rate resulting from translating the expenses and income which produced those reserves.
- Goodwill on consolidation and adjustments to the fair values of assets and liabilities arising from the application of the acquisition method are considered elements of the acquired company, translating them therefore at the closing exchange rate.
- When the business acquired is composed of businesses in different functional currencies, the process of assigning values to assets and liabilities, as well as the resulting goodwill, must be made for each of these functional currencies, so that both adjusted assets and liabilities as well as goodwill will be identified at a business level of each functional currency, as well as the assets and liabilities of each of them.
- The calculations necessary to determine the recoverable value of goodwill will be made considering that the cash flows are produced in the functional currency of each unit generating cash flows. The amount which would have been assigned to a group of cash generating units will be calculated using the functional currency of the investor company.

- The external partners will be translated at the historical exchange rate, which will include the conversion difference attributable to them, if any, net of the tax effect.
- The translation difference recorded in the consolidated statement of income and expenses will be recognised in the consolidated profit and loss account for the period in which the investment in the consolidated company is disposed of or otherwise settled. Specifically, when the company ceases to have an exchange rate risk exposure, which will occur when there is a full recovery of the investment in the form of dividends.
- Cash flows will be translated at the exchange rate on the date each transaction occurred or at a weighted average exchange rate for the period provided there are no significant changes. The consolidated cash flow statement will include an item which includes the effect of changes in the exchange rate on the final cash balance. This amount will be presented separately from the flows from the operating, investment and financing activities.
- In the event that annual accounts whose closing date is different from the date to which the consolidated annual accounts are included in the consolidation, the exchange rates applicable for their translation shall be those corresponding to the period to which the accounts of the foreign company relate without prejudice to the appropriate adjustments which should be applied when there is a significant change in the applicable exchange rate between the closing date of the foreign company and that of the group.

4.3. Translation to euros of annual accounts with currencies in economies with high rates of inflation

Situations of high rates of inflation

High rates of inflation are considered when certain facts, including the following, are included:

- **Objective indicators**
 - The cumulative inflation rate over three years is approaching, or exceeds, 100%
 - Interest rates, wages and prices are linked to the evolution of a price index.
 - Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the suspension, even if the period is short.
- **Subjective indicators**
 - The general population prefers to keep its wealth in non-monetary assets or in another stable foreign currency.
 - The monetary amounts are usually referenced in terms of another stable foreign currency, and prices may even be set in another currency.

Procedure in case of high rates of inflation

For the translation into euros of annual accounts expressed in a functional currency corresponding to an economy subject to high rates of inflation, the following procedure shall be used:

- 1) The annual accounts will be restated through the use of a general price index which reflects the changes in the purchasing power of the currency by applying the following rules:
 - The value of those items which have already been accounted for in terms of the current monetary unit, such as monetary items and non-monetary items accounted for at fair value, will not be updated.
 - Non-monetary assets and liabilities accounted for at historical cost, including cumulative amortisation, will be updated from the acquisition or revaluation date.
 - At the beginning of the first year in which the adjustments for inflation are made, equity items, except reserves and valuation adjustments, will be updated from the dates they were contributed, or from the time they arose by another means.
 - The amount of the first year, as well as in the following years, will be updated to all the equity accounts from the beginning of the period or from the contribution date, if later.
 - The income and expenses will be updated from the date they were incurred.
 - The profit and loss account will include a heading denominated "*net monetary gain or loss*" which expresses the gain or loss in purchasing power derived from holding monetary assets and liabilities. Its amount will correspond to that of the adjustments made to update the non-monetary items to the current monetary unit, including those made to income and expense items and to equity and which are derived from changes in the price index of the year.
- 2) The annual accounts shall be translated by translating the asset, liability, equity, income and expense items to euros at the closing exchange rate of the most recent balance sheet date.
- 3) The comparative figures will be those presented as current amounts for each year. Consequently, they will not be adjusted for any subsequent changes which have occurred in the price level or in exchange rates.
- 4) In the year in which a company identifies that the economy ceases to have high rates of inflation, it will no longer apply the above criteria. In such case, the figures expressed in the current valuation unit at the end of the previous year shall be considered the historical cost of said items.

4.4. Exchange rate differences arising on intra-group monetary items

Income or expenses from exchange differences arising from monetary items payable or receivable within the group, denominated in a currency other than the functional currency of one of the parties, are not eliminated on consolidation. Consequently, and except as provided in the following paragraphs, such differences will be recognised in the consolidated profit and loss account.

4.5. Monetary items forming part of the net investment in a foreign company

A foreign company is defined as that subsidiary, multi-group or associate company or other type of joint venture or branch of a company included in the consolidation whose functional currency is different from that of the company which consolidates.

The net investment in a foreign company will be the sum of the amount corresponding to the company's shareholding included on consolidation in the equity of a foreign company and any other monetary item receivable or payable whose settlement is not foreseen, nor likely to occur in the foreseeable future, excluding items of a commercial nature.

Exchange rate differences arising on a monetary item which is part of the net investment in a foreign company will be recognised for the sole purpose of consolidation under the "*translation differences*" item. Said difference will be allocated to profit or loss when it is disposed of or as otherwise provided by the net investment

4.6. Disposal or other form of disposition of a foreign company

A company may dispose of all or part of its investment in a foreign by selling, liquidating or recovering the contributed capital by applying the following criteria:

- When the disposal of a foreign company implies loss of control, the amounts accumulated in equity as "*translation differences*" related to said company, will be allocated to profit or loss at the same time as the profit or loss of the disposal is recognised in the item "*allocation to profit and loss for the year of the translation difference*".
- When there are variations in the shareholding percentages which do not result in the loss of control of the entity, the cumulative translation difference which must appear in the consolidated balance sheet will be quantified based on the shareholding percentage held by the group companies in the capital of it, once the operation was carried out.
- The impairment loss of a foreign business will not constitute a disposal or partial disposal, therefore, at the time of accounting for this correction, no accrued translation difference will be recognised in profit or loss.
- The loss of significant influence or joint control over a multi-group company will be accounted for as a loss of control.
- In the partial disposal operations of a multi-group or associate company without a change in the company's rating, only the proportional part of the corresponding translation difference will be allocated to profit or loss. The same criterion will apply if, after the operation, the multi-group company should be classified as an associate.

- The payment of a dividend will motivate the allocation to profit or loss of the translation difference associated with the amount distributed.

4.7. Equity method companies

Translation differences corresponding to the equity of the group companies are recognised under "Translation differences", net of tax effect, if applicable.

The value of the equity method shareholding accounted for will be increased or decreased, as appropriate, by the translation differences.

4.8. Elimination of internal profit or loss

The elimination of internal profits or losses by internal operations will be made considering the exchange rate prevailing on the date of the transaction.

Annex I. Definitions

Parent company. That which exercises or can exercise, directly or indirectly, control over other companies.

Control. Power to direct the financial and operating policies of an entity, with the purpose of obtaining economic benefits from its activities.

Subsidiary company. A company which is controlled by another.

Multi-group company. A non-subsidiary company which is managed by one or more group companies with another person or other people outwith the group, exercising joint control.

Associate company. A company on which one or more group companies have a significant influence on its management.

Subordination group. Groups of companies formed by a parent entity and one or more subsidiary entities.

Coordination group. Group comprising all the entities of the same group domiciled in Spain together with their subsidiaries, Spanish or foreign, subject to the same decision-making unit.

External partners. Minority partners who have shareholdings in subsidiaries.

Functional currency. The currency used in the economic environment in which the company operates.

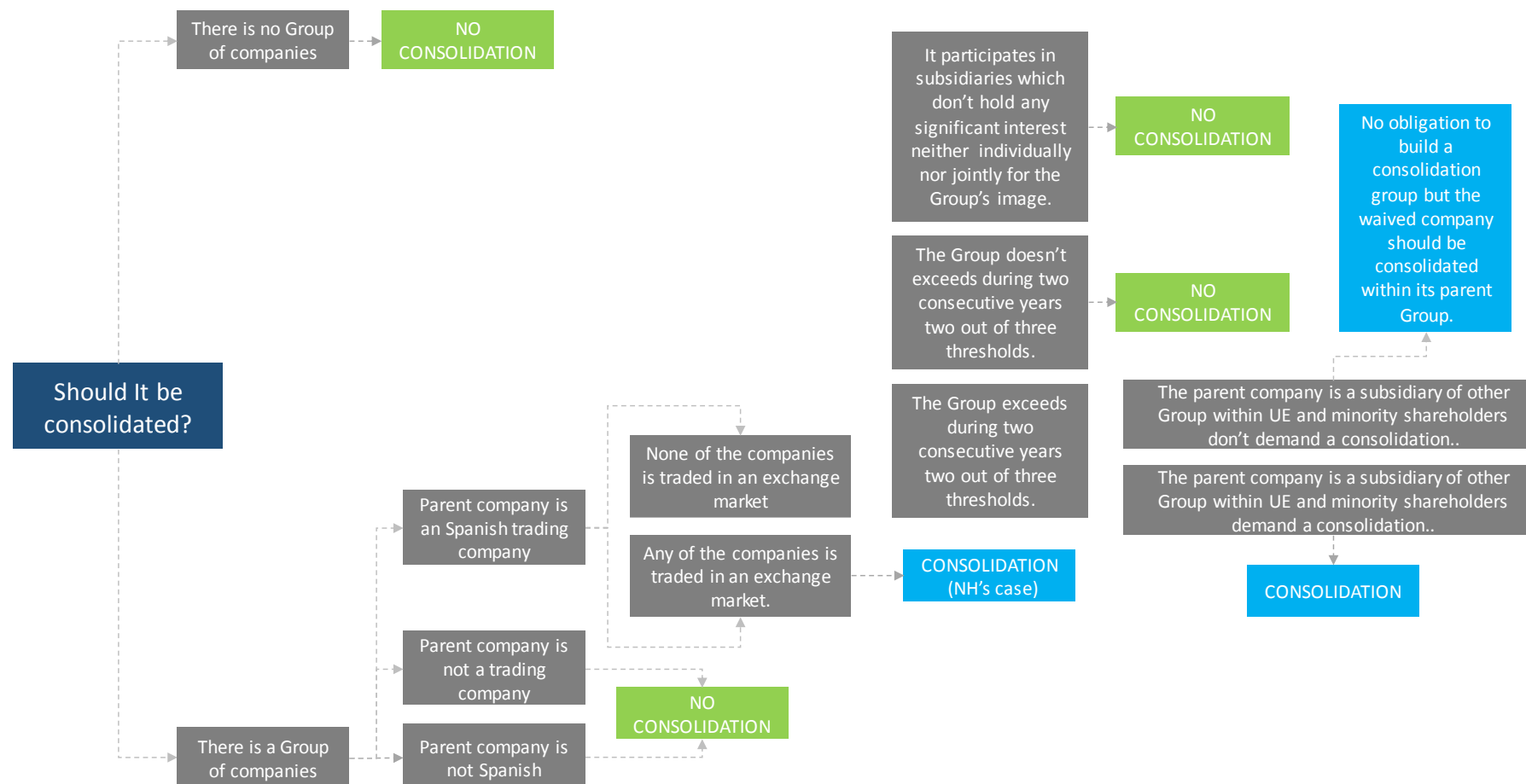
Presentation currency. That in which the financial statements are presented.

Foreign currency. Any currency other than the functional currency.

Foreign currency transactions. A transaction in a foreign currency or whose settlement would be made in a foreign currency.

Operations abroad. Subsidiary entity, associate or branch of the entity preparing the financial statements.

Annex II: Obligation to consolidate



Annex III: Consolidated financial statements models

NH HOTEL GROUP, S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS AT _____ AND _____
(Thousands of euros)

ASSETS	Notes			NET ASSETS AND LIABILITIES	Notes		
NON- CURRENT ASSETS: Tangible fixed assetst Goodwill Intangible assets Investments accounted for using the equity method Non-current financial investments- <i>Loans and accounts receivable not available for trading</i> <i>Other non-current financial investments</i> Deferred tax assets Other non-current assets Total non-current assets				EQUITY: Share capital Reserves of the parent company Reserves of fully consolidated companies Reserves of companies consolidated using the equity method Other equity instruments Currency translation difference Treasury shares and shareholdings Consolidated profit for the period Equity attributable to the shareholders of the Parent Company Non-controlling interests Total equity NON-CURRENT LIABILITIES Debt instruments and other marketable securities Bank borrowings Obligations under finance leases Other non-current liabilities Provisions for contingencies and charges Deferred tax liabilities Total non-current liabilities			
CURRENT ASSETS: Non-current assets classified as held for sale Inventories Trade receivables Non-trade receivables- <i>Tax receivables</i> <i>Other non-trade debtors</i> Short- term financial investments Cash and cash equivalents Other current assets Total current assets				CURRENT LIABILITIES: Liabilities associated with non-current assets classified as held for sale Debt instruments and other marketable securities Bank borrowings Obligations under finance leases Trade and other payables Tax payables Provisions for contingencies and charges Other current liabilities Total current liabilities			
TOTAL ASSETS				TOTAL LIABILITIES			

NH HOTEL GROUP, S.A. AND SUBSIDIARIES

CONSOLIDATED COMPREHENSIVE PROFIT AND LOSS STATEMENT FOR _____ AND _____ (Thousands of euros)

	Notes	2016	2015
Revenues			
Other operating income			
Net gains on disposal of non-current assets			
Procurements			
Staff costs			
Depreciation and amortisation charges			
Net Profits/(Losses) from asset impairment			
Other operating expenses			
<i>Variation in the provision for onerous contracts</i>			
<i>Other operating expenses</i>			
Gains on financial assets and liabilities and other			
Profit (loss) from companies accounted for using the equity method			
Finance income			
Change in fair value of financial instruments			
Finance costs			
Net exchange differences (Income/(Expense))			
PROFITS / (LOSSES) BEFORE TAX FROM CONTINUING OPERATIONS			
Income tax			
PROFIT / (LOSS) FOR THE FINANCIAL YEAR - CONTINUING			
<i>Profit (loss) for the year from discontinued operations net of tax</i>			
PROFIT FOR THE FINANCIAL YEAR			
Currency translation difference			
Arising from the measurement of financial instruments			
Income and expenses recognised directly in equity			
TOTAL COMPREHENSIVE PROFIT / (LOSS)			
Profits for the year attributable to:			
<i>Parent Company Shareholders</i>			
<i>Non-controlling interests</i>			
Comprehensive Profit / (Loss) attributable to:			
<i>Parent Company Shareholders</i>			
<i>Non-controlling interests</i>			
Profit per share in euros (basic)			

NH HOTEL GROUP, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR 2016 AND 2015

(Thousands of euros)

	Share capital	Reserves of the parent company			Reserves in companies consolidated by		Currency translation difference	Equity instruments	Treasury shares and shareholdings	Total	Results attributable to Parent Company	Non-controlling interests	Total Shareholders' Equity
		Share premium	Legal reserve	Other reserves	Full consolidation	the equity method							
Balances at 31 December 2014													
Adjustments after the end of the year													
Initial balance adjusted at 1 January 2015													
Net profit (loss) for 2015													
Currency translation difference													
Recognised income and expenses for the period													
Capital increase													
Distribution of Profit (Loss) 2014- - To Reserves													
Changes in treasury shares													
Remuneration Scheme in shares													
Business combination													
Distribution of dividends													
Other transactions with shareholders or owners													
Other movements													
Balances at 31 December 2015													
Adjustments after the end of the year													
Initial balance adjusted 01 January 2016													
Net profit (loss) for 2016													
Currency translation difference													
Others													
Recognised income and expenses for the period													
Capital increase													
Distribution of Profit (Loss) 2015- - To Reserves													
Treasury shares and shareholdings													
Remuneration Scheme in shares													
Business combination (Notes 2.5.4 and 14.4)													
Distribution of dividends (Note 14.4)													
Other transactions with shareholders or owners													
Other movements													
Balances at 31 December 2016													

CONSOLIDATED CASH FLOW STATEMENTS PRODUCED IN THE PERIODS AND

(Thousands of euros)

	Note		
1. OPERATING ACTIVITIES			
Consolidated profit (loss) before tax:			
Adjustments:			
Depreciation of tangible and amortisation of intangible assets (+)			
Impairment losses (net) (+/-)			
Allocations for provisions (net) (+/-)			
Gains/Losses on the sale of tangible and intangible assets (+/-)			
Gains/Losses on investments valued using the equity method (+/-)			
Financial income (-)			
Financial expenses and variation in fair value of financial instruments (+)			
Net exchange differences (Income/(Expense))			
Profit (loss) on disposal of financial investments			
Other non-monetary items (+/-)			
Adjusted profit (loss)			
Net variation in assets / liabilities:			
(Increase)/Decrease in inventories			
(Increase)/Decrease in trade debtors and other accounts receivable			
(Increase)/Decrease in other current assets			
Increase/(Decrease) in trade payables			
Increase/(Decrease) in other current liabilities			
Increase/(Decrease) in provisions for contingencies and expenses			
(Increase)/Decrease in non-current assets			
Increase/(Decrease) in non-current liabilities			
Income tax paid			
Total net cash flow from operating activities (I)			
2. INVESTMENT ACTIVITIES			
Finance income			
Investments (-):			
Group companies, joint ventures and associates			
Tangible and intangible assets and investments in property			
Non-current financial investments			
Disinvestment (+):			
Group companies, joint ventures and associates			
Tangible and intangible assets and investments in property			
Non-current financial investments			
Total net cash flow from investment activities (II)			
3. FINANCING ACTIVITIES			
Dividends paid out (-)			
Interest paid on debts (-)			
Financial expenses for means of payment			
Interest paid on debts and other interest			
Variations in (+/-):			
Equity instruments			
- Treasury shares			
Debt instruments:			
- Bonds and other tradable securities (+)			
- Loans from credit institutions (+)			
- Loans from credit institutions (-)			
- Finance leases			
- Other financial liabilities (+/-)			
Total net cash flow from financing activities (III)			
4. GROSS INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)			
5. Effect of exchange rate variations on cash and cash equivalents (IV)			
6. Effect of variations in the scope of consolidation (V)			
7. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III-IV+V)			
8. Cash and cash equivalents at the start of the financial year			
9. Cash and cash equivalents at the end of the financial year (7+8)			

Annex IV: Summary of consolidation methods

	GLOBAL INTEGRATION METHOD	INTEGRATION WITH THE EQUITY METHOD
<i>In what percentage are the shares of the investee company added?</i>	In full (100%)	There is no aggregation of items.
<i>The consolidated accounts. Do they report on the shareholding of the external partners of the investee company?</i>	Yes, they are part of the equity	No. The shareholding of these partners is not aggregated (see exceptions 2.2.4)
<i>Does the consolidated balance sheet show the first consolidation difference?</i>	Yes, if it is positive	No. The positive difference would be within the value of the investment
<i>Is the financial investment in the investee company included in the consolidated annual accounts?</i>	No. It has been replaced by the assets and liabilities of the investee company	Yes. For a value modified according to the equity evolution of the company.
<i>Does applying one method or another have different effects on the group's equity?</i>	No	No
<i>Applying one method or another, does it have a different effect on the profit or loss attributable to the group?</i>	No	No