GUIDE TO BUSINESS IN SPAIN /2023

GARRIGUES ICEX INVEST IN SPAIN

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This guide was researched and written by Garrigues, on behalf of ICEX, on February 2023.

This guide is correct to the best of our knowledge. It is, however, written as a general guide so it is necessary that specific professional advice be sought before any action is taken.

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Pº de la Castellana, 278
28046 Madrid
Tel: 902 34 90 00
Fax: 914 31 61 28

desarrollo@investinspain.org

www.icex.es
www.investinspain.org

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AIII.

Accounting and audit issues

This Chapter contains details of the main accounting, commercial bookkeeping and audit obligations to be observed by Spanish enterprises.

According to Spanish legislation, all enterprises are required to keep orderly accounts, in keeping with their business, including a book of inventories and balance sheets book and a journal.

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

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

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1 Legal framework

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

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

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

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

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

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

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

1 The legislation on Spanish corporations is now contained in the Revised Corporate Enterprises Law, approved by Legislative Royal Decree 1/2010, of July 2, 2010.

AIII.

Accounting and audit issues

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

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

- Law 16/2007, of July 4, 2007, reforming and adapting Spanish corporate accounting legislation for its international harmonization based on European legislation, which made significant amendments to the Commercial Code, and to the then in force Revised Spanish Corporations Law, Limited Liability Companies Law and other industry-based accounting standards and, lastly, adapted for the first time the Corporate Income Tax Law to the new accounting legislation.
- Royal Decree 1514/2007, of November 16, 2007 approving the Spanish National Chart of Accounts (the Spanish National Chart of Accounts).
- Royal Decree 1515/2007, of November 16, 2007 approving the Spanish National Chart of Accounts for small and medium enterprises (*SMEs*) and the specific accounting rules for very small enterprises (*VSEs*).

Similarly, 2010 saw the approval of Royal Decree 1159/2010, of September 17, approving the Standards for the Preparation of Consolidated Financial Statements (*NOFCAC*).

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

- Royal Decree 1317/2008, of July 4, approving the Spanish National Chart of Accounts for insurance companies.
- Order EHA/3360/2010, of December 21, approving accounting standards for cooperative companies.
- Order EHA/3362/2010, of December 23, approving the rules adapting the Spanish National Chart of Accounts to concession holders for public infrastructure.
- Order EHA/733/2010, of March 25, approving accounting standards for public companies operating in certain circumstances.
- Royal Decree 1491/2011, of October 24, approving the provisions adapting the Spanish National Chart of Accounts to not-for-profit entities and the model action plan for not-for-profit entities.
- Resolution of 21 December 2018, of the Presidency of the Court of Auditors, by means of which, the Plenum Agreement dated 20 December 2018, approving the Accounting Plan adapted to the Political Formations and the Organic Law 3/2015, is published[2].

In 2016, important changes were made to Spanish accounting legislation by means of Royal Decree 602/2016 of December 17, 2016. The purpose of these changes was to lay down the implementing regulations necessary as a result of the changes made to Spanish accounting law by Law 22/2015 of July 20, 2015 (as a result of the process for the transposition of Directive 2013/34/EU of June 26, 2013).

Royal Decree 583/2017 of June 12, 2017, amending the Spanish National Chart of Accounts for insurance companies, was published in 2017, also for the purpose of bringing Spanish legislation into line with EU law.

In relation to the other industries for which an adaptation was adopted before the approval of the Spanish National Chart of Accounts, the earlier industry adaptations remain in force, insofar as they do not conflict with the new legislation, in conformity with Transitional Provision number five of Royal Decree 1514/2007, of November 16, approving the Spanish National Chart of Accounts.

The last major reform was introduced by Royal Decree 1/2021 of January 12, 2021, amending the Spanish National Chart of Accounts, the Spanish National Chart of Accounts for Small and Medium Enterprises, the *NOFCACs*, and the rules on adaptation of the Spanish National Chart of Accounts for not-for-profit entities. In this case, the changes made to Spanish accounting legislation are aimed at bringing it into line with the most recent international accounting criteria in respect, primarily, of financial instruments and the recognition of financial revenues, as set out in IFRS-EU 9 and IFRS-EU 15. This Royal Decree came into force with effect for years commencing as from January 1, 2021.

From the audit perspective, Accounting Audit Law 22/2015 of July 20, 2015, marked the culmination of a process for the adaptation of Spanish legislation to Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts (following its amendment by Directive 2014/56) and Community Regulation 537/2014 on specific requirements applicable to so-called public-interest entities. In this regard, Royal Decree 2/2021 of January 12, 2021, approved the implementing Regulations for the Spanish Audit Law (Law 22/2015 of July 2, 2015).

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

2 Amended by the Resolution of 8 March 2019, of the Presidency of the Court of Auditors, by means of which, the Plenum Agreement dated 7 March 2019, amending the Accounting Plan adapted to the Political Formations approved on 20 December 2018, is published.

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Accounting records

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

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

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

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

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

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3 Financial statements

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

Royal Decree-Law 18/2017 of November 24, 2017, which transposed Directive 2014/95/EU into domestic law introduced the obligation, incumbent upon public-interest entities of a certain size, to include in their directors' report, or in a separate report, a Non-financial Information Statement containing, as a minimum, an account of the company's position in relation to environmental and social issues, personnel, respect for human rights and measures to combat bribery and corruption.

In this respect, Law 11/2018 of December 28, 2018, amending the Commercial Code, the revised Capital Companies Law and the Spanish Audit Law increased significantly the number of companies which are under the obligation to disclose the non-financial information statement. Companies meeting the following requirements must file this statement, whether individually or on a consolidated basis:

a. That the average number of workers employed by the company or the group, as applicable, during the year is above 250.

b. That they are either deemed to be public-interest entities in accordance with the audit legislation, or they meet, for two consecutive years, at each of the year-end dates – on an individual or consolidated basis, as appropriate - at least two of the following tests: (i) total asset items amounting to more than €20,000,000; (ii) annual net revenues exceeding €40,000,000.

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

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

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

- Part one: Conceptual accounting framework.
- Part two: Recognition and measurement bases.
- Part three: Financial statements.
- Part four: Chart of accounts.
- Part five: Accounting definitions and relationships.

The Standards for the Preparation of Consolidated Financial Statements were approved in Royal Decree 1159/2010, which was amended by Royal Decree 1/2021 of January 12, 2021.

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Conceptual accounting framework and recognition and measurement bases

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

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

AREA	SPANISH NATIONAL CHART OF ACCOUNTS (SNCA)
Components of financial statements	The financial statements comprise a balance sheet, an income statement, a statement of changes in equity a cash flow statement and notes.
Main objective: True and fair view	The annual financial statements must be clearly drafted, ensuring that the information they contain can be understood by and is of use to readers for economic decision-making purposes; and they must give a true and fair view of the business's equity, financial position and results of operations. The systematic and consistent application of the requirements and accounting principles and standards set out in the following sections should result in the annual financial statements giving a true and fair view of the business's equity, financial position and results of operations. In this respect, the way in which operations are recorded should take into account not only their legal form but, also, the economic reality behind them.
Requirements concerning information to be included in the financial statements	The information included in the financial statements must be relevant and reliable. A quality deriving from reliability is completeness. Also, the financial information must be comparable and clear.
Accounting principles	The obligatory accounting principles are: Going concern, accrual, consistency, prudence, no offset and materiality.
Items included in the financial statements	The following items are defined: Assets, liabilities, equity, income and expenses, which are to be recognized when probability criteria regarding the inflow or outflow of resources embodying economic benefits or returns are met and their value can be determined with an adequate degree of reliability.

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AREA	SPANISH NATIONAL CHART OF ACCOUNTS (SNCA)
Accounting recognition criteria applicable to items in the financial statements	Assets should be recognized in the balance sheet when it is probable that they will generate future economic benefits or revenues for the company in the future, and provided that they can be measured reliably. Liabilities should be recognized in the balance sheet when it is probable that, upon maturity and in order to settle the obligation, it will be necessary to deliver or surrender resources embodying future economic benefits or revenues, provided that they can be measured reliably. Income is recognized as the result of an increase in the company's resources, provided that its amount can be measured reliably. Expenses are recognized as the result of a decrease in the company's resources, provided that their amount can be measured or estimated reliably.
Measurement bases	The measurement standards adopted by the Spanish National Chart of Accounts are as follows: Historical cost or cost, fair value (this base having been developed extensively following the reform implemented by Royal Decree 1/2021), net realizable value, value in use and present value, costs to sell, amortized cost, transaction costs attributable to a financial asset or liability, carrying amount or book value and residual value.

RECOGNITION AND MEASUREMENT BASES PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS, AND INVESTMENT PROPERTY	
Property, plant and equipment **Investment property**	Tangible assets held for use on a lasting basis in the company's activities, in the production or supply of goods or services, or for administrative purposes. Non-current assets consisting of real estate property held to earn rentals or for capital appreciation or both. As a general rule, all these assets are initially stated at cost, whether this is the acquisition price or production cost. Subsequent to their initial recognition, they are stated at their acquisition price or production cost less the corresponding accumulated depreciation and, where appropriate, any accumulated impairment losses.
Intangible assets	Identifiable non-monetary assets without physical substance whose economic value can be measured. For their initial recognition, the identifiability standard must also be met. This means that either of the following two requirements must be fulfilled: (a) the asset must be separable, or (b) it must derive from legal or contractual rights. In no circumstances can establishment costs, brands, customer lists or similar items generated internally be recognized as intangible assets. Intangible assets are assets with a defined useful life and they must therefore be amortized systematically over the period for which the economic benefits inherent in them can reasonably be expected to generate revenues for the company. When the useful life of these assets cannot be reliability estimated, they must be amortized over ten years, without prejudice to the periods stipulated in specific rules applicable to intangible assets. At least once a year, the possible existence of impairment indicators must be analyzed, to determine whether impairment losses have been incurred.
Costs of dismantling, removing or restoring assets	The initial estimate of the present value of the obligations to dismantle, remove or restore an asset shall be included in its cost.
Capitalization of borrowing costs	Certain borrowing costs must be capitalized in the case of non-current assets that will take more than one year to be ready for their intended use. As a general rule, interest can only be capitalized before the asset has been brought into use.

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RECOGNITION AND MEASUREMENT BASES PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS, AND INVESTMENT PROPERTY	
Asset swaps	Swaps with a commercial substance: The asset received is recognized at the fair value of the asset given up plus the monetary amounts delivered as consideration, unless there is clearer evidence of the fair value of the asset received and up to the limit of the latter value. In swaps without commercial (substance or in those in which fair value cannot be reliably measured): The asset received is measured at the carrying amount of the asset given up plus the monetary amounts delivered as consideration, up to the limit, if available, of the fair value of the asset received if this value is lower.
Non-monetary capital contributions	The assets received are measured at their fair value at the date of contribution, unless it may be treated as a swap without commercial substance. There are specific rules if the contribution consists directly or indirectly on a business. For the contributor, the rules relating to financial instruments shall apply.
Impairment losses	Impairment losses arise when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized and reversed through profit or loss.
Major repairs to property, plant and equipment	The effect of costs of major repairs is taken into account when determining the carrying amount of property, plant and equipment. These costs are amortized over the period remaining until the repair is made. When the repair is made, its cost is recognized as a replacement if the related recognition criteria are met.
Research and development expenditure	Research expenditure: Period expense, although it may be capitalized in certain circumstances. Development expenditure: Capitalized when the conditions established for the capitalization of research expenditure are met.
Start-up costs	Period expense.
Goodwill	Goodwill can only be recognized as an asset when its value is realized in an acquisition for consideration, in the context of a business combination. Its amount must be determined in accordance with the rules on business combinations (the purchase method) and it must be allocated as from the acquisition date to each of the cash-generating units of the acquiror that are expected to benefit from the synergies of the business combination. Subsequent to initial recognition, goodwill must be stated at its acquisition cost less accumulated amortization and, where appropriate, any accumulated impairment losses recognized. Goodwill is amortized over its useful life. Useful life is determined separately for each cash-generating unit to which it has been allocated. Goodwill is presumed - in the absence of evidence to the contrary - to have a useful life of ten years and to be recoverable on a straight-line basis. Impairment losses recognized on goodwill are not reversed in subsequent years.

RECOGNITION AND MEASUREMENT BASES PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS, AND INVESTMENT PROPERTY	
LEASES	
Measurement of leases	The Spanish National Chart of Accounts has not yet been adapted to IFRS-EU 16 on Leases. The Spanish Accounting and Audit Institute (*ICAC*) is analyzing its general implementation, with a variety of different circumstances and possible exceptions being envisaged.
Finance leases	When the economic conditions of a lease agreement imply that all the risks and rewards incidental to ownership of the asset forming the object of the lease are substantially transferred. This condition is presumed met in a variety of circumstances. The lessee records an asset and a financial liability of the same amount, which will be the fair value of the leased asset or, if lower, the present value at the inception of the lease of the minimum lease payments agreed to, including the payment for the purchase option where there exists no reasonable doubt that it will be exercised and any amount which has been guaranteed, directly or indirectly; contingent rents, the cost of services and taxes chargeable by the lessor are excluded. The total finance charge is distributed over the term of the lease and taken to income on an accrual basis, using the effective interest method. Contingent rents are expensed as incurred. The lessee must apply to the assets it is required to recognize in the balance sheet as a result of the lease the depreciation, impairment and derecognition criteria corresponding to them based on their nature.
Operating leases	Income and expenses deriving from operating lease agreements, corresponding to the lessor and the lessee, are to be treated, respectively, as income and expenses for the year of their accrual and taken to income accordingly.

INVENTORIES AND NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE	
INVENTORIES	
Measurement rules	As a general rule, they are stated at cost, whether this is the acquisition cost or production cost. All expenses incurred up to the point at which they reach the location from which they will be sold are included. Exception: For commodity broker-traders, the standard applied is fair value less costs to sell, provided that this eliminates or reduces the "accounting asymmetry" which would arise were these assets not stated at fair value. Refers expressly to inventories in the rendering of services.
Trade and financial discounts	Any directly attributable discount, price reduction or similar is deducted from the amount invoiced by the seller of the inventories. Discounts, returns and similar operations taking place subsequent to the invoice date are recorded under specific headings in the income statement.
Borrowing costs	Borrowing costs are included in the acquisition or production cost of inventories that necessarily take more than one year to get ready for their sale.
NON-CURRENT ASSETS (DISPOSAL GROUPS) CLASSIFIED AS HELD FOR SALE	
Non-current assets classified as held for sale	A non-current asset is classified as held for sale if its carrying amount will be recovered largely through a sale transaction rather than through continuing use. There are certain requirements to be met. These are stated at the lower of book value or fair value less costs to sell. For as long as they are classified in this category, there is no amortization; the corresponding valuation adjustments are required to be recorded where appropriate.

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

LONG TERM EMPLOYEE BENEFITS	
Classification of pension plans for the purposes of their accounting treatment	Draws a distinction between long-term defined contribution plans and long-term defined benefit plans.

PROVISIONS	
Measurement	Present value of the best possible estimate of the expenditures required to settle or transfer the obligation, recognizing the adjustments arising from their discounting as a finance cost as incurred. In the case of provisions maturing at one year or less, no discounting is required, provided that the effect of the time value of money is not material.

FINANCIAL INSTRUMENTS	
Financial assets measured at fair value through profit and loss	This heading is used when classification under none of the others would be appropriate. Financial assets held for trading are to be included in this category obligatorily. For equity instruments which are not held for trading, and are not to be stated at cost, the company can choose irrevocably, at the time of initial recognition, to reflect subsequent changes in fair value in equity directly. Initial valuation: Fair value, without including directly attributable transaction costs, which are recognized in the income statement for the year. Subsequent measurement: Fair value without deducting any costs incurred in disposal. Changes in fair value are recognized in profit or loss. Impairment is not applicable.
Assets stated at amortized cost	A financial asset is included in this category, even when it is listed for trading on an organized market, if the entity maintains the investment with a view to receiving the cash flows deriving from performance of the contract, and the contractual terms of the financial asset give rise, on specified dates, to cash flows consisting solely of collections of principal and interest on the principal outstanding. Initial measurement: Fair value plus directly attributable transaction costs. Subsequent measurement: Interest accrued is recorded in profit and loss in accordance with the effective interest method. Imputation of adjustments/impairment: The necessary valuation adjustments are made at the year end, wherever there is objective evidence of impairment in value as the result or one or more events occurring subsequent to initial recognition and which generate a reduction or delay in estimated future cash flows, which may result from debtor insolvency (an "incurred loss" criterion, as opposed to IFRS-EU 9, which applies an "expected loss" criterion). The impairment loss is the difference between the book value and present value of future cash flows, including those deriving from the execution of in rem and in personal guarantees. The impairment loss, and its reversal, are recognized as an expense or income, respectively, in the income statement.

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FINANCIAL INSTRUMENTS	
Financial assets at fair value with changes reported in equity	A financial asset is to be included in this category when its contractual terms give rise, on specified dates, to cash flows consisting solely of collections of principal and interest on the amount of principal outstanding, and it is not held for trading and it is not appropriate for it to be carried at amortized cost. Also to be included in this category are investments in equity instruments for which the irrevocable option has been exercised. Initial measurement: Fair value plus directly attributable transaction costs. Subsequent measurement: Fair value without deducting any transaction costs incurred in disposal. Changes occurring in fair value are recorded under equity, on a temporary basis, until the time of their impairment or derecognition, at which point they are taken to income. Imputation of adjustments/Impairment: • Debt instruments: An impairment loss is recorded in the income statement when there is a delay in estimated future cash flows, which may be due to debtor insolvency. In the event of a recovery in value, the amount reversed is taken to income. • Equity instruments: An impairment loss is recorded in the income statement when there is a decrease in the recoverability of the book value of the asset, evidenced, for example, by a prolonged or significant decline in its fair value. In the event of a recovery in value, the amount of the increase is recorded directly against equity (it is not reversed by crediting it to the income statement).
Financial assets at cost	The assets to be included in this category include, among others, investments in the equity of group companies, jointly controlled entities and associates, and other investments in equity instruments whose fair value cannot be determined by reference to a price quoted on an active market or cannot be estimated reliably. Initial measurement: At cost, i.e. at the fair value of the consideration plus directly attributable transaction costs. In the case of a group company, the initial measurement will be the cost value of the business combination, unless there existed an investment prior to its being classed as a group company (in that case, the cost will be its book value prior to classification as such). Subsequent measurement: Cost less accumulated impairment losses. Imputation of adjustments/Impairment: Valuation adjustments are made for the difference between the carrying amount and the recoverable amount, which is understood to be the higher of fair value less costs to sell and the present value of future cash flows). In the case of equity instruments, unless there is more reliable evidence of the recoverable amount of investments in equity instruments, the estimate of the impairment loss is to be calculated based on the equity of the investee and underlying capital gains existing as at the measurement date, net of the tax effect.

FINANCIAL INSTRUMENTS	
Financial liabilities at amortized cost	This includes all financial liabilities except when they are required to be stated at fair value with changes reported through profit and loss. Initial measurement: Fair value, which will be the price of the transaction (fair value of the consideration received less directly attributable transaction costs). Subsequent measurement: At amortized cost. This is except for payables maturing in no more than one year which were stated at their nominal value upon initial recognition and will continue to be stated for that amount. Imputation of income: Interest accrued is recognized in the income statement using the effective interest method.
Financial liabilities measured at fair value through profit and loss	This category includes, among others, liabilities held for trading and any designated as such by the company at the time of initial recognition on certain grounds. Initial measurement: Fair value (i.e. price of the transaction: Fair value of the consideration received). Directly attributable transaction costs are recognized in profit and loss for the year. Subsequent measurement: Fair value. Changes in fair value are recognized in profit or loss.
Transactions involving equity instruments	Recognized in equity as a change therein, and in no case may they be recognized as financial assets.
Gains and losses on transactions involving equity instruments	No gain or loss may be recognized in the income statement.
Compound financial instruments	Their components of liability and equity are recognized, measured and presented separately.
Derivatives	Initial recognition: Fair value. Subsequent measurement: Fair value without deducting costs to sell. Changes in fair value are recognized in profit or loss. Some specific rules apply to some financial instruments designated as hedged items.
Preference shares	The ICAC Ruling of March 5, 2019 — in which it expands upon the standards applicable in the recognition of financial instruments and other accounting matters related to the regulation, from the mercantile perspective, of capital companies — analyses, among many other issues, the accounting standards applicable to preference shares.
Participating loans	Participating loans on which the interest is contingent are to be included on the assets side as Financial assets at cost. On the liabilities side, the standard applicable is similar to that applicable to silent participation agreements (*cuentas en participación*), when the interest on them is contingent. Where the participation loans have the characteristics of an ordinary or regular loan, they are classed as financial liabilities stated at amortized cost.

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

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

SALES OF GOODS AND RENDERING OF SERVICES	
Recognition of income	Income is recognized upon the transfer of control of the goods or services promised to the customer.
Process for determining income	• Step 1: Identify control with customer. • Step 2: Identify the separate obligations under the contract. • Step 3: Determine the price of the transaction • Step 4: Apportion the price of the transaction among the contract obligations. • Step 5: Recognize income upon (or in line with) settlement of the obligations by the company.
Measurement	Revenue is measured at the fair value of the consideration received or receivable, net of discounts and price reductions.
Interest included in the face value of receivables	Deducted from the price agreed on, except in the case of trade receivables maturing within no more than one year for which no contractual interest rate has been established, provided that the effect of the time value of money is not material.
Swaps of goods and services	No revenue is recognized in swaps of homogeneous elements, such as exchanges of finished products or interchangeable goods, taking place between two companies with the aim of being more efficient in their commercial task of delivering the product to their respective customers.

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

SHARE-BASED PAYMENT	
Concept	Transactions which, in exchange for receiving goods or services, including services provided by employees, are settled using equity instruments of the entity or an amount based on the price of the entity's equity instruments.
Recognition of equity-settled share-based payment transactions	The goods or services received are recognized immediately as an asset or as an expense on the basis of their nature. Also, an increase in equity is recognized. When it is necessary to complete a specified period of service, the items will be recognized as the services are rendered over that period.
Recognition of transactions with the option of settlement in cash or in equity instruments	A liability is recognized to the extent that the entity has incurred a present obligation to settle in cash or in other assets, and where this is not the case, an equity item is recognized. If the option corresponds to the supplier, it is recognized as a composite financial instrument.
Settlement in equity instruments	Measured at the fair value of the goods or services received with a balancing entry in an equity account. If that fair value cannot be estimated reliably, they are measured at the fair value of the equity instruments granted. Transactions with employees are measured at the fair value of the equity instruments granted at the date on which the resolution to grant them is adopted.
Settlement in cash	Measured at the fair value of the liability, referring to the date on which the requirements for recognition are met with a balancing entry in a liability account. Until the liability is settled, any changes in its value are recognized in profit or loss.

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

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

An important development in 2019 was the publication of the Resolution of March 5, 2019, of the Spanish Accounting and Audit Institute (*ICAC*), which developed upon the criteria for the presentation of financial instruments and other accounting aspects related to the commercial regulation of corporations. This Resolution establishes the recognition and valuation criteria applicable to transactions such as (i) the acquisition and disposal of own shares; (ii) interest and dividend income; (iii) capital increases or reductions; (iv) other types of shareholder contributions; (v) accounting aspects of special shares (privileged, non-voting, redeemable); (vi) non-monetary contributions; (vii) outstanding paid-in capital; (viii) joint accounts; (ix) restatement of annual accounts; (x) profit distributions; (xi) dissolution and liquidation; (xii) transformation of the corporate form; and (xiii) mergers and spinoffs, among other things.

In general, this Resolution summarizes the doctrine issued by the *ICAC* in its previous rulings. The main modification is that the *ICAC* changes its interpretation with respect to the accounting treatment of script dividends for shareholders of a company. Thus, when the company agrees to assign free assignment rights under a shareholder remuneration program that allows shareholders to (i) acquire free shares; (ii) sell such rights in the market; or (iii) sell them to the issuing company itself, the shareholder will recognize the corresponding financial income and the securities received at their fair value. Such accounting treatment was applicable to the financial statements for years beginning on or after January 1, 2020 (without prejudice to the possibility to opt for a retroactive application).

The most recent major reform of accounting legislation was approved by Royal Decree 1/2021 and came into force effective for years commencing as from January 1, 2021. This reform has introduced changes of different types into accounting legislation in order to bring it into line with the latest international accounting standards, and primarily with IFRS-EU 9 on financial instruments and IFRS-EU 15 on the recognition of revenue. The description of measurement standards set out in the above table is based on the Spanish National Chart of Accounts as worded following this reform. Its transitional provisions also regulate the criteria applicable as regards first time application. The *ICAC* has also published its ruling of February 10, 2021 establishing rules on recognition and measurement and the preparation of financial statements in relation to the recognition of revenue from the supply of goods and services, for the implementation of the above mentioned IFRS-EU 15.

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5 Distributable profit

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

- The profit taken directly to equity may not be distributed either directly or indirectly (this relates to adjustments for positive changes in value and subsidies, donations and bequests recognized directly in equity).
- Any distribution of profit is prohibited unless the amount of unrestricted reserves is at least equal to the amount of research and development expenditure that appears on the asset side of the balance sheet.

The ICAC ruling of March 5, 2019, expands upon the concept of "distributable profits". This is defined as the aggregate result for the year, as reflected in the approved balance sheet, with the following adjustments being made:

a. Positive: (1) Unrestricted reserves and (2) retained earnings.

b. Negative: (1) Prior-year losses. However, the amount by which this result exceeds the positive adjustments will only be included as a negative adjustment insofar as it is not offset, materially, by the balance of the legal reserve and other pre-existing restricted reserves; and (2) the part of the result for the year which is required to be allocated to the legal reserve and other obligatory provisions established by the law or bylaws.

The share premium and premium upon subscription of S.L. shares constitute contributed equity that can be recovered by the shareholders on the same terms as unrestricted reserves and shareholders' contributions.

Article 28 of the ruling relates to the allocation of results. In this respect, dividends can only be distributed against distributable profits if the equity value is not — or does not become as a result of the distribution — lower than the capital stock for mercantile purposes.

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6 Consolidation

As part of the process of adapting Spanish accounting legislation to EU law, Royal Decree 1159/2010, of September 17, approved the Standards for the Preparation of Consolidated Financial Statements (NOFCAC).

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

- It widens the definition of "control" meaning the power to steer the financial and operating policies of an entity with the aim to obtain profits from its activities.
- Companies are exempted from the obligation to consolidate where the parent only has investments in subsidiaries that do not have a significant interest, individually or as a whole, to present fairly the equity, financial position and results of the group companies.
- It sets out the rules for recognizing eliminations of investments and net equity in cases of (i) inclusion of companies that constitute a business; (ii) consolidation of a company that does not constitute a business, and (iii) consolidation among companies that were already part of the group.
- It lays down rules for the conversion of financial statements in foreign currency.

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

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

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

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Requirements concerning disclosures in the notes to the financial statement

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

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

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

- The measurement bases applied to the various items in the financial statements and the methods used for calculating valuation adjustments.
- The name, registered office and legal form of the companies of which the company is a general partner or in which it holds, directly or indirectly, an ownership interest of not less 20%, or in which, even if this percentage is lower, it exercises significant influence.
- The percentage of ownership of the share capital and the percentage of voting power held must be indicated, together with the amount of the equity in the investee's last business year.
- Where there are several classes of shares, the number and par value of each class.
- The existence of "rights" bonds, convertible debentures and similar securities or rights, indicating the number of each and the scope of the rights that they confer.
- The amount of the company's borrowings with a residual life of more than five years, and the amount of all the liabilities for which there is a security interest, indicating their form and nature. These disclosures must be shown separately for each liability item.
- The overall amount of the guarantee commitments to third parties, without prejudice to their recognition on the liability side of the balance sheet when it is probable that they will give rise to the effective settlement of an obligation.
- The pension obligations and those relating to group companies must be disclosed with due clarity and separation.
- The nature and business substance of the company's agreements that are not included in the balance sheet and the financial impact thereof, provided that this information is relevant and necessary for determining the company's financial position.
- The company's significant transactions with related third parties, indicating the nature of the relatedness, the amount of the transactions and any other information concerning the transactions that might be required in order to determine the company's financial position.

- The distribution of the company's revenue by line of business and geographical market, to the extent that, from the standpoint of the organization of the sale of goods and of the rendering of services or her revenue of the company, these categories and markets differ significantly from each other. These disclosures may be omitted by companies that can prepare abridged income statements.
- Regarding revenues, the entity must identify the contracts with customers which give rise to their recognition; significant judgments and changes in such judgments made regarding such contracts and the assets recognized based on the costs in order to obtain or fulfill a contract.
- The average number of employees in the reporting period, broken down by category, and the period staff costs, distinguishing between wages and salaries and employee benefits, with separate disclosure of those covering pensions, when such amounts are not broken down in the income statement.
- The amount of the salaries, attendance fees and remuneration of all kinds earned during the year in all connections by senior executives and the members of the managing body, and the amount of the pension or life insurance premium payment obligations to the former and current members of the managing body and senior executives. Where the members of the managing body are legal persons, the aforementioned requirements refer to the natural persons representing them. These disclosures can be made on an overall basis by type of remuneration.
- The amount of the advances and loans to senior executives and members of the governing bodies, indicating the applicable interest rate, their essential features and such amounts as might have been repaid, together with the guarantee obligations assumed on their behalf. Where the members of the managing body are legal persons, the aforementioned requirements refer to the natural persons representing them.
- Companies which have issued securities that are publicly traded on a regulated market of any EU Member State and which, pursuant to current legislation, only publish individual financial statements, are obliged to disclose in the notes to the financial statements the main changes in equity and profit or loss that would have arisen had EU-IFRSs been applied, indicating the measurement bases used.
- A breakdown of the fees for financial audit and other services provided by the auditors, together with those paid to persons or entities related to the auditors.
- The group, if any, to which the company belongs and the Mercantile Registry at which the consolidated financial statements have been filed or, where applicable, the circumstances relieving the group from the obligation of presenting consolidated financial statements.
- When the company has the largest volume of assets from among the group of companies domiciled in Spain forming part of the same decision-making unit, because they are controlled in any way by one or several natural or legal persons not obliged to consolidate acting jointly, or because they are under single management due to agreements or clauses in the bylaws, a description of the companies must be given, indicating the reasons why they form part of the same decision-making unit, and the aggregate amount of the assets, liabilities, equity, revenue and profit or loss of those companies must be disclosed.

  The company with the largest volume of assets is considered to be that which at the date of its inclusion in the decision-making unit has the largest figure under the total assets heading in the balance sheet model.
- The notes to the financial statements must contain information on deferred payments to suppliers in commercial transactions and indicate the average payment period for payments to suppliers.

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Auditing Requirements

Additional Provision no. One of Accounting Audit Law 22/2015 of July 20, 2015 stipulates that all companies and entities, irrespective of their legal form, are under the obligation to have their financial statements audited when they are in any of the following situations:

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

b. Those issuing debentures for sale to the public.

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

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

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

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

The limits referred to in the preceding paragraph are identified in article 263 of Legislative Royal Decree 1/2010 of July 2, 2010, approving the revised Capital Companies Law, according to which the financial statements must in all cases be reviewed by an auditor, unless at least two of the requirements described below are met in the two consecutive years leading up to the balance sheet date:

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

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

The objective of the audit is to verify whether the financial statements give a true and fair view of the equity, the financial position and the results of the company and, if applicable, whether the directors' report is consistent with the financial statements for the fiscal year.

The auditor is under the obligation to issue a detailed report on the outcome of the audit work in accordance with the legislation regulating audits. The main points regarding the content of the audit report are as follows:

- Absence of material misstatements: it must be explained that the audit has been planned and executed in such a way as to obtain reasonable assurance that the financial statements are free of material misstatements, including those deriving from acts of fraud.

- Provision of services other than audit services: the report must include a statement declaring that no services other than the audit of the financial statements have been provided and that there have been no situations or circumstances affecting the necessary independence of the auditor or audit firm.

- Directors' report: Apart from expressing an opinion concerning the consistency or otherwise of the directors'report with the financial statements for the same year, the report is to include an opinion as to whether the content and presentation of the directors' report meet the requirements of the applicable legislation, with any material misstatements which may have been detected in this respect being indicated. In cases in which the company audited is under the obligation to issue the Non-financial Information Statement, the auditor's opinion in this respect should be limited to indicating whether or not such Statement has indeed been included.

- A declaration of the responsibility of the company's managing body for the issue of the financial statements to be audited and of the audited entity's internal control system.

- Description of the objective of the audit and the manner in which it has been performed.

- A mention of the name, address and Official Auditors' Register registration number of the auditor or auditors by which the report is signed.

- Clear language and without certain references.

- Due cause for failure to issue the audit report or withdrawal: it is stipulated that due cause shall be deemed to exist in any of the following circumstances:

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

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

  Where there are circumstances which prevent the report from being issued or result in withdrawal from the contract, the auditor is required to set out such circumstances in detail and send this statement to the audited entity within no more than fifteen calendar days as from the date on which the auditor became aware of the situation in question. This statement is to be sent not only to the ICAC and to the Commercial Registry, but also to the Court in cases in which the auditor was appointed by court order.

- Date of delivery of the report: there must be a documentary record of the date of delivery of the report by the auditor and the date on which it was received by the entity audited, where there exists a difference between one date and the other.

The provisions of the Audit Law are expanded upon in Royal Decree 2/2021 of January 12, 2021, approving the implementing Regulations in respect of Law 22/2015 of July 20, 2015, which was published in the Official State Gazette on January 30, 2021.

Generally speaking, these Regulations set out the provisions which elaborate upon the content of the articles of Law 22/2015 of July 20, 2015. They refer, for example, to matters such as the drafting of audit contracts, the possibility of an audit being carried out jointly and the requirements to be met, how engagement and deferrals of the payment of audit fees should be formalized, how custodianship and the duty of secrecy are to be exercised; measures are introduced for the purpose of avoiding conflicts of interest or commercial relations or relations of any other type which might compromise the independence of the auditor (independence rules), certain forms of control of the audit activity are established, and provisions are laid down which elaborate upon, among other aspects, the rules on infringements and penalties.

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Financial statement publication requirements

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

In relation to the filing of the annual financial statements, on 24 May 2019, the Resolution of 22 May 2019, of the General Directorate of Registers and Notaries, amending Annexes I, II and III of Order *JUS*/319/2018, of 21 March, approving the new templates for the filing with the Mercantile Registry of the annual financial statements, was published, as well as the Resolution of 22 May 2019 of the General Directorate of Registers and Notaries, approving the new template for the filing with the Mercantile Registry of the consolidated annual financial statements of the parties obliged to publish them.

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

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

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

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ACCOUNT NO.	ASSETS	NOTE TO THE FINANCIAL STATEMENTS NO.	202X	202X-1
	A. NON-CURRENT ASSETS			
	I. Intangible assets			
201, (2801), (2901)	1. Development			
202, (2802), (2902)	2. Concessions			
203, (2803), (2903)	3. Patents, licenses, trademarks and similar assets			
204, (2804)	4. Goodwill			
206, (2806), (2906)	5. Computer software			
205, 209, (2805), (2905)	6. Other intangible assets			
	II. Property, plant and equipment			
210, 211, (2811), (2910), (2911)	1. Land and buildings			
212, 213, 214, 215, 216, 217, 218 219, (2812), (2813), (2814), (2815), (2816)	2. Plant and other tangible assets			
23	3. Fixed assets under construction and advances			
	III. Investments in fixed assets			
220, (2920)	1. Land			

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ACCOUNT NO.	ASSETS	NOTE TO THE FINANCIAL STATEMENTS NO.	202X	202X-1
221, (282) (2921)	2. Buildings			
	IV. Long-term investments in group companies and associates			
2403, 2404, (2493), (2494), 293,	1. Equity instruments			
2423, 2424, (2953), (2954)	2. Loans to companies			
2413, 2414, (2943), (2944)	3. Debt securities			
	4. Derivatives			
	5. Other financial assets			
	V. Long-term Investments			
2405, (2495), 250, (259)	1. Equity instruments			
2425, 252, 253, 254, (2955), (298)	2. Loans to third parties			
2415, 251, (2945), (297)	3. Debt securities			
255	4. Derivatives			
258, 26	5. Other financial assets			
474	**VI. Deferred tax assets**			
	B. CURRENT ASSESTS			
580, 581, 582, 583, 584, (599)	**I. Non-current assets held for sale**			
	II. Inventories			
30, (390)	1. Merchandise			
31, 32, (391), (392)	2. Raw materials and other supplies			

ACCOUNT NO.	ASSETS	NOTE TO THE FINANCIAL STATEMENTS NO.	202X	202X-1
33, 34, (393), (394)	3. Work in process			
35, (395)	4. Finished products			
36, (396)	5. By-products, waste and recovered materials			
407	6. Advances to suppliers			
	III. Trade and other accounts receivables			
430, 431, 432, 435, 436, (437), (490), (4935)	1. Clients for sales and provisions of services			
433, 434, (4933), (4934), 44, 5531, 5533	2. Trade receivables, group and associated companies			
44	3. Sundry accounts receivable			
460, 544	4. Staff costs			
4709	5. Current tax assets			
4700, 4708, 471, 472, 5580	6. Other receivables from public administrations			
5580	7. Due from shareholders (members) for capital calls			
	IV. Short-term investments in group and associated companies			
5303, 5304, (5393), (5394), (593)	1. Equity instruments			
5323, 5324, 5343, 5344, (5953), (5954)	2. Loans to companies			
5313, 5314, 5333, 5334, (5943), (5944)	3. Debt securities			

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ACCOUNT NO.	ASSETS	NOTE TO THE FINANCIAL STATEMENTS NO.	202X	202X-1
	4. Derivatives			
5353, 5354, 5523, 5524	5. Other financial assets			
	V. Short-term investments			
5305, 540, (5395), (549)	1. Equity instruments			
5325, 5345, 542, 543, 547, (5955), (598)	2. Loans to companies			
5315, 5335, 541, 546, (5945),(597)	3. Debt securities			
5590, 5593	4. Derivatives			
5355, 545, 548, 551, 5525, 565, 566	5. Other financial assets			
480, 567	**VI. Short-term accruals**			
	VII.Cash and cash equivalents			
570, 571, 572, 573, 574, 575,	1. Cash and cash equivalents			
576	2. Cash equivalents			
TOTAL ASSETS (A+B)				

ACCOUNT NO.	EQUITY AND LIABILITIES	NOTE TO THE FINANCIAL STATEMENTS NO.	202X	202X-1
A. EQUITY				
	A.1 Equity and liabilities			
	I. Capital			
100, 101, 102	1. Subscribed capital			
(1030), (1040)	2. (Uncalled capital)			
110	**II. Share premium**			
	III. Reserves			
112, 1141	1. Legal and statutory reserves			
113, 1140, 1142, 1143, 1144, 115, 119	2. Other reserves			
	IV. (Treasury shares and equity instruments).			
(108), (109)	**V. Prior-year income/losses.**			
120	1. Retained earnings			
(121)	2. (Prior-year losses)			
118	**VI. Other shareholders' contributions.**			
129	**VII. Income/loss for the year.**			
(557)	**VIII. (Interim dividend)**			
111	**IX. Other equity instruments**			
	A.2 Adjustments for changes in value			
133	**I. Financial assets at fair value through changes in equity**			
1340	**II. Hedging transactions**			
137	**III. Other**			

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ACCOUNT NO.	EQUITY AND LIABILITIES	NOTE TO THE FINANCIAL STATEMENTS NO.	202X	202X-1
130, 131, 132	**A.3 Subsidies, donations and legacies received**			
	B. NON CURRENT LIABILITIES			
	I. Long-term provisions			
140	1. Long-term post-employment obligations			
145	2. Environmental measures			
146	3. Provisions for restructuring			
	II. Long-term debts			
177, 178, 179	1. Bonds and other negotiable securities.			
1605, 17	2. Payable to credit institutions.			
1625, 174	3. Finance lease payables.			
1615, 1635, 171, 172, 173, 175, 180, 185, 189	5. Other financial liabilities.			
1603, 1604, 1613, 1614, 1623, 1624, 1633, 1634	**III. Long-term payables to group companies and associates**			
479	**IV. Deferred tax liabilities**			
181	**V. Long-term accruals**			
	C. CURRENT LIABILITIES			
585, 586, 587, 588, 589	**I. Liabilities associated with non-current assets held for sale**			
499, 529	**II. Short-term provisions**			
	III. Current payables			
500, 501, 505, 506	1. Bonds and other negotiable securities			

ACCOUNT NO.	EQUITY AND LIABILITIES	NOTE TO THE FINANCIAL STATEMENTS NO.	202X	202X-1
5105, 520, 527	2. Payable to credit institutions.			
5125, 524	3. Finance lease payables.			
5595, 5598	4. Derivatives.			
(1034),(1044), (190), (192),194, 509, 5115, 5135, 5145, 521, 522, 523, 525, 526, 528, 551, 5525, 555, 5565, 5566, 560, 561, 569	5. Other financial liabilities.			
5103, 5104, 5113, 5114, 5123, 5124, 5133, 5134, 5143, 5144, 5523, 5524, 5563, 5564	**IV. Short-term payables to group companies and associates**			
	V. Trade and other payables			
400, 401, 405, (406)	1. Trade payables			
403, 404	2. Trade payables, group companies and associates			
41	3. Sundry accounts payable			
465, 466	4. Staff (salaries payable)			
4752	5. Current tax liabilities			
4750, 4751, 4758, 476, 477	6. Other payables to public administrations			
438	7. Customer advances			
485, 568	**VI. Short-term accruals**			
	TOTAL EQUITY AND LIABILITIES (A+B+C)			

* Chart of accounts approved by Royal Decree 1514/2007 of November 16, 2007 approving the Spanish National Chart of Accounts, version in force as from January 31, 2021.

1 Legal framework

2 Accounting records

3 Financial statements

4 Conceptual accounting framework and recognition and measurement bases

5 Distributable profit

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7 Requirements concerning disclosures in the notes to the financial statement

8 Auditing Requirements

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Appendix I Balance sheets as at the 202X year end

Appendix II Income statements for the year ended __202X

Appendix II

Income statements for the year ended __202X

ACCOUNT NOS.	NOTE	(DEBIT) CREDIT 202X	202X-1
A. CONTINUING OPERATIONS			
	1. Net turnover		
700, 701, 702, 703, 704, (706), (708), (709)	a. Sales		
705	b. Provisions services		
(6930), 71, 7930	**2. Change in inventories of finished products and work in progress**		
73	**3. In-house work performed on property, plant and equipment.**		
	4. Procurement:		
(600), 6060, 6080, 6090, 610	a. Goods purchased for resale sold		
(601), (602), 6061, 6062, 6081, 6082, 6091, 6092, 611, 612	b. Cost of raw materials and other consumables used.		
(607)	c. Work performed by other companies.		
(6931), (6932), (6933), 7931, 7932, 7933	d. Impairment of goods held for resale, raw materials and other supplies.		
	5. Other operating revenues		
75	a. Non-core and other current operating revenues		
740, 747	b. Operating subsidies taken to income for the year		
	6. Staff costs		
(640), (641), (6450)	a. Wages, salaries and similar expenses		
(642), (643), (649)	b. Social security and other costs		
(644), (6457), 7950, 7957	c. Provisions		

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ACCOUNT NOS.	NOTE	(DEBIT) CREDIT
	7. Other operating expenses	
(62)	a. Other general and administrative expenses	
(631), (634), 636, 639	b. Taxes	
(650), (694), (695), 794, 7954	c. Losses, impairment and increase (decrease) in operating provisions	
(651), (659)	d. Other general and administrative expenses	
(68)	**8. Depreciation/amortization of fixed assets**	
746	**9. Imputation of subsidies related to non-financial fixed assets and others**	
7951, 7952, 7955, 7956	**10. Over-provisions**	
	11. Impairment and gains (losses) on disposal of fixed assets	
(690), (691), (692), 790, 791, 792	a. Impairment and losses.	
(670), (671), (672), 770, 771, 772	b. Gains/(losses) on disposals and other.	
A.1) PROFIT/LOSS FROM OPERATIONS (1+2+3+4+5+6+7+8+9+10+11)		
	12. Finance income	
	a. From shares in equity instruments	
7600,7601	a1. In group companies and associates	
7602, 7603	a2. In third parties	
	b. From negotiable securities and other financial instruments	
7610, 7611, 76200, 76201, 76210, 76211	b1. From group companies and associates	
7612, 7613, 76202, 76203, 76212, 76213, 767, 769	b2. From third parties	
	13. Financial expenses	
(6610), (6611), (6615), (6620),(6621), (6640), (6641), (6650),(6651) (6654), (6655)	a. On payables to group companies and associates	
(6612), (6613), (6617),(6618), (6622), (6623),	b. On payables to third parties	
(6624), (6642), (6643),(6652), (6653), (6656), (6657), (669)		
(660)	c. On restatement of provisions	
	14. Changes in fair value of financial instruments	
(6630), (6631), (6633), 7630, 7631, 7633	a. Fair value through profit and loss	
(6632), 7632	b. Transfer of fair value adjustments through changes in equity.	
(668), 768	**15. Exchange differences**	
	16. Impairment and gains/(losses) on disposals of financial instruments	
(696), (697), (698), (699), 796, 797, 798, 799	a. Impairment and losses	
(666), (667), (673), (675), 766, 773, 775	b. Gains/(losses) on disposals and other	
A.2. FINANCIAL INCOME/EXPENSE (12+13+14+15+16)		
A.3.INCOME/EXPENSE BEFORE TAXES (A.1+A.2)		
(6300), 6301, (633), (638)	**17. Income tax**	
A.4.INCOME/LOSS FOR THE YEAR FROM CONTINUING OPERATIONS (A.3+17)		
B. DISCONTINUED OPERATIONS		
	18. Income/loss for the year on discontinued operations net of taxes.	
A.5. INCOME/LOSS FOR THE YEAR (A.4+18)		

(*) May be positive or negative

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