

SCHEDULE 4 ACCOUNTING PRINCIPLES, FORM AND CONTENT OF GROUP FINANCIAL STATEMENTS

Section 294 .

PART I CONSTRUCTION OF REFERENCES TO PROVISIONS OF SCHEDULE

1. Without prejudice to the generality of section 9 of the Interpretation Act 2005 and its application to the body of this Act and to Schedules 1, 2 and 5 to 17 —

(a) a reference in this Schedule to a paragraph or Part is a reference to a paragraph or Part of this Schedule, unless it is indicated that a reference to some other enactment is intended; and

(b) a reference in this Schedule to a subparagraph or clause is a reference to the subparagraph or clause of the provision in which the reference occurs, unless it is indicated that a reference to some other enactment is intended.

PART II GENERAL RULES AND FORMATS

GENERAL RULES

2. (1) Group financial statements shall comply, except for any necessary modifications to take account of differences between group financial statements and entity financial statements, with the provisions of Schedule 3 as if the undertakings included in the consolidation (the “group”) were a single company.

(2) In particular, for the purposes of paragraph 69 of Schedule 3 (dealings with or interests in group undertakings) as it applies to group financial statements—

(a) any subsidiary undertakings of the holding company not dealt with in the group financial statements shall be treated as a subsidiary undertaking of the group; and

(b) if the holding company is itself a subsidiary undertaking, the group shall be treated as a subsidiary undertaking of any holding undertaking of the holding company, and the reference to fellow subsidiary undertakings shall be read accordingly.

3. (1) The group balance sheet and group profit and loss account shall consolidate in full the information contained in the separate balance sheets and profit and loss accounts of the holding company and of the subsidiary undertakings included in the consolidation, subject to the adjustments required or permitted by the following provisions of this Schedule and to such other adjustments (if any) as may be appropriate in accordance with generally accepted accounting practice.

(2) If the financial year of a subsidiary undertaking dealt with in the group financial statements differs from that of the holding company, the group financial statements shall be drawn up—

(a) from the entity financial statements of the subsidiary undertaking for its financial year last ending before the end of the holding company's financial year provided that the financial year ended no more than 3 months before that of the holding undertaking; or

(b) from interim financial statements drawn up by the subsidiary undertaking as at the end of the holding company's financial year.

AMENDMENTS TO FORMATS IN Schedule 3

Minority interest

4. (1) In applying Balance Sheet Formats 1 and 2 set out in Part II of Schedule 3 to group financial statements a separate item under the heading "Minority Interest" shall be shown—

(a) in Format 1 after item H; and

(b) in Format 2 under the general heading "LIABILITIES", between items A and B.

(2) The amount to be shown under the heading "Minority Interest" referred to in subparagraph (1) shall be the amount of share capital and reserves attributable to shares in subsidiary undertakings consolidated in the group financial statements held by or on behalf of persons other than the holding company and its subsidiary undertakings.

5. (1) In applying Profit and Loss Formats 1, 2, 3 and 4 set out in Part II of Schedule 3 to group financial statements a separate item under the heading "Minority Interest" shall be shown—

(a) in Format 1, before item 20;

(b) in Format 2, before item 22;

(c) in Format 3, before item 11 in Section A and before item 9 in Section B; and

(d) in Format 4, before item 13 in Section A and before item 11 in Section B.

(2) The amount to be shown under the heading "Minority Interest" in accordance with subparagraph (1) shall be the amount of any profit or loss for the year attributable to shares in subsidiary undertakings consolidated in the group financial statements held by or on behalf of persons other than the holding company and its subsidiary undertakings.

Other changes

6. (1) The formats set out in Part II of Schedule 3 shall have effect in relation to group financial statements with the following modifications.

(2) In the Balance Sheet Formats, the items headed "Participating interests", that is—

(a) in Format 1, item A.III.3; and

(b) in Format 2, item A.III.3 under the heading “ASSETS”;

shall be replaced by 2 items, “Interests in associated undertakings” and “Other participating interests”.

(3) In the Profit and Loss Account Formats, the items headed “Income from participating interests”, that is—

(a) in Format 1, item 8;

(b) in Format 2, item 10;

(c) in Format 3, item B.4; and

(d) in Format 4, item B.6,

shall be replaced by 2 items, “Income from interests in associated undertakings” and “Income from other participating interests”.

PART III ACCOUNTING PRINCIPLES AND VALUATION RULES

ACCOUNTING PRINCIPLES

General

7. In determining the amounts to be included in the group financial statements, the accounting principles and valuation rules contained in Part III of Schedule 3 shall apply and shall be applied consistently within those group financial statements.

8. (1) Subject to subparagraph (2), a holding company shall apply the same methods of valuation in drawing up its group financial statements as it applies in drawing up its entity financial statements.

(2) Subparagraph (1) shall not apply where, in the opinion of the directors, a departure from that subparagraph is necessary for the purpose of giving a true and fair view.

(3) Where there is any application of subparagraph (2), the particulars of the departure and the reasons therefor shall be disclosed in the notes to the group financial statements.

9. (1) Where the assets and liabilities to be included in the group financial statements have been valued or otherwise determined by undertakings included in the consolidation according to accounting rules differing from those used in the group financial statements, the values or amounts shall be adjusted so as to accord with the rules used for the group financial statements.

(2) The adjustments referred to in this paragraph need not be made if they are not material for the purpose of giving a true and fair view.

(3) If, in the opinion of the directors of the holding company, there are special reasons for departing from subparagraph (1) they may do so but particulars of any such departure, the reasons therefor and its effect shall be stated in the notes to the group financial statements.

Preparing the consolidation

10. (1) Group financial statements shall show the assets, liabilities and financial position as at the end of the financial year and the profit or loss for the financial year of the holding company and the undertakings included in the consolidation as if they were a single undertaking.

(2) In particular—

(a) debts and claims between the undertakings included in the consolidation shall be eliminated in preparing the group financial statements;

(b) income and expenditure relating to transactions between the undertakings included in the consolidation shall be eliminated in preparing the group financial statements;

(c) where profits and losses resulting from transactions between the undertakings included in the consolidation are included in the book values of assets, they shall be eliminated in preparing the group financial statements;

but clauses (a) to (c) need not be complied with where the amounts involved are not material for the purpose of giving a true and fair view.

11. (1) The methods of consolidation shall be applied consistently from one financial year to the next.

(2) If, in the opinion of the directors of the holding company, there are special reasons for departing from subparagraph (1) they may do so but particulars of any such departure, the reasons therefor and its effect shall be stated in the notes to the group financial statements.

Accounting for an acquisition

12. (1) Paragraphs 13 to 16 apply where an undertaking becomes a subsidiary undertaking of the holding company.

(2) That event is referred to in those provisions as an “acquisition” and references to the undertaking acquired shall be read accordingly.

13. An acquisition shall be accounted for by the acquisition method of accounting unless the conditions for accounting for it as a merger as set out in paragraph 15 are satisfied and the merger method of accounting is adopted.

14. (1) The acquisition method of accounting is as described in subparagraphs (2) to (6).

(2) The identifiable assets and liabilities of the undertaking acquired shall be included in the consolidated balance sheet at their fair values as at the date of acquisition.

(3) In subparagraph (2) “identifiable assets or liabilities” means the assets or liabilities which are capable of being disposed of or discharged separately, without disposing of a business of the undertaking.

(4) The income and expenditure of the undertaking acquired shall be brought into the group financial statements only as from the date of acquisition.

(5) There shall be calculated the difference between the acquisition cost of the interest in the shares of the acquired undertaking incurred by the undertakings included in the group financial statements, and the interest of the undertakings included in the group financial statements in the adjusted capital and reserves of the undertaking acquired.

(6) For the foregoing purpose—

“acquisition cost” means the amount of any cash consideration and the fair value of any other consideration, together with such amounts (if any) in respect of fees and other expenses of the acquisition as the holding company may determine to have been incurred in relation to the acquisition;

“adjusted capital and reserves of the undertaking acquired” means its capital and reserves at the date of the acquisition after adjusting the identifiable assets and liabilities of the undertaking to fair values as at that date.

(7) The resulting amount, if positive, shall be treated as goodwill and the provisions of Schedule 3 in relation to goodwill shall apply.

(8) The resulting amount, if negative, shall be treated as a negative consolidation difference.

15. The conditions for accounting for an acquisition as a merger are—

(a) that at least 90 per cent of the nominal value of the equity shares in the undertaking acquired is held by or on behalf of the undertakings consolidated in the group financial statements,

(b) that the proportion referred to in clause (a) was attained pursuant to the arrangement providing for the issue of equity shares by the undertakings consolidated in the group financial statements,

(c) that the fair value of any consideration other than the issue of equity shares given pursuant to the arrangement by the undertakings consolidated in the group financial statements did not exceed 10 per cent of the nominal value of the equity shares issued.

16. (1) The merger method of accounting is as set out in subparagraphs (2) to (6).

(2) The assets and liabilities of the undertaking acquired shall be brought into the group financial statements at the amount at which they stand in the acquired undertaking's financial statements, subject to any adjustment authorised or required by this Part.

(3) The income and expenditure of the acquired undertaking shall be included in the group financial statements for the entire financial year, including the period before the acquisition.

(4) The group financial statements shall show corresponding amounts relating to the previous financial year as if the undertaking had been included in the consolidation throughout that year.

(5) There shall be set off against the aggregate of—

(a) the appropriate amount in respect of shares issued by the undertakings consolidated in the group financial statements as part of the arrangement referred to in paragraph 15(b) in consideration for the acquisition of shares in the acquired undertaking; and

(b) the fair value of any other consideration for the acquisition of shares in the acquired undertaking, determined as at the date when those shares were acquired;

the nominal value of the issued share capital of the acquired undertaking held by the undertakings consolidated in the group financial statements.

(6) The resulting amount shall be shown as an adjustment to the consolidated reserves.

17. (1) Where a group is acquired, paragraphs 12 to 16 apply with the following adaptations.

(2) References to shares of the acquired undertaking shall be read as references to shares of the holding undertaking of the group acquired.

(3) Other references to the acquired undertaking shall be read as references to the group acquired; and references to the assets and liabilities, income and expenditure and capital and reserves of the acquired undertaking shall be read as references to the assets and liabilities, income and expenditure and capital and reserves of the group after making the set offs and other adjustments required by this Part in the case of group financial statements.

Changes in the composition of the group

18. If the composition of the undertakings consolidated in the group financial statements has changed significantly in the course of a financial year, the group financial statements must include information which makes the comparison of successive sets of group financial statements meaningful.

ACCOUNTING FOR JOINT VENTURES AND ASSOCIATES IN GROUP FINANCIAL STATEMENTS

Joint ventures

19. (1) Where a holding company or one of its subsidiary undertakings consolidated in the group financial statements manages another undertaking jointly with one or more undertakings not consolidated in the group financial statements, that other undertaking (the “joint venture”) may, if it is not—

(a) a body corporate; or

(b) a subsidiary undertaking of the holding company;

be proportionally consolidated in the group financial statements in proportion to the rights in its capital held by the holding company or the subsidiary undertakings consolidated in the group financial statements, as the case may be.

(2) The provisions of this Schedule relating to the preparation of consolidated financial statements shall apply, with any necessary modifications, to the inclusion of joint ventures in the consolidated financial statements by proportional consolidation in accordance with subparagraph (1).

Associated undertakings

20. (1) In paragraph 21 “associated undertaking” means an undertaking in which an undertaking consolidated in the group financial statements has a participating interest and over whose operating and financial policy it exercises a significant influence and which is not—

(a) a subsidiary undertaking of the holding company; or

(b) a joint venture proportionally consolidated in accordance with paragraph 19.

(2) Where an undertaking holds 20 per cent or more of the voting rights in another undertaking, it shall be presumed to exercise such an influence over it unless the contrary is shown.

(3) The voting rights in an undertaking means the rights conferred on shareholders in respect of their shares or, in the case of an undertaking not having a share capital, on members, to vote at general meetings of the undertaking on all or substantially all matters.

(4) The provisions of section 7 (5) and (6) with respect to determining whether shares are held in a body corporate and with respect to reckoning the amount of voting rights held apply, with any necessary modifications, in determining for the purpose of this paragraph whether an undertaking holds 20 per cent or more of the voting rights in another undertaking.

21. (1) The interest of an undertaking consolidated in the group financial statements in an associated undertaking, and the amount of profit or loss attributable to such an interest, shall be shown in the group financial statements by way of the equity method of accounting including dealing with any goodwill arising in accordance with paragraphs 20 to 22 and 24 of Schedule 3.

(2) Where the associated undertaking is itself a holding undertaking, the net assets and profits or losses to be taken into account are those of the holding undertaking and its subsidiary undertakings (after

making any consolidation adjustments).

(3) The equity method of accounting need not be applied if the amounts in question are not material for the purpose of giving a true and fair view.

Participating interest

22. (1) In paragraph 20 and this paragraph “participating interest” means an interest held by one undertaking in the equity shares of another undertaking which it holds on a long term basis for the purpose of securing a contribution to that undertaking's own activities by the exercise of control or influence arising from or related to that interest.

(2) The reference in subparagraph (1) to an interest in equity shares includes—

(a) an interest which is convertible into an interest in equity shares; and

(b) an option to acquire equity shares or any such interest,

and an interest or option falls within clause (a) or (b) notwithstanding that the equity shares to which it relates are, until the conversion or the exercise of the option, unissued.

(3) Where an undertaking holds an interest in equity shares and such an interest represents 20 per cent or more of all such interests in the other undertaking it shall be presumed to hold that interest on the basis and for the purpose mentioned in subparagraph (1) unless the contrary is shown.

(4) For the purpose of this paragraph an interest held on behalf of an undertaking shall be treated as held by it.

(5) In the balance sheet and profit and loss formats set out in Part II of Schedule 3, “participating interest” does not include an interest in a group undertaking.

PART IV INFORMATION REQUIRED BY WAY OF NOTES TO GROUP FINANCIAL STATEMENTS

23. Without prejudice to paragraph 2, the notes to the group financial statements shall, in addition to providing the information required by Schedule 3, also state the information required by paragraphs 24 to 28.

24. Where sums originally denominated in currencies, other than the currency in which the group financial statements are presented, have been brought into account under any items shown in the balance sheet or profit and loss account, the basis on which those sums have been translated into the currency in which the group financial statements are presented shall be stated.

25. In respect of the aggregate of the amounts shown in the group balance sheet under the heading “Creditors” there shall be stated the information required by paragraph 58 of Schedule 3 as if references in that paragraph to a company were to the company and its subsidiary undertakings taken as a whole.

26. In relation to each joint venture proportionately consolidated, there shall be stated the nature of the joint management arrangement.

27. In relation to acquisitions taking place in the financial year, there shall be stated in the notes to the group financial statements—

(a) the name and registered office of the acquired undertaking, or where a group was acquired, the name and registered office of the holding undertaking of that group; and

(b) whether the acquisition has been accounted for by the acquisition method or the merger method of accounting.

28. Paragraph 67 (related party transactions) of Schedule 3 shall, in the case of group financial statements, apply to all transactions entered into by the holding company, or any subsidiary undertaking included in the consolidation, with related parties, being transactions of the kind referred to in that paragraph but not being intra-group transactions.