which is the explanation of the difference on that account. 1

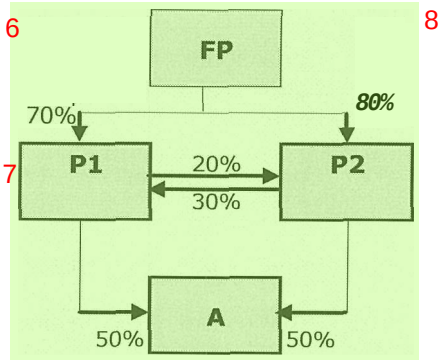
A similar error appears for the equity value account because we consider indirectly 8% = 40% * 20% of the company A as a contribution to that account. This is too much and the equity value should be limited to 40% of company B net equity. It is of course the same amount. 2

This simple group structure, without complex crossed participation, shows how weak can be the stage technique by leading to wrong consolidated figures. 3

1.5 Consolidation of a consortium 4

A consortium group has already been defined in Part 2 Section 3.7. However, our objective in this section is to show how to consolidate such particular structure on a basis of an existing situation we met earlier. 5

Initially, there are two companies P1 and P2 controlled by the same physical persons. P1 and P2 are both groups of companies. 6



8

The situation we met was unfortunately a little bit more complex because P1 and P2 were owning together 100% of a common company A. Moreover, there were also crossed participations between P1 and P2 as shown in the following structure. We already presented the consortium with a "fictitious" parent company FP. 7

This group will be consolidated over Year 1 (column 1) and Year 2 (column 2) on the basis of the following statutory accounts. 9

Looking at the equity of each company, we confirm 10

- Company P1 is paying a dividend of 10 11
- Company P2 is paying a dividend of 20
- Company A is paying a dividend of 30

And that's the reason why we already booked consolidation adjustments to eliminate group dividends. 12

P1					
Fin. Inv./P2	40	40	Capital	100	100
Fin. Inv./A	50	50	Reserves	0	10
					15
					4
			Result	20	40
					(15)
					(4)
Other assets	110	210	Other liabilities	80	150

1

P2					
Fin. Inv./P1	30	30	Capital	200	200
Fin. Inv./A	50	50	Reserves	0	10
					15
					3
			Result	30	25
					(15)
					(3)
Other assets	320	420	Other liabilities	170	265

2

A					
			Capital	100	100
			Reserves	0	10
			Result	40	25
Other assets	300	400	Other liabilities	160	265

3

Now we have to build the balance sheet of the fictitious company FP keeping in mind that the capital of a consortium is the sum of the capital amount of each parent of the consortium, so 300 = 100 + 200. 4

On the assets side, we will balance that capital with financial investments on P1 and P2 by considering the percentage owned and acting on the corresponding capital. This means the financial investment on P1 will be 70 = 70% * 100 and on P2 160 = 80% * 200. 5

Of course, we are not in balance. The special approach is to qualify the missing 70 as own shares at consortium level. It is indeed shares parent companies owned on themselves. 6

Here is that balance sheet. 7

FP					
Fin. Inv./P1	70	70	Capital	300	300
Fin. Inv./P2	160	160			
Own shares	70	70			

8

Before consolidating, we need to calculate the indirect financial percentages in each company. This is not really an issue in this case because all the shares of 9

each company are owned by the group. There are no 3rd Parties and so we can consider 100% for each company.

Consolidated balance sheet

Nothing special makes the process difficult and the consolidated balance sheets is the following

P1 + P2 + A					
			Capital	300	300
			Reserves	0	0
			Result	0	0
			Conso. Res.(P1)	20	50
			Conso. Res.(P2)	30	35
Own shares	70	70	Conso. Res.(A)	40	35
Other assets	730	1,030	Other liabilities	410	680

Comments for Year 1

- Consolidated reserves (P1) = 20 = 100% * [100 + 0 + 20] – 70 – 30
- Consolidated reserves (P2) = 30 = 100% * [200 + 0 + 30] – 160 – 40
- Consolidated reserves (A) = 40 = 100% * [100 + 0 + 40] – 50 – 50

Comments for Year 2

- Consolidated reserves (P1) = 50 = 100% * [100 + 10 + 15 + 4 + 40 – 15 - 4] – 70 – 30
- Consolidated reserves (P2) = 35 = 100% * [200 + 10 + 15 + 3 + 25 – 15 - 3] – 160 – 40
- Consolidated reserves (A) = 35 = 100% * [100 + 10 + 25] – 50 – 50

Consolidated reserves evolution

	Year 1 reserves	Year 2 result	Dividends -	Dividends +	Dividends out	Year 2 reserves
FP	0	0		16+7	(23)	0
P1	20	21	(10)	15+4		50
P2	30	7	(20)	15+3		35
A	**40**	25	(30)			35
	90	53	(60)	60	(23)	120

This

report shows the four companies, including the fictitious parent company and is structured as explained in Part 2 and Part 3. 1

The only issue concerns the dividends. We first show correctly all dividends paid and received for a total of (60) and 60. However, the 23 received by PP are mentioned as 'Dividends out" in an appropriate column because it represents a cash amount that is leaving the group. 2

A final remark can be made about the booking of the owned shares of 70 as they should be transferred in equity when consolidating under IFRS rules. Depending on Local Gaap, maintaining the 70 as an asset can be acceptable. 3

2 CAPITAL TRANSACTIONS 4

2.1 Capital increase with a change of financial percentage during the consolidation period 5

We first consider a parent company P owning 100% of the shares of a company A. If A decides to increase its capital by 100, P will subscribe this amount and nothing will happen in the consolidation. The consolidated reserves of A become 100% * equity before increase + 100 – (financial investment + 100) and the 100 has no impact. 6

Considering the cash flow statement, we have also seen that 100 is just moving from P bank account to A bank account. Both being consolidated, no cash impact will appear. 7

Now, if P owns only 80% of A but the capital increase is subscribed by both P and the 3rd Parties in the proportion of 80% and 20%, again such situation will have no impact on the consolidated reserves for the same reason as above. On the cash flow statement side, we notice a cash in for 20 = 20% * 100. 8

However, other situations become a little more difficult, mainly for the two following reasons 9

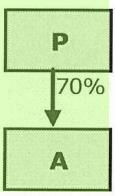
- P, owning 80% of A, agrees to subscribe the capital increase but the 3rd Parties deny. This will imply a percentage variation if P subscribes the total amount of capital increase on its own. 10

- If that capital increase, with a percentage variation, occurs during the consolidation period, and not on the first day, the group profit of the year of company A must be calculated with the percentage 'before"

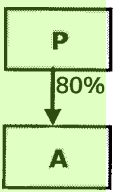
and 'after''. We need to know the results before and after capital increase. Of course, this will apply for significant amounts. 1

The case we analyze hereunder includes these two issues 2

Year 1 3



Year 2 4



In Year 1, P is supposed to own 70 shares out of 100 and so consolidates A with the global integration method. 5

During Year 2 (not on the first day), A increases its capital by issuing new shares. All details will be given when consolidating Year 2, but let's notice now that there is a percentage increase of 10% for P. 6

Situation before capital increase – Year 1 7

Company A has been founded by company P a few years ago. Its capital is represented by 100 shares. Here are the statutory accounts of these companies. 8

P 9

Fin. Inv./A	140	Capital	500
		Reserves	300
		Result	50
Other assets	1,360	Other liabilities	650

A

		Capital	200
		Retained earn.	(100)
		Result	(20)
Other assets	500	Other liabilities	420

We notice that the equity of A becomes bad. Normally, P should book a write-off on its participation but, in order to keep things simple, we will ignore it. Anyway, in consolidation, such write-off will be reversed. 10

Consolidated figures are presented below 11

P + A 12

		Capital	500
		Reserves	300
		Result	50
		Conso. Res.(A)	(84)
		Minority int.(A)	24
Other assets	1,860	Other liabilities	1,070

where 1

- Consolidated reserves (A) = (84) = 70% * [200 + (100) + (20)] -140 2
- Minority interests = 24 = 30% * [200 + (100) + (20)]

Situation after capital increase – Year 2 3

Here are the statutory accounts of each company, already including the consolidation adjustments, which are commented just after 4

P

Goodwill	13	Capital	500
Fin. Inv./A	240	Reserves	350
	(13)	Result	40
Other assets	1,360	Other liabilities	710

A

		Capital	235
		Share premium	65
		Retained earn.	(120)
			(1)*
		Result	10
			1*
Other assets	700	Other liabilities	510

5

Let's suppose the capital increase occurs on the 1st of July, Year 2. For the first six months of the year, A makes a loss of 10 and for the last six months A makes a profit of 20. This explains a profit of 10 for the twelve months fiscal year. 6

On that date, the total equity of A is 70 = 200 – 100 – 20 – 10 represented by 100 existing shares. One existing share equals thus 0.7. The company decides to increase its capital by an amount of 100, issuing 50 new shares for the value of 0.7, so 35 and the remaining 65 is booked as a share premium. This explains the two first accounts of the A equity. 7

What is the financial percentaae owned in A after capital increase? 8

Before capital increase, P owned 70 shares out of 100 shares issued and after it owns 120 = 70 + 50 shares out of 100 + 50 shares issued. This means the percentage is now 80% = 120 / 150. 9

Let's look now at the consolidation adjustments. 1

Goodwill 2

Each time a variation of percentage happens, we should trigger a goodwill/badwill logic as follows. 3

On June 30, Year 2, company P owns an equity equal to 49 = 70% * [200 + (100) + (20) + (10)]. 4

On July 1, Year 2, company owns an equity equal to 136 = 80% * [200 + 35 + 65 + (120) + (10)]. 5

This means P has a "gain" in equity for 87 = 136 - 49, but on the other side, P has subscribed the capital increase for 100. 6

Difference between 100 and 87, that is 13, is to be considered as a goodwill. 7

Correction of the group part in the result of company A 8

Without specifying anything, most of the consolidation software knows the opening and the closing situations. That means that the A profit of 10 being done over twelve months, the corresponding group part will be calculated with the 80%, giving 8. This is not correct. 9

For the first six months of Year 2, A makes a loss of (10) and the group interest is (7) = 70% * (10) and for the last six months its group interest is 16 = 80% * 20. So, the correct group result is 9 = (7) + 16 instead of 8 = 80% * 10. 10

The complete consolidation adjustment would be the following. 11

	Debit	Credit
Reserves	1	
Result		1
Minority result	1	
Minority interests		1

12

This adjustment must be considered as impacting each account at 100%. That's the meaning of the * against the amounts in the page before. 13

And here are the consolidated accounts 1

P + A			
Goodwill	13	Capital	500
		Reserves	350
		Result	40
		Conso. Res.(A)	(75)
		Minority int.(A)	38
Other assets	2,060	Other liabilities	1,220

2

where 3

- Consolidated reserves (A) = (75) = 80% * [235 + 65 + (120) + 10] + (1) + 1 - [240 + (13)] 4
- Minority interests (A) = 38 = 20% * [235 + 65 - 120 + 10] + 1 + (1)

We will conclude by justifying the consolidated reserves evolution of the group 5

	Year 1 reserves	Year 2 result	Dividends -	Dividends +	Dividends P	Year 2 reserves
P	350	40				390
A	(84)	9				(75)
	266	49	0	0	0	315

6

and the minority interests 7

	Year 1 reserves	Year 2 result	% Var	Year 2 reserves
A	24	1	13	38
	24	1	13	38

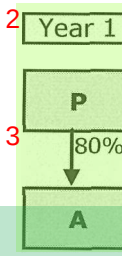
8

This "% Var" says that the 3rd Parties make a gain of 13 in equity. 9

Indeed, before the capital increase, they were owning 21 = 30% * [200 + (100) + (20) + (10)] and after capital increase they own 34 = 20% * [235 + 65 + (100) + (20) + (10)]. The difference is 13 = 34 - 21 which is ... the goodwill of course. 10

2.2 Dividends paid by issuing new shares 1

Parent company P owns 800 shares of company A whose capital is represented by 1000 shares issued. So P consolidates A by the global integration method with a percentage of 80%. 2



4 5

At the end of Year 1, company A decides to pay dividends and proposes two options to its shareholders 3

- Either they receive a gross dividend of 0.4 per share
- Or they accept to receive new shares after transferring these dividends to the capital by issuing new shares based on 1 new share received for 4 existing shares and by paying an additional price of 0.2 per new share. Of course, this option implies an increase in capital.

Company P chooses the second option whilst 3rd Parties ask to receive the cash corresponding to their dividends. 6

Let's see how to consolidate this situation by first considering Year 1 before the transaction and then Year 2 after the transaction. 7

Consolidation - Year 1 8

We need this first year consolidation to be able to study the evolution of group equity and Minority interests. 9

Here are the statutory accounts of companies P and A 10

P				A			
Fin. Inv./A	2,000	Capital	2,000			Capital	1,000
		Reserves	1,000			Reserves	800
		Result	500			Result	(200)
Other assets	3,000	Other liabilities	1,500	Other assets	2,000	Other liabilities	400

11

and the corresponding consolidated accounts 12

P + A			
		Capital	2,000
		Reserves	1,000
		Result	500
		Conso. Res.(A)	(720)
		Minority int.(A)	320
Other assets	5,000	Other liabilities	1,900

13

where 14

- Consolidated reserves (A) = (720) = 80% * [1000 + 800 + (200)] – 2000 1
- Minority interests (A) = 320 = 20% * [1000 + 800 + (200)]

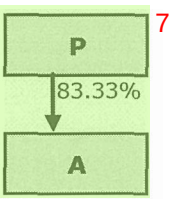
so, a consolidation without any difficulties. 2

Consolidation – Year 2 3

This consolidation is not as easy as the previous one. 4

First, we have to calculate the new financial percentage owned by company P. 5

Initially, P owns 800 existing shares and the dividends transaction proposes to receive 1 new share against 4 existing shares. There will be 200 new shares fully owned by P, giving a new percentage of 83.33% = (800 + 200) / (1000 + 200). 6



7

We now show the statutory accounts of each company, already including statutory bookings related to the dividends and the necessary consolidation adjustments. 8

9

P

Goodwill			Capital		2,000
	(b)	***20***	Reserves		1,200
	(c)	***(20)***		***(a)***	***320***
Fin. Inv./A		2,000	Result		80
	(1)	*360*		*(1)*	*320*
	(b)	***(20)***		***(a)***	***(320)***
				(c)	***(20)***
Other assets		3,680	Other liabilities		2,400
	(1)	*(40)*			

A

			Capital		1,000
				(3)	*320*
			Share premium		
				(4)	*40*
			Reserves		600
				(2)	*(80)*
				(3)	*(320)*
Other assets		4,400	Result		100
	(2)	*(80)*			
	(4)	*40*	Other liabilities		2,700