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12 Scope of consolidation

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| **OVERVIEW** | * Consolidation is based on control, which is the power to govern the financial and operating policies of a subsidiary so as to obtain benefits from its activities. * All subsidiaries within the Group should be consolidated unless they are deemed to be immaterial to the financial position, performance and cash flows of the Group by Corporate Finance. * Uniform accounting policies should be used throughout the Group. * Subsidiaries should be accounted for using the full consolidation method. * Losses in a subsidiary may create a debit balance in non‑controlling interests only if the minority has an obligation to fund the losses. |

12.1 Purpose and scope

This policy provides guidance and rules on **Consolidation** for the purpose of preparing the financial statements of the Group according to International Financial Reporting Standards.

The policy does not provide guidance on compliance with local GAAP or statutory or tax requirements.

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| Examples included in this section are for illustration purposes. Any specific transactions should be reported and discussed with the Corporate Finance department. |

12.2 Definitions

**Consolidated financial statements** are the financial statements of a group presented as those of a single company.

**Control** is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

A **group** is a parent and all its subsidiaries.

**Non‑controlling interest** (formerly known as Minority interest) is the equity in a subsidiary not attributable, directly or indirectly, to a parent.

A **parent** is any company that has one or more subsidiaries.

A **subsidiary** is a company that is controlled by another company (known as the parent).

12.3 How to determine control

**Control** is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities. To determine control, the Group should take into consideration any potential voting rights.

Power to control exists in *any* of the following circumstances:

* The Group controls more than one half of the entity’s voting rights – through ownership or an agreement with other investors.
* The Group controls the entity’s financial and operating policies under a statute or agreement.
* The Group has the power to appoint or remove the majority of the entity’s governing body members.
* The Group has the power to cast the majority of votes at meetings of the entity’s governing body.

12.3.1 Power to control

Consolidation is based on the power to control (i.e., the ability of one company to control another), regardless of whether that power is exercised in practice. Therefore, in assessing control it is important to consider whether the ability to control has a legal or contractual basis rather than whether that control is exercised.

For example, the Group owns 60 percent of the voting power of B, but never intended to play an active role in this company and takes no other interest in running B’s operations. The Group has the power to control B because it can step in and exercise its rights at any time, for example, if it is not satisfied with how B’s operations are being run. Accordingly, the Group should consolidate B.

12.3.2 Governance structures

Control is presumed to exist when the Group has the power to appoint or remove the majority of the investee’s board of directors or governing body members and control of the entity is exercised through that board or body. Similarly, control is presumed to exist where the Group has the power to cast the majority of votes at a meeting of the entity board of directors or governing body, and control of the entity is exercised through that board or body.

12.3.3 Shareholder’s agreements

Shareholder’s agreements may be an important part of assessing control.

For example, the Group owns 49 percent of the voting power in G, and A owns the other 51 percent. A therefore appears to have the power to control G. However, A has entered into an agreement with the Group such that A defers to the wishes of the Group with respect to voting; A has done this because it has no expertise in the area of G’s operations. Therefore, in accordance with this agreement the Group has the power to control G.

If a shareholders’ agreement has a fixed duration, depending on the facts and circumstances, it might be appropriate to conclude that the agreement is for too short a period to have any real impact on the power of control.

12.3.4 Management versus governance

In assessing the power to govern it is necessary to distinguish between the management of the operations and their control. A manager does not have the control of a company simply by virtue of running the daily operations, when it does so only within the financial and operating policy framework established by another company.

For example, A owns 51 percent of the voting power in K, and the Group owns the other 49 percent. In addition, the Group runs the daily operations of K since it has expertise in that area. However, A actually has the power to govern the operations of K since it has the majority of voting power and therefore, has the power to remove the Group as manager. As a result, the Group does not have the power to control K and K should be consolidated using the equity method in the Group’s books.

12.3.5 Benefits from control

The benefits referred to in the definition of control are the benefits derived from having the power to govern the financial and operating policies of a company.

For example, if a shareholder sells services to the investee, the sales price of the services is a normal trading benefit as long as the investee does not pay more or less than any of the shareholder’s other customers under similar conditions.

Control does not require the parent to receive a majority of the benefits from the subsidiary.

For example, if a subsidiary of the Group owns 60 percent of the voting power in the company, but receives only 10 percent of the dividends, the Group controls the company despite its share of benefits being disproportionately low compared with its power.

12.4 Basis for consolidation

**Subsidiaries**

Subsidiaries are entities **controlled** by the Group. Consolidation is based on the power to control, i.e. the ability of one company to control another, regardless of whether that power is exercised in practice.

Scenarios may exist where a non‑controlling shareholding, coupled with other circumstances, may result in effective control and therefore consolidation of that company. Please contact the Corporate Finance department in case of any doubts.

The Group should consolidate all its subsidiaries (stake in voting rights > 50%), including a subsidiary that operates under severe long‑term restrictions which limit its ability to transfer funds to the Group or is acquired and held exclusively with a view to its subsequent disposal. Severe long‑term restrictions should be considered when assessing the ability to control a company, but such restrictions do not in themselves preclude control.

12.4.1 Full consolidation method

In preparing consolidated financial statements, the financial statements of the parent and subsidiary to be consolidated are combined on a line‑by‑line basis by adding together like items of assets, liabilities, equity, income and expense. The financial statements should present financial information about the Group as a single company thereby eliminating inter‑company items and transactions. This means that 100% of the profit or loss is booked in the Group’s income statement as well as all assets and liabilities in the balance sheet.

The non‑controlling interests in the profit and loss of consolidated subsidiaries are identified and their proportion of profit and loss is allocated depending on their ownership interests. The proportions allocated to parent and non‑controlling interest are based solely on present ownership interests. The non‑controlling share is debited to non‑controlling interest expense in the consolidated income statement and credited to the non‑controlling interest account in the consolidated balance sheet.

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| **Consolidation process step by step** | **Full consolidation method** |
| Integration of items of assets, liabilities, income and expenses | Add items line by line |
| Use uniform accounting policies of the Group | X |
| Translation of foreign currency financial statements | X |
| Elimination of inter-company transactions in balance sheet and in income statement | X |
| Elimination of unrealized profits and losses on inter‑company transactions | X |
| Goodwill upon acquisition | X |
| Elimination value of investment security | X |
| Sharing with Group equity and non‑controlling interest | X |

Uniform accounting policies

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| The Group uses uniform accounting policies to prepare its consolidated financial statements. To ensure uniformity, each entity within the Group is required to use the accounting policies set out in this manual. |

Date of consolidation

A subsidiary should be consolidated from the date the group has the control and deconsolidated when the Group loses control.

12.4.2 Intragroup transactions

Intragroup transactions and balances and resulting unrealized profits should be eliminated in full. Unrealized losses resulting from intra‑company transactions should be eliminated unless cost cannot be recovered. Timing differences that arise from the elimination of unrealized profits and losses are dealt with in accordance with *Income tax*.

Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements.

12.4.3 Non‑controlling interest

Non‑controlling interests are that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned directly or indirectly through subsidiaries by the parent.

Non‑controlling interests in the net assets of consolidated subsidiaries consist of:

* the amount recognized initially at the date of acquisition

the non‑controlling interest’s share of movements in equity since the date of the combination.

Non‑controlling interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders’ equity. Non‑controlling interest in the income or loss of the Company should also be separately disclosed.

**If a subsidiary is not profitable,** the non‑controlling interest account could result in a debit balance. The Group should take this debit in its income statement when it occurs unless the non‑controlling interest has an obligation to fund those losses (in that case, a debit balance should be recognized).

12.4.4 Changes in ownership interest

Changes in a parent’s ownership interest in a subsidiary that does not result in a loss of control are accounted for within equity.

In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in the ownership interests in the subsidiary. Any difference between the amount that non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the parent.

**12.5 How control is lost**

A parent can lose control of a subsidiary with or without a change in absolute or relative ownership levels. This could occur, for example, when a subsidiary becomes subject to the control of a government, court, administrator or regulator. It also could occur as a result of a contractual agreement.

A parent might lose control of a subsidiary in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a single transaction. In determining whether to account for the arrangements as a single transaction, a parent shall consider all of the terms and conditions of the arrangements and their economic effects.

**12.5.1 How to record the transaction when control is lost**

When an entity loses control of a subsidiary it:

* de-recognizes the assets and liabilities and related equity components of the former subsidiary.
* any gain or loss is recognized in profit or loss.
* any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

**12.6 Financial statement disclosures**

The Group is required to disclose certain information in its consolidated financial statements under International Financial Reporting Standards.

These requirements are as follows:

* the nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power,
* the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control,
* the reporting date of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the parent, and the reason for using a different reporting date or period,
* the nature and extent of any significant restrictions on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances.
* a schedule that shows the effects of any changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control on the equity attributable to owners of the parent; and
* if control of a subsidiary is lost, the parent shall disclose the gain or loss, if any, recognized in accordance with (see *How control is lost*), and:

(i) the portion of that gain or loss attributable to recognizing any investment retained in the former subsidiary at its fair value at the date when control is lost; and

(ii) the line item(s) in the statement of comprehensive income in which the gain or loss is recognized (if not presented separately in the statement of comprehensive income).

* other disclosure requirements that may be in place from time to time.