CNMV
Comisión Nacional del Mercado de Valores

Guide for the preparation of management reports of listed companies

Guide for the preparation of management reports of listed companies

Comisión Nacional del Mercado de Valores
Edison, 4
28006 Madrid

Passeig de Gràcia, 19
08007 Barcelona

The CNMV distributes its reports and publications via the Internet at www.cnmv.es.

ISSB: 978-84-87870-98-9
Depósito Legal: M-28719-2013
Layout and printing: Composiciones Rali, S.A.

Contents

Section I. Purpose and content of this guide

Introduction

This guide contains recommendations that listed companies may follow when preparing management reports that accompany financial statements which, in accordance with the related legislation, must contain a fair review of the entity's business development and performance, together with a description of the main risks and uncertainties that it faces.

The demand for information on companies arises from the users' need to assess the companies' past and forecast performance in order to form an opinion and to create a basis for future decisions.

The users of the information are the existing and potential investors, and other economic and social players -financial analysts, credit institutions, suppliers and creditors, customers, employees, regulators, governments and the general public- who use it to satisfy various types of needs including: investment decisions and assessment of the entity's capacity to pay dividends, meet its financial obligations on the maturity date or meet its obligations with regard to the employees' post-retirement benefits.

According to the International Accounting Standards Board[1] (IASB), the objective of financial statements is to provide information on the financial position, performance and changes in the financial position of entities in order to satisfy users' needs and to be useful for users when creating a basis for taking economic decisions.

Since the financial statements relate mainly to past events, they are unlikely to contain all the information that users need as a basis for their investment decisions and, accordingly, they should be complemented in at least two different ways:

(1) by offering explanations on the decisions taken, based on the chosen strategy followed in the operating, investing and financing areas; and

(2) by providing information on the foreseeable evolution and performance of the business carried on by the entity, placing them in the context of the objectives and strategies that have been set.

It is precisely this need that justifies the requirement for documents such as the management report which, in Spain, is obligatory for all corporate groups that prepare consolidated financial statements[2] and for all other companies, except for those

---

1 IASB: "Framework for the Preparation and Presentation of Financial Statements" (amended in 2010) (now called "The Conceptual Framework for financial Reporting"), included in the International Financial Reporting Standards (IFRSs) (London, 2012).

2 Consolidated directors' report, regulated by Article 49 of the Spanish Commercial Code, as worded by Law 16/2007, of 4 July, reforming and adapting Spanish corporate law on accounting matters for its international harmonisation, based on European Union regulations.

that prepare abridged balance sheets and statements of changes in equity[3], so that the directors may explain their conduct of business and, in order to do this, provide other data relating to the entity not included in the annual financial statements.

Since the current trend is towards accounting harmonisation of financial statements in Spain and worldwide, it is desirable to pursue the same objective in relation to the management report[4]. Greater comparability through the harmonisation of content enhances usefulness both externally, by making information of various entities comparable, and internally, by presenting financial statements -together with accompanying, complementary information- with content and a structure that are consistent and uniform over time.

Comparability is sought because it provides a better understanding of each company's activity, performance over time and position with regard to its peers. Greater comparability of financial statements among entities helps better protect users' interests, makes it easier to obtain equity and debt, reduces costs and enhances trust among economic players, which in turn enables the markets to be more efficient in allocating resources.

With the main purpose of issuing a guide for preparing the information contained in the management report that helps increase its overall quality, comparability and value, a Working Group was created and promoted by Spanish National Securities Market Commission (CNMV) which prepared this document.

The Working Group took into consideration the existence of a proposal to amend the Transparency Directive[5], which included the need to harmonise the content of the documents that accompany the financial statements. This proposal, which ultimately did not come to fruition, envisaged the publication by the European Securities and Markets Authority (ESMA)[6] of certain guides that would specify the information that should be included in the management report.

In the case of Spain, a need was detected to prepare a recommendation guide that, in line with the spirit of the EU proposal, helps entities with the task of preparing the information that should form part of the content of management reports.

In addition, this guide helps to maintain and improve the level of security of the members of boards of directors, who are responsible for preparing the management report in accordance with Article 35 ter of the Spanish Securities Market Law, with regard to compliance with all the requirements set forth in Article 49 of the Spanish Commercial Code (Com. Code) and Article 262 of the Spanish Limited Liability Companies Law (SLLCL).

---

3 Article 262 of the Consolidated Spanish Limited Liability Companies Law, approved by Legislative Royal Decree 1/2010, of 2 July.

4 This conclusion had previously been reached in the report by the Spanish Accounting and Audit Institute (ICAC) on the situation of accounting in Spain and guidelines for its reform (*Informe sobre la situación de la contabilidad en España y líneas básicas para abordar su reforma*) (Madrid: ICAC, 2002). Conclusion number 99 of the "white paper" on reforming accounting in Spain recommended issuing guidelines in relation to the standardisation of the directors' report and the collection and dissemination of documents on the best practices followed in its preparation.

5 Draft amendment to Directive 2004/109/EC (on Transparency) on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (Interinstitutional File 2011/0307).

6 European Securities and Markets Authority; a body established by Regulation (EU) No 1095/2010.

Therefore, the directors will be in a better position when declaring that "to the best of their knowledge" the management report "includes a fair review of the development and performance of the business and the position of the issuer (...) together with a description of the principal risks and uncertainties that they face[7]".

Lastly, the publication of this guide aims to raise awareness among companies of the importance of the management report for the users of the information, and of the real need to enhance the scope and quality of the information it contains and to improve the presentation of this information.

The lack of specific details provided in Article 49 of the Spanish Commercial Code and Article 262 of the Spanish Limited Liability Companies Law concerning the minimum content of the management report did not contribute to the perception of the importance of the report on the part of the persons responsible for its preparation in relation to the scope and content that it should have, and did not enable the enhancement in its quality or comparability. If the management report did not contain key information, the users of business information would be significantly limited when creating a basis for their economic decisions.

The objetives and the scope of the Working Group are described below.

Objective and scope

The Working Group was established in order to prepare a set of recommendations relating to the management reports of Spanish listed entities, in line with the need already detected at European level, with the following remit, which constituted its work programme:

(a) To analyse the EU and Spanish regulatory framework regarding management reports, including a brief comparison with that of other countries (Germany, France, the UK, Canada and the US) and the recommendations issued by the IASB.

(b) To prepare a general recommendation guide that specifies the content of Article 49 of the Com. Code and Article 262 of the SLLCL. The purpose of the above is to make it easier for entities to prepare the management report in order to meet the following objectives:

  – To provide data that place in context all the financial information contained in the financial statements.

  – To furnish additional, complementary information, not contained in the financial statements, that is useful for the users of the financial information.

  – To standardise the information contained in the management reports, so that it is comparable, firstly, for the same entity over various financial

7 Article 4.2.c) of Directive 109/2004/EC.

years and, secondly, among various entities, with regard to the content and nature of the information and analysis provided.

– To provide enhanced security for the board members responsible[8] for preparing and publishing the management report with regard to the completeness of its content.

(c) To establish, based on the entities' experience, a framework of good practices relating to the information that should be provided in the management report, with regard to content, presentation and format. The purpose of all the above is for the document to comply with the task assigned to it under the related legislation (namely, to complement the financial statements by providing additional information not contained in the financial statements and making the content thereof easier to understand).

For this purpose, a set of suggestions was prepared, together with examples and illustrations on the treatment that may be given to the various matters contained in the management report in order to comply with the principles established in the document.

(d) To provide for the specific characteristics of certain sectors through the preparation of recommendation guides and specific indicators that complement those contained in the general guide.

The main results obtained by the Working Group were embodied in the parts of this guide that are described below:

(a) A proposal for regulatory developments with regard to the management report.

(b) A reference framework of recommendations and good practices that establishes principles on the minimum content that should be included in the management report, in accordance with the related legislation (Article 49 of the Com. Code and Article 262 of the SLLCL). The reference framework consists of three pillars: I) Objectives of the management report; II) Content of the management report; and III) Principles and rules for the preparation of the management report.

(c) A set of general recommendations on the minimum content included in the reference framework to be included in the management report.

(d) Specific recommendations as a complement to the general guide in certain sectors that will help to adapt it to the particular economic characteristics of certain sectors of activity of special significance.

(e) A glossary of terms.

The document prepared by the Working Group is aimed at listed Spanish entities in general which, on account of their status as such, are obliged to publish a management report together with their financial statements, both separate and consolidated, regardless of their size, level of capitalisation or nature of the securities traded.

8 Article 35 ter of the Securities Market Law introduced by Law 6/2007, of 12 April.

However, the Group prepared and included a specific guide for listed small and medium-sized enterprises which is included in Section V.

This guide contains recommendations referring to the content of the consolidated annual management report (or the annual management report of the separate financial statements if the entity is not obliged to present consolidated financial statements). Nevertheless, it also offers listed entities the possibility of implementing the philosophy and content of the recommendations, to the extent that they are useful, in the management reports of the separate or individual financial statements of the companies comprising the group. The entities may include, at the beginning of the management report, a statement that the report was prepared in line with the guide, provided that, in compliance with the recommendations set forth in the reference framework (pillars I, II and III of section II of the guide), they took into consideration the advisability of including any details contained in Section III that are relevant for describing their position and performance.

Lastly, this guide may also be useful for any other Spanish entities that have to prepare and publish a management report, particularly those that intend to be listed on the equity markets in the future, for those that usually raise funds from banks and financial institutions and, in general, for any entities that, in an exercise of transparency, wish to provide comparable, high-quality information on management, so that these recommendations may be used as a tool for enhancing the content of their management reports.

Regulatory framework

EU Directives

The EU regulations on the area covered in this document arise from two long-standing accounting Directives which have undergone various amendments over their lifetimes:

- Fourth Council Directive of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies (Directive 78/660/EEC).

- Seventh Council Directive of 13 June 1983 based on Article 54 (3) (g) of the Treaty on consolidated accounts (Directive 83/349/EEC).

In 2003 Directive 2003/51/EC of the European Parliament and of the Council introduced a significant amendment to Directive 78/660/EEC, specifically to Article 46, the purpose of which was to detail the content of the management report and the indicators to be taken into consideration for the preparation thereof. The aim of this reform was to ensure that such reports were able to present a fair review of the development of the business and of its position, in a manner consistent with the size and complexity of the business.

Subsequently, in 2004, Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, known as the Transparency Directive, was published.

The Transparency Directive[9] establishes that issuers whose shares are admitted to trading on a regulated market in the European Union, in addition to the annual and half-yearly reports, must also publish and distribute an interim management statement (management report) each quarter. The interim statement must contain an explanation of material events and transactions that have taken place in the relevant period and their impact on the financial position of the issuer and its controlled undertakings, together with a general description of the financial position and performance of the issuer and its controlled undertakings during the relevant period.

In 2006 Directive 2006/46 was issued which, among other requirements, introduced the obligation for companies whose securities are admitted to trading on a regulated market and which have their registered office in the Community to disclose an Annual Corporate Governance Report as a specific and clearly identifiable section of the management report.

Lastly, there are currently two proposal for Directives of the European Parliament and of the Council:

- A draft Directive[10] regulating the annual financial statements, consolidated financial statements and other similar reports of certain types of companies which would repeal the aforementioned accounting Directives and replace them and the numerous amendments they have undergone with a single Directive.

- A draft Directive[11] amending accounting Directives 78/660/EEC and 83/349/EEC to include certain new disclosures relating to the exercise of corporate social responsibility which extend the content of the separate and consolidated management reports.

The first proposal for a Directive does not introduce any noteworthy amendments in relation to the management report and states in the explanatory memorandum that "there are no substantive changes to the provisions governing the content of this report compared to those currently provided by the Fourth Council Directive 78/660/EEC and the Seventh Council Directive 83/349/EEC".

The second proposal is geared towards large companies, which are considered to be companies whose average number of employees exceeds 500 and exceed either a balance sheet total of EUR 20 million or a net turnover of EUR 40 million. When explaining their business evolution and performance, these companies must also provide information on aspects relating to the following: employees, social issues, the environment, respect of human rights and anti-corruption and bribery, including: (i) a description of their policies; (ii) the results of the policies; and (iii) the risks related to these areas and how the companies manage them. The explanation must include financial and non-financial key performance indicators. The approval of this Directive will change both the scope and content of this guide.

9 This Directive, transposed into Spanish legislation through Law 6/2007 and Royal Decree 1362/2007, of 19 October, is currently subject to review.
10 Interinstitutional File 2011/0308.
11 Interinstitutional File 2013/0110.

In addition, Article 28 of Commission Regulation (EC) no. 809/2004 of 2004[12] includes, in addition to other documents, the financial statements and management reports as documents that may be incorporated by reference as base information for the preparation of securities issuers' prospectuses.

Current regulations in Spain

The Spanish regulatory framework relating to the management report can be found, on the one hand, in Article 262 of the Spanish Limited Liability Companies Law and, on the other hand, in Article 49 of the Spanish Commercial Code. Both include stipulations on the minimum content of the management report and the consolidated management report, respectively.

Otherwise, to date no framework has been developed on management reports and no guidelines have been established on the content, terms and definitions concerning the information to be published.

Annual Corporate Governance Report

The Spanish Securities Market Law[13] requires listed companies to publish an Annual Corporate Governance Report (ACGR), which must include the management report as an independent section, thereby forming a part thereof.

The ACGR must provide shareholders with at least easily accessible key information on the corporate governance practices applied, including a description of the main characteristics of the risk and internal control management systems in place in relation to the financial reporting process. This guide does not cover the content of the ACGR, which has already been regulated, but does contain comments on overlapping information contained in the two types of report and provides recommendations to avoid unnecessary repetitions.

Audit Committee

The Securities Market Law requires issuers of securities admitted to trading on an official secondary securities market to have an audit committee which will be responsible for supervising the financial information on the entity.

The Committee must therefore control the completeness of the financial information, which is important because that information will then be given context and supplemented by the management report; and moreover, the report itself must contain financial and non-financial information and information on the internal control over financial reporting, the accuracy, completeness and authenticity of which must first have been supervised by the Audit Committee.

12 In relation to the implementation of Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements.

13 Article 61 bis of Securities Market Law 24/1998, of 28 July, (Amended by Sustainable Economy Law 2/2011, of 4 March).

Auditors

With respect to the, in this case partial,[14] supervision of the management report, the SLLCL entrusts this task to the auditors (Article 263). This mandate is developed further in various regulatory texts such as, inter alia, Legislative Royal Decree 1/2011[15] or the Spanish Accounting and Audit Institute (ICAC) Resolution of 21 December 2010. After performing the necessary review, the auditors issue an opinion on whether the accounting information contained in the management report is consistent with that included in the financial statements which the report accompanies, but their task does not go beyond that.

The auditors must issue "an opinion on whether or not the management report is consistent with the financial statements relating to the same year, if the financial statements are accompanied by a management report[16].

Likewise, the auditors' report must contain in an additional paragraph in which the external auditors describe firstly that such report is not an integral part of the financial statements and concludes on whether or not the accounting information in the management report is consistent with that contained in the financial statements.

Regulatory framework of the principal markets

The guide is part of the effort that has been made by international bodies and national regulators to provide a structure and content for management reports. In this regard, particularly worthy of note are the documents prepared by the IASB and IOSCO, as well as the proposals by national regulators of countries such as Germany, Canada, the US and the UK.

Due to Spain's close links with the international bodies, it is especially important to note that the model issued by the IASB, IFRS Practice Statement on Management Commentary (in December 2010) has been taken as a model, as well as the guide published in February 2003 by the Technical Committee of the International Organization of Securities Commissions (IOSCO), entitled General Principles Regarding Disclosure of Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following table shows a summary of the main characteristics of the regulatory frameworks analysed in relation to the principal attributes and content of the management report.

---

14 Consisting of verifying that the accounting information contained in that report is consistent with that contained in the audited financial statements.

15 Legislative Royal Decree 1/2011 approving the Consolidated Spanish Audit Law.

16 Article 3.1.d) of Legislative Royal Decree 1/2011 approving the Consolidated Spanish Audit Law.

	US	Canada	UK	France	Germany
National regulations	– *SEC Regulation S-K, Subpart 229.300 Item 303, Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A").* – *Form 20-F, Registration of Securities of Foreign Private Issuers, Item 5, Operating and Financial Review and Prospects.* – *Paragraph 11 of General Instruction B of Form 40-F.*	– *Requirements on the MD&A applicable in all stock exchange jurisdictions in Canada, contained in National Instrument 51-102.* – *Continuous Disclosure Obligations, Canadian Securities Administrators (CSA).*	*Directors' Report, Business Review.* *Companies Act (2006), Chapter Five: Directors' Report* and Schedule 7 of "*Large and Medium-sized Companies and Groups Regulations".* In 2006 the Accounting Standards Board (ASC) published a voluntary guide for preparing the management reports of listed companies entitled "Reporting Statement: *Operating and Financial Review (OFR)".*	Rapport de Gestion. Code de Commerce. Code monétaire et financier and Code général des impôts. Rêglement general de l'AMF.	Management report (*Lagebericht*). Commercial Code (*Handelsgesetzbuch*). Amended by the Accounting Reform Law *Bilanzrechtsreformgesetz* –(BilReG) that transposes Directive 2003/51/EC.
Content of the report	Commentary on the company's financial position, changes thereat and results of its operations for each year and intermediate period for which the presentation of financial statements is required, namely: **1.** The causes of significant changes from one year to another in items of the financial statements. **2.** Information relating to all the segments into which the company is divided. **3.** The SEC opted for the publication of a set of guidelines of a general nature on the preparation of the MD&A (Management Discussion and Analysis) so that the companies may address the specific features of the industry in which they operate by adapting the information that they will publish. *Content of the MD&A*: – Liquidity. – Capital resources. – Results of operations. – Off balance sheet transactions. – Contractual obligations. – Qualitative and quantitative disclosures on market risk.	The MD&A should address any significant information that may not been completely reflected in the financial statements, such as: **1.** Contingent obligations; **2.** Failure to meet debt obligations; **3.** Off balance sheet financing transactions; **4.** Contractual obligations; **5.** Trends and risks that shaped the financial statements in the past and are reasonably likely to shape them in the future; **6.** Information on the quality and potential variability of the company's profit and losses, and cash flows so that investors may analyse if past performance will be useful for determining future performance.	**Article 46 of Directive 78/660/EEC, *Content of the annual report*:** **1.** A fair review of the development and performance of the company's activity. **2.** A description of the main risks and uncertainties that it must face. Both matters should be addressed taking into consideration the complexity and size of the business; The analysis should include, where necessary, the key indicators of financial and non-financial performance that are relevant for the specific activity. Information should also be included in relation to the environment and employees; 3. The report should also include information relating to: **(a)** Any significant event that may have occurred since the end of the reporting period. **(b)** The company's likely future development. **(c)** Research and development activities. **(d)** Information on the acquisition of treasury shares. **(e)** Existence of company branches. **(f)** In relation to the use, by the company, of financial instruments, and when it is significant for the measurement of its assets, liabilities, financial position and results. – The company's financial risk management objectives and policies, including the policy for each of the main types of forecast transaction to which hedge accounting is applied. – The company's exposure to price, credit, liquidity and cash flow risk.		
			Additional requirements in the United Kingdom: **1.** Recommendations on the amount to be distributed as dividend. **2.** Fixed assets. **3.** Listed companies. Forecast earnings and additional explanation if the earnings for the reporting period differ by more than 10% from the estimates published by the company.	**Additional requirements in France:** The same requirements as the content of the Directive. No additional requirements.	**Additional requirements in Germany:** The same requirements as the content of the Directive. No additional requirements.

	US	Canada	UK	France	Germany
Approval of the management commentary	Management is responsible for preparing the company's MD&A in accordance with the rules and regulations adopted by the SEC. The preparation of the MD&A, in accordance with the rules and regulations adopted by the SEC, requires management to interpret the criteria, to obtain the correct historical data from the company's accounting books and records, to take decisions on the relevance of the information to be included, and to prepare the estimates and assumptions relating to the disclosures.	Both the annual and the interim MD&As should be approved by management prior to being published. However, management may delegate approval of the interim MD&A to the Audit Committee.	The report should be approved by management and signed on its behalf by a director or the secretary. The inclusion of false or misleading statements in the report will give rise to third-party liability if management was aware of these statements or acted negligently in this respect. Concealment of significant facts by a director will also give rise to third-party liability.	The board of directors, management or executives should prepare the inventory and financial statements, (...) and should prepare a management report explaining the position of the company in the previous reporting period, a forecast of its future performance, the significant events that have occurred since the end of the reporting period until the date of preparation of the report, and the research and development activities.	Board of directors.
Auditor's function	To indicate the degree of consistency between the information provided in the MD&A and the company's financial statements or with the information obtained by the auditors in the course of their work. The auditors may withhold their report or refuse to take part in the audit engagement if the inconsistencies or errors they find are very significant. Normally the external auditors would restrict themselves to discussing this type of issue with management with a view to resolving it.	The external auditors receive information, for example the MD&As, published in reports containing the financial statements on which they will express an opinion for the purpose of checking that there are no inconsistencies between the financial statements and the other information.	The external auditors are required to express an opinion on whether the content of the management report is consistent with the information contained in the company's accounts.	To check the consistency and authenticity of the company's financial statements with information obtained from the management commentary aimed at investors or shareholders in relation to the company's financial position or the financial statements collected during the audit. The auditors should also check the consistency and accuracy of the consolidated financial statements, and the content of the Group management commentary.	– To state whether the information provided in the management report (Lagebericht) and the group management report (Koncernlagebericht) is consistent with the company's financial statements. – This consistency analysis should include any other information obtained by the auditors in the course of their engagement. – The auditors should provide their opinion on whether information is provided that is required for ascertaining and evaluating the entity's financial position and whether the company's main risks and future growth opportunities have been specified appropriately.

	US	Canada	UK	France	Germany
Available guides or reference frameworks.	**A)** The International Accounting Standards Board (IASB) published the IFRS Practice Statement, Management Commentary (2010). This document contains a broad, non-binding framework for assisting companies in the task of preparing management commentary in relation to the financial statements prepared under International Financial Reporting Standards (IFRSs). – Objective: to increase the degree of comparability among entities and encourage good practices. The Practice Statement, Management Commentary establishes a set of principles, qualitative characteristics and components that are necessary for providing the users of financial information with useful information that provides them with a context in which they can interpret the financial statements. This information should reflect the company's performance, position and progress through the eyes of management. Subject to compliance with each country's specific legal requirements, this framework may be used by any company in any country when preparing its MD&A. **B)** Recommendations published by the former Committee of European Securities Regulators (CESR), such as recommendations 27 to 32 of the document with reference CESR/05-054b, analysis of the company's progress, results and financial position; or recommendations 33 to 37 on the publication of capital resources and liquidity. **C)** IOSCO: in February 2003, the Technical Committee of the International Organization of Securities Commissions (IOSCO) published non-legally binding guidelines: General Principles Regarding Disclosure of Management's Discussion and Analysis of Financial Condition and Results of Operations The objective of this guide consists of helping companies in the preparation of information, for example, the analysis of financial condition and results, and the MD&A.				
	– SEC interpretive releases (not legally binding), for the interpretation of federal securities laws. – SEC rules. In relation to MD&A interpretive guidance nos. 33-8350 and 33-9144, both were published in 2003 and are available.	The Canadian Institute of Chartered Accountants issued guidelines for the publication of MD&As (2002) that included recommended disclosure practices. They are not legally binding.	Accounting Standards Board's Reporting Statement (2006): Operating and Financial Review It was originally binding, but was, subsequently converted into a voluntary guide for recommendations and good practices with regard to preparing analysis of financial position and operations.	Interpretations made by the *Autorité des Marchés Financiers* on matters relating to the management report, such as the recommendation of 29/10/09 on risk factors (*Recommandation de l'AMF sur les facteurs de risque*).	In 2004 the *Deutsches Rechnungslegungs* Standards Committee (DRSC) adopted German Accounting Standard (GAS) 15. It is voluntary.

In addition, Appendix D includes a section containing summaries of the foregoing regulations that were used as a reference point for wording many of the recommendations of this document. This Appendix describes in detail, firstly, both the international regulations and the regulations applicable to each of the countries under analysis and, secondly, the minimum content they establish for management reports. Also, certain aspects governed by specific national regulations were taken into consideration such as the approval of the document and the role of auditors.

An analysis was also made of the existence of recommendation guides at national or international level that may be useful for interested parties in the preparation of the information that accompanies financial statements.

The analysis of the information contained in Appendix D and the subsequent identification of best practices were used as a basis by the Working Group for preparing the reference framework (Section II) and the set of recommendations, both general and specific (Section III), presented herein.

Content of Working Group proposals

Regulatory developments

Having analysed current legislation with regard to the Management Report, the Management Report Working Group (MRWG) considers that certain changes to its regulation could be made in order to enhance its usefulness for investors and to reduce entities' administrative expenses.

For the purposes described above, the proposed changes are as follows:

- To avoid duplication between the content of the financial statements or the ACGR and the management report. It has been seen that there are certain matters that can be repetitive including, among others: disclosures on treasury shares, events after the reporting period, information on risks and uncertainties and information on financial instruments (see Appendix C).
- It is proposed that the duplications indicated above be avoided by regulating the content of the management report by exception, so that the information already included in the financial statements or the ACGR does not have to be repeated in the management report.
- That the related legislation expressly provide for the possibility of including the ACGR, in any event, by reference in the management report.
- In the event of a regulatory development with regard to the content of the management report, that the contributions made herein by the MRWG be taken into consideration for listed entities at least.

Taking into consideration the various reports required of listed entities and having analysed that, in certain cases, information is duplicated among them, the MRWG proposes that a project be undertaken with the purpose of producing a report that groups together and simplifies the disclosure requirements for listed entities, in order to provide information that is useful for investors and other users and that is verifiable for the auditors.

Furthermore, with regard to audits, guidelines could be given by the auditor's bodies for regulating any review engagements that the entities might commission, on a voluntary basis, from auditors on the content of the management report.

Reference framework

With the purpose of having a set of principles and good practices relating to the information contained in the management report, with regard to its content, presentation and format, the Working Group established a reference framework[17] on which to base its recommendations.

This reference framework consists of three pillars that summarise the philosophy that encouraged the Group to act and it is proposed as the set of principles and rules that is recommended to be taken into consideration in the preparation of the management report.

Pillar I establishes the reporting objectives that the management report should pursue. Pillar II offers a classification of the information to be included therein. Pillar II details and lists the principles and rules to be observed in the report preparation process.

Recommendation guide

With the objective of standardising the content of the management reports of Spanish listed companies, the Working Group prepared this guide which includes recommendations[18] on the specific content that companies may regard as relevant to include, which is related to legal requirements, and the form in which it may be included. The guide contains suggestions on the types of information to be presented and the manner in which to do so, including certain reference indicators that the listed companies may use for preparing the content of their respective management reports.

Although there are several ways in which to comply with the provisions of Article 49 of the Com. Code and Article 262 of the SLLCL, in relation to the application of this guide, it is considered that any entities that decide to abide by it and follow its recommendations when preparing their management reports will be complying not only with legislation but also with the spirit of enhancing the information used for preparing these reports, namely, to increase the quality of the financial information by providing a set of explanations and complementary information that enhance it for the users' benefit.

The particular characteristics of specific sectors were also taken into consideration through the preparation of recommendations that may complement or help to ap-

17 Content in Section II hereof (Reference framework).

18 Content in Section III hereof (Recommendation guide for the preparation of the information contained in the directors' report).

ply the general guide. In particular, recommendations were included in relation to the banking sector and listed small and medium-sized enterprises (LSMEs). The former case involves complementing the information and the indicators in certain critical aspects of the management of credit institutions. The latter involves a simplification of the recommendations of the guide so that it may be applied by LSMEs without giving rise to an excessive workload or costs, in line with the Explanatory Memorandum in the proposed amendments to the Transparency Directive[19].

19 Draft amendment to Directive 2004/109/EC (on Transparency) on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (Interinstitutional File 2011/0307).

Section II. Reference framework

General issues

Content and scope

The management report is a document whose function is to provide certain information that places the content of the financial statements in context, in order to enable users to interpret them appropriately, and to include additional information not included in the financial statements. This information should present fairly the directors' point of view with respect to the entity.

The reference framework comprises a set of general principles and good practices that may be taken into account by those preparing the management report. These principles will only be applicable to the preparation of the management report, since they aim to fulfil the role assigned to this document, which may not necessarily coincide with that attributed to other documents composing the corporate regulatory information, but which in all cases is complementary to the information provided by the financial statements that it accompanies.

The analysis of the principles and good practices included in this framework reveals that, in the management report preparation process, it is important to bear the addressees in mind when deciding on the content that should be included and how this content should be presented. In short, the entity's management should take the users' needs into consideration when selecting, processing and presenting the information.

Responsibility

Directive 2006/46/EC[20] establishes that the responsibility for the preparation and publication of the financial statements and the management report, at separate and consolidated level, will be based on national law. In the case of Spain, the rules governing responsibility are contained in Article 35 ter[21] of the Spanish Securities Market Law, which establishes that the responsibility for the preparation and publication of the management report "should fall on, at least, the issuer and its directors in accordance with any conditions that may be established in regulations". The directors are therefore responsible in so much as they are the authors of the management report.

Therefore, in order to encourage credible processes for issuing financial information, the members of the bodies responsible for preparing a company's financial information guarantee that the financial information included in the financial state-

20 Directive 2006/46/EC of the European Parliament and of the Council of 14 June 2006.

21 This was added by Law 6/2007, of 12 April, reforming Spanish Securities Market Law 24/1988, of 28 July, amending the regime for takeover bids and the transparency of issuers, the implementation of which is regulated by Article 10 of Royal Decree 1362/2007, of 19 October.

ments presents fairly the activity and results in the period in question, while the management report should explain the entity's performance in a fair and sufficient manner, the factors behind its performance and the risks and opportunities associated with its activity in the future.

For its part, the Audit Committee[22] is responsible for supervising the process of preparing and presenting regulated financial information, including the management report. Therefore, its mission with respect to this document is similar to that which it has in relation to the financial statements. In particular, it should check that it contains all the mandatory disclosures and that it includes sufficient information in order to fulfil its purpose.

Voluntary nature

The reference framework is not binding. Therefore, in order to respect the voluntary principle, a set of comments and recommendations is offered in order to contribute to the dissemination of good practices aimed at enhancing comparability among listed entities and, ultimately, the satisfaction of the needs of the information users.

However, any entities that have followed the recommendations contained in this guide may state so in the title of the management report. Statements of partial compliance do not guarantee that the principles and criteria contained in this guide were followed.

The potential addressees of the recommendations of this reference framework are listed entities in Spain in general that are obliged to publish a management report together with their financial statements, both separate and consolidated, regardless of their size, level of capitalisation or nature of the securities traded.

Since the intention of the Working Group, promoted by the CNMV, in issuing this framework is to promote a set of good practices with regard to the management report, it is considered necessary to allow the entities' directors to exercise discretion and to adapt the information to be published to each entity's particular characteristics. This intention was achieved through the publication of a non-mandatory reference framework supplemented by suggestions and examples for whichever entities decide to use it.

Identification of the management report

Since the management report is an obligatory document for entities whose securities are listed on an official market, as are the financial statements and the auditors' report, it is usual and highly recommendable for it to be identified in the annual report or other equivalent document submitted for the purpose of approving the entity's management.

This identification is very useful for users of the report who may therefore know the information which enjoys special protection due to its inclusion in the management report. Generally speaking, unless otherwise stated, the introductory sections of an-

22 See "Audit Committee" in Section I.

nual reports or equivalent documents (chairman's letter, summary of changes in figures, etc.) do not form part of the management report.

Principles and good practices

The principles and good practices recommended in this framework, in the case of Spain, are based on the regulations applicable[23] to the management report and its content, and, at international level, on the content of two international reference documents, IFRS Practice Statement on Management Commentary issued by the IASB and General Principles Regarding Disclosure of Management's Discussion and Analysis of Financial Condition and Results of Operations published by the International Organization of Securities Commissions (IOSCO). Regulations in force in other countries with developed markets were also taken into consideration[24].

The aforementioned documents were chosen in view of the broad, global acceptance of the two bodies that issued them[25]. Furthermore, the recommendations contained in these reports are potentially applicable to Spain's case, since they both develop reference frameworks of a general nature and, therefore, in the words of the Technical Committee of the IOSCO "irrespective of the terminology used in different jurisdictions to describe this type of disclosure" (MD&A in the United States, OFR in the United Kingdom, etc.) what matters is that "this qualitative information about a company's operations and financial conditions is a critical component of information that public companies provide to the markets".

This reference framework is structured around three pillars, which contain the objectives (pillar I), the minimum content (pillar II) and the principles and rules to be followed when preparing the management report (pillar III).

Pillar I. Objectives of the management report

The main objective of the publication of the management report is to provide information with which an entity's results and financial position may be interpreted. Similarly, it offers, as part of its content, an explanation of the company's past performance and outlook. Furthermore, the management report aims to explain the risks, uncertainties and opportunities facing the entity, which determine its current situation and performance and may help to explain its future performance.

In its report, the Technical Committee of the IOSCO indicated that "a listed company should publish, in very general terms, all information that may be material to an investor's investment decision". This objective is very general and may not be very workable in practice since it involves the difficulty of choosing the relevant information from all that is available.

As a result, entities are recommended to focus the content of the report so that no potentially important information is omitted in order to enable current and poten-

23 See "EU Directives" and "Current regulations in Spain" in Section I (Regulatory framework).

24 See "Regulatory framework of the principal markets" and Appendix D.

25 The International Organization of Securities Markets (IOSCO) comprises the regulators of more than 90% of the world's securities markets.

tial investors to form their opinion on the entities and create a basis for taking decisions. In view of the fact that other stakeholders, apart from investors, are also users of the management report, their needs should also be taken into account when designing its form and content.

This reference to the content, which is rather broad in principle, may be specified using four objectives that should act as a guide for a listed entity in preparing its management report. These objectives are as follows:

1.1. **To provide a fair explanation of the situation of the entity and its business performance**. The management report is the mean by which management may communicate with users interested in the financial statements and other financial information issued by the entity. The authors place the actions carried out over the reporting period in the context of the economy and comment on them in the light of the entity's objectives and overall strategy and forecasts, for the purpose of accountability and predicting future performance. This enables investors and other users to take their particular decisions depending on their relationship with the entity. The analysis to be performed should be balanced and complete, so that the targets set may be assessed.

1.2. **To disclose the entity's risks, uncertainties and opportunities**. Since the management and administration of any entity are carried out in an environment of risk and uncertainty, the management report is the appropriate place for placing on record the main operational and financial risks faced by the entity, in order to convey to the user the relative degree of security with which the activity is carried on. Similarly, the opportunities and advantages enjoyed by the entity and that it may leverage for its benefit in the future should be disclosed in the management report. The provision of prospective information should be understood and assumed in a context of risk or uncertainty, and as such should be described and explained accordingly.

1.3. **To supplement the information contained in the financial statements**. Article 49.1 of the Spanish Commercial Code establishes that "the consolidated management report shall include, if applicable, supplementary references and explanations on the amounts detailed in the consolidated financial statements". A similar wording is included in Article 262 of the Spanish Limited Liability Companies Law with regard to separate financial statements. In addition, in section 5 of both Articles, it is stated that "the information contained in the management report shall, under no circumstances, justify the absence of financial statements where this information should be included in accordance with the provisions of the preceding Articles and the related implementing legislation". Therefore, the management report is designed to be a different document from the financial statements and it provides another type of information, both financial and non-financial, that enables users to place the financial information it contains in the economic and management context of the entity. Accordingly, it complements and supplements the financial statements and completes the view that a user of the financial information may form of the entity and its group on the basis of the financial statements.

Therefore, the management report is provided as part of an information package the central part of which relates to the financial statements for the period. As explained above, the main function of the management report is to place the figures of the financial statements in their context, so that they may be understood in relation to the objectives, strategy and actions of management. It also provides information and analyses that go beyond the scope of historical accounting data, covering both financial matters not addressed in the accounting information (e.g. action plans in relation to innovation or forecasts of future activity), and non-financial aspects of the entity's performance (e.g. environmental or social data). The content of this information is occasionally required by legislation. On other occasions, the decision on whether to include and subsequently expand upon this information is determined by the users.

1.4. **To present information that is relevant, reliable, understandable, verifiable, timely and useful for the user**. The information provided should meet the qualitative characteristics of relevance and reliability. It should also be worded in such a way that it may be understood by any user with general knowledge about the entity and its activities; it should contain sufficient, timely information that may be verified in the case of quantitative data; and it will be justified by the usefulness it provides to current and potential investors and to all other groups interested in the entity's performance.

Pillar II. Content of the management report

The aim of the second pillar of this reference framework is to establish recommendations on the content of the management report as required under current applicable regulations, and to highlight other types of information that, since they are commonly provided, give rise to the need to set minimum recommendations for making the information comparable and understandable.

The specific recommendations for including this minimum content in the management report are explained and clarified in Section III below. How to deal with possible duplications between the content detailed below and the information to be provided in other mandatory and voluntary documents is explained in Appendix C, which includes recommendations for differentiating the information and avoiding unnecessary duplication as far as possible.

These recommendations include all the requirements arising from the applicable regulatory framework, including EU regulations and national laws that transpose its content to Spanish legislation.

Furthermore, publication of the recommended information will also contribute to achieving the objectives pursued by disseminating the management report, which comprise the content of pillar I of the "reference framework".

It is therefore recommended that the management report presented by the entity contain, at least, the following sections:

2.1. Situation of the entity

2.1.1. Organisational structure: the management report should contain information relating to the company's organisational structure and its decision-making process for managing the business. To the extent that it is relevant, it is recommended that entities provide information about the decision-making in each of their segments or components.

2.1.2. Modus operandi: the management report should also provide information on the entity's objectives and strategies for action. This information should help the users of the information to understand not only the entity and, where appropriate, the group it heads, but also the environment in which it operates. It is also designed as a starting point for explaining and understanding performance, results and future prospects.

2.2. Business performance and results

The entity shall provide an analysis of the performance and results of its businesses, in which it will include explanations on the entity's performance and evolution during the reporting period and its position at the end thereof. These explanations offer the users of the financial information the views of management with regard to the factors and trends affecting the businesses, and explanations of how they had a positive or negative effect on the performance reflected in the financial statements. It is recommended that the entity compare the performance in the reporting period with that in the prior period, insofar as this analysis may provide guidance on future performance. The entity should include, with the level of detail required in order to facilitate understanding of these aspects, the following:

2.2.1. Key financial and non-financial indicators; among the latter, the law[26] pays particular attention to issues relating to the environment and employees, to which more attention is devoted in subheading 2.2.2. The entity should include any financial or non-financial indicators used by management to assess the degree to which the set objectives were met through the actions carried out. "Key indicators" are understood to be the variables used by management to measure the entity's development, evolution, performance or market position. The use of key indicators enables the entities to convey their target actions and simplifies analysis by the users of the information of the degree to which these objectives were met.

Although it is advisable to use widely accepted indicators that are valid for all sectors, in order to enhance comparability, certain economic activities may be better understood by using indicators that relate to the economic sector to which they belong. Management of the entity should disclose the relevance of the indicators, particularly those that are only applicable to the economic sector in which the entity operates.

For the purpose of achieving comparability, the entity is expected to provide figures that enable users to see the trend in key indicators including, at least, the periods covered by the financial statements.

26 Article 262.1.3 of the Spanish Limited Liability Companies Law.

Since most indicators are not standardised, if the entity uses measures or indicators not defined or required by the relevant regulatory financial reporting framework, it should provide the definition, need and timeliness of their use, and should state whether they should be reconciled with other standardised measures contained in the financial statements.

Therefore, where the measures (e.g. EBITDA, units produced per employee or recurring net income) are not defined in the relevant accounting legislation, or where the indicators may vary significantly depending on who calculates them (e.g. ROCE, regulatory capital or share return), it is recommended that the entity: (1) explain why it considers that it is a significant aggregate that will enable investors to understand the financial position, results or cash flows; (2) describe its calculation methodology, the variables and data used, and their source; and (3) reconcile, where appropriate, these measures with the aggregates defined in the accounting regulations that are presented in the financial statements, or include non-accounting factors or variables (units produced per employee, sales per outlet, fair value per unit of surface area, etc.) that are not or were not defined differently from other, similar, generally accepted measures, and explain and reconcile any differences with the latter. Furthermore, if the entity decides to change the methodology or certain sources for obtaining data, or to cease publishing them, it should explain the reasons for the change or discontinuation and should adapt the values shown for comparison purposes.

2.2.2. Issues relating to the environment and employees: users of financial information particularly value knowledge on certain non-financial aspects of the entity's performance, which include most notably social matters -with particular emphasis on the development of human resources within the company- and its environmental management.

On occasions, entities prepare special, separate reports that are designed under the dual perspective described above in order to meet certain users' needs. This guide does not cover these reports, which have their own particular standards, but rather addresses the practice of including indicators and other information prepared in the management report in order to report the achievements and difficulties of a social and environmental nature. When the entity includes information of this nature, it should disclose at least the following aspects:

- The objectives, strategy and action plans for each area, making reference to the main risks assumed.

- The actions performed in the period, together with the indicators containing the results of the management performed.

- Comparison with other periods or with the targets set, explaining the improvements achieved and the difficulties encountered.

- The future plans and commitments, and the likelihood that they will be carried out or fulfilled satisfactorily.

2.3. Liquidity and capital resources

The company shall describe and analyse the source of the most significant financial resources and the policy followed with regard to their use. This information is highly significant in assessing the company's outlook and even its possibilities of success. In particular, it is recommended that, when addressing this issue, the management report make reference to the following matters:

2.3.1. Liquidity: sources and uses of liquidity, with a commentary on the related outlook.

2.3.2. Capital resources: structure of, and trend in, long-term financing to cater for the entity's investment plans.

2.3.3. Analysis of contractual obligations and off balance sheet transactions, insofar as future liquidity has been committed in this connection.

In view of the possibility that the information whose inclusion is covered in this heading was published in the notes to the financial statements, the entity may make the required cross-references to this document, thereby avoiding duplication of content.

2.4. Main risks and uncertainties

The description of the main risks and uncertainties, both operational and financial, faced by the entity should form part of the content of the management report. Information should be disclosed in relation to the entity's exposure to operational, financial, price, credit, liquidity and other risks and mention should be made, where necessary, of the management objectives and policies relating to the risks to which the entity is most sensitive. It is recommended that at least the following types of risk, if they are relevant to the entity, be addressed:

2.4.1. *Operational risks.*
- A) Regulatory risk
- B) Other operational risks

2.4.2. *Financial risks.*
- A) Market risk
  - A.1. Interest rate risk
  - A.2. Foreign currency risk
  - A.3. Financial instrument price risk
  - A.4. Commodity price risk
- B) Credit risk.
- C) Liquidity risk (to the extent that it is not addressed under 2.3 "Liquidity and capital resources").

When preparing the management report, information should be disclosed in relation to the most important risks to which the entity is exposed, together with the planned actions for mitigating them. The description of these risks should encompass not only the entity's exposure to negative consequences but also any potential opportunities they may represent.

2.5. Significant events after the reporting period

It is recommended that the management report contain information relating to any events that have occurred after the end of the reporting period. These are defined as events, favourable and unfavourable, that occur between the end of the reporting period and the date on which the financial statements are authorised for issue. Two types of event can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period. The material effect of these events would be the adjustment of the aggregates reflected in the balance (adjusting events after the reporting period).

- Those that are indicative of conditions that arose after the reporting period that do not adjust the balance sheet aggregates since these events did not exist prior to end of the reporting period (non-adjusting events after the reporting period).

The entity should focus on only disclosing significant events and should explain any consequences they might have for its outlook of the entity, taking into consideration the strategy for managing their effects, both favourable and unfavourable.

2.6. Information on the outlook for the entity

The management report should include a section devoted to forward-looking information, containing an analysis of the entity's outlook.

The financial statements, in view of their nature, focus on providing information on past events. However, users find it useful to know management's views on the entity's outlook, in order to make their own predictions. Accordingly, the entity should disclose this type of forward-looking information in the management report and analyse it as a whole in relation to the entity's stated objectives and the strategies deployed to achieve them.

The forward-looking information should not necessarily be quantified. It may instead consist of a qualitative narrative detailing the current situation, the decisions taken and the situation that may be expected to exist in the future. Moreover, since the entity does not exist in isolation, it is understood that the assessments of its outlook will depend on the performance of the economy and of the sector in which it operates, together with other variables of an economic and political nature, which the entity's ability to influence may be very low or non-existent.

2.7. R&D&I activities

Research, development and innovation activities are directly connected with the entity's future development, since they will enable it to continue to offer higher-quality or more economical products or services to its customers or users. The efforts made in R&D&I activities, determined by the entity's specific strategy and objectives that the users of the management report should know, are closely linked to its medium- and long-term performance since they will enable it to maintain or even increase its activity. On certain occasions the entity may not be able to survive over time without considerable R&D&I efforts.

2.8. **Acquisition and disposal of treasury shares**

The management report obliges the entity to provide information on the acquisition and disposal of treasury shares (Article 148.d) of the Spanish Limited Liability Companies Law). Treasury share transactions may change the value of the shares held by shareholders and, accordingly, the users of the management report need to know the objectives pursued by the entity in relation to these transactions and the way in which the related actions have been, or will be, instrumented. It would also be interesting to know the impact of treasury share transactions on shareholder returns or the share price.

2.9. **Other salient information**

2.9.1. Stock market information: listed entities usually include information in the management report on the performance of the securities issued on the market and on the return achieved over the period covered by the management report. It is highly recommendable to include this type of information, prepared in an objective, comparable and comprehensive manner, because it has a bearing on the facts and figures that directly affect the current investors, and may have a significant impact on potential investors.

*2.9.2. Other informatio*n: after analysing its past performance and current situation, the entity should identify any other information that may be necessary to enable users to assess its current position and make forecasts on its outlook, and include it in the management report. For example, it might be advisable to offer information on matters such as the dividend policy or the management of the credit rating.

Pillar III. Principles and rules for the preparation of the management report

Once the objectives pursued in relation to the publication of the management report (pillar I) and its content (pillar II) have been defined, it is advisable to explain the main principles and rules that the entity should observe when preparing the information that it will include in the management report.

Although compliance with these principles is voluntary, entities are recommended to apply them in order to maximise the qualitative requirements of comparability, verifiability and understandability, and to create a link between the report's content and the objectives pursued through its publication (pillars I and II).

Accordingly, on preparing the director's report, the entity should take the following recommendations into consideration:

3.1. Discussion through the eyes of management

The publication of the management report should enable users of the information to view the entity through the eyes of management. This would enable them to assess the entity's performance adequately and to appraise in this context the set of actions carried out in order to achieve its objectives in accordance with the strategies and expectations.

All governing bodies develop a deliberation and decision-making style, which involves the use of a type of information with well defined content and format. This management style should permeate the preparation of the management report, so that the users may gain an idea of the reasons why the decisions were taken, and the timeline over which they will be projected. Although the entity's decision-making style should be reflected in the management report, the degree to which the information is broken down should be designed in such a way that it does not jeopardise the confidentiality and secrecy of the data that are inherent to all decision-making processes.

3.2. Clear, concise and consistent wording

Any interested user with reasonable knowledge of economic activities and of the business world should be able to understand the management report without difficulty. It is also recommendable to present it in a format and with a wording that enhance the understanding of the issuer's financial statements, which involves referring continually to specific figures from the financial statements or the notes thereto. The use of figures (histograms, tables, figures, organisation charts, flow charts, etc.) should facilitate understanding and support the information and arguments provided in the narrative paragraphs.

3.3. Objectiveness when explaining and analysing events, plans, forecasts and their consequences

The value of the report lies more in the discussion and analysis of the courses of action taken than in their endorsement. Each action and decision has its advantages and disadvantages. Furthermore, choosing a particular objective and course of action necessarily means forgoing others. Therefore, an explanation that is a success story runs the risk of becoming irrelevant, thereby damaging the potential usefulness of the document. In this regard, the description should be fair and should provide explanations more than justifications.

3.4. Specification of the sources, bases and assumptions contained in the forward-looking information

In view of the obligation to describe the entity's outlook in the management report, it is necessary to disclose any factors that were taken into consideration in preparing the information included with regard to future performance. Future performance may be estimated by using predictive or forecasting models that use data and reasonable assumptions, and economic forecasting methodologies, formalised or otherwise, the results of which may be presented either quantitatively or quantitatively. The users of the management report would have to know the quality of all the factors surrounding the obtainment of the information referring to the future by the company. For this purpose, it should include a summary of the main factors in the text of the report to support any estimates, predictions and forecasts it uses.

3.5. Consistency with prior reports

It is common for a particular entity to develop its own style for designing and presenting its management report. This style includes common content in the various periods and a manner of explaining, analysing and discussing the data provided. It is useful if there is continuity from one report to the next and that, in subsequent reports, an explanation is provided of the outcome or result of the main measures proposed in previous reporting periods.

3.6. Avoid, to the extent possible, duplication with the financial statements and other information

On certain occasions, legislation requires the inclusion of information in the management report on the same facts that it requires be reflected in the financial statements, as occurs for example with events after the reporting period and treasury share transactions. In these cases, it is recommended that a detail of the accounting recognition or a description of the events be included in the notes to the financial statements, in accordance with the accounting standards, and that the analyses and considerations about their causes, consequences or future relevance be left for the management report. However, it is not useful to include figures from the financial statements, even if they are the result of summaries or aggregation, without providing a related commentary. As far as possible, it is recommended that information already included in the financial statements or in other mandatory documents (e.g. the ACGR) should not be duplicated. A cross-referencing system should be used to help the user refer to the information addressed in various parts (see Appendix C for the recommendations on avoiding duplication in the main points where this may arise).

3.7. Avoid immaterial information that renders the report scantly useful or unmanageable

When preparing the management report, it is necessary to select the information, to include only that which is relevant for the user. It is recommended that any information that is inconsequential or relates to immaterial amounts be avoided. The materiality or relative importance of the information will vary for each particular entity. Information on matters that are immaterial or irrelevant for the company is not necessary and would make it more difficult to identify important information.

Moreover, when including figures or commentary, it is important to take into consideration the principle of materiality, the most important effect of which is to allocate resources and space to issues that are relevant for the entity's management and may be so for whoever reads the document. However, it is important to note that the materiality of the quantitative does not always match that of the qualitative information and they can often not be determined mutually. Therefore, they should be assessed separately. A situation or circumstance that did not have a significant effect in the reporting period may be relevant, and therefore necessary, for understanding the entity's outlook.

3.8. **Avoid the use of generic or standard disclosures**

It is recommended that standard or boilerplate clauses should not be used. Even if they are technically acceptable, from an information standpoint, they do not provide the users of the information with the appropriate information to make their assessments and take their decisions. Using this type of resource conveys the notion of inadequate treatment of the information, which may reduce the perception about the quality of the analyses and the conclusions offered.

3.9. **Identify information from external sources and that produced by the entity**

Many figures are used in management reports to support the explanations, diagnoses, analyses and predictions. Figures from external documents should be identified as such, and the source from which they were obtained and the date of publication provided. Similarly, the figures that were prepared by the entity should be identified and described as such.

3.10. **Tailor the management report to the nature of the business, taking into account the size and complexity thereof**

It is recommended that the content of the management report should be balanced and adapted to the activity carried on by the company and to the size and complexity of its operations. In particular, the content of the management reports of listed small and medium-sized enterprises should be consistent with their size, which may involve summarising or abridging the content recommended herein to ensure that preparation costs are not disproportionate (see Section V in this regard, with specific recommendations for listed small and medium-sized enterprises).

Section III. Recommendation guide for the preparation of the information contained in the management report

Introduction

This section contains a review of the main issues that could be included in the preparation of the management report. The aim of this Section III is to provide a set of guidelines to help develop the pillars of the reference framework and to make specific proposals that can be assessed and adapted based on the nature of each entity, thereby aiding compliance with the content requirements of Article 49 of the Spanish Commercial Code and Article 262 of the Spanish Limited Liability Companies Law.

The recommendations presented below were prepared by the Working Group, which based its work on current best practices to select all the content items that should be included in the management report so that:

– They contribute towards increasing the quality, completeness and usefulness of the content of the management report with respect to any relevant issues or issues that are required to be disclosed.

– They help harmonise the content of management reports, thereby increasing the comparability of certain aspects of reports from a dual standpoint:

  • Between different entities, at least in terms of the content and nature of the information and analysis furnished.

  • Between different financial periods for a single entity.

– They increase the level of understanding of the users of the information, which potentially aids economic decision-making.

In preparing the points in this section, apart from the international guidelines issued by the IASB and IOSCO, references and initiatives in this respect in other markets in our economic area (France, the United Kingdom and Germany)[27], have also been taken into account, as well as in the United States and Canada. These guidelines have been analysed and considered from a best practices standpoint and they have been used as inspiration to prepare content tailored to the particular case of Spain.

Definitions

The application of this document, which includes both a reference framework and a set of suggestions in the way of "best practices", in line with the preceding section, is voluntary. Accordingly, it is the addressees of the document, in other words, the

27 See Section I, "Regulatory framework of the principal markets" and Appendix D.

issuers of securities listed on official markets, who should decide whether to apply it when preparing their management reports.

However, the quest to seek harmonisation and the protection of the use of the information that has inspired the preparation of this document means that certain important concepts used have been defined and explained in Appendix E. The main reason lies in their importance to the task of interpreting the content of the recommendations appropriately. Therefore, if an entity considers it appropriate to use any of the terms included in Appendix E with a different meaning to that proposed, it should give a brief description of the differences in order to avoid any possible confusion when determining the meaning of certain key concepts.

Recommendations regarding the points to be included

For each of the nine sections making up the structure of the management report, as described in pillar II, set forth below and substantiated are the aspects regarding which each entity, based on the materiality and, therefore, on its own particular circumstances, should evaluate the need to include information, taking into account its usefulness for investors.

1 Situation of the entity

To place an entity's management into context, it is considered useful to know its structure and modus operandi, including the manner in which it is organised and in which its governing bodies take decisions.

1.1 Organisational structure

It is advisable for an entity to provide a brief description of its structure and that of any entities belonging to it, and of the area of its activities, as well as the industries and geographical areas it covers. If an entity's structure is in the process of changing or evolving, it could be necessary to describe the key issues and the reasons giving rise to such change or evolution. Accordingly, it is recommended that entities consider whether they should include information on the following:

1. The organisational structure of the entity as a whole and of any sub-entities belonging to it, as well as the organisation of its board or of the bodies to which the board delegates its decisions, including the control functions and the policy with respect to the group's non-controlling interests. This explanation may be completed with a description of the main reasons for the division of the components (segments, divisions, business units, etc.) into which the entity is structured for decision-making purposes, identifying such components if this information has not been provided in any other mandatory documents.

1.2 Modus operandi

Knowing about how an entity functions enables the user of the management report to understand the characteristics of the objectives, plans, activities and projects in which it is involved which, in turn, serves to justify the initiatives taken.

Accordingly, it is recommended that entities consider whether they should include information on the following:

2. The main objectives the entity wishes to achieve with its activities, as well as the steps taken to accomplish this. A description of the business model could be one way of explaining how strategies are organised to achieve the entity's objectives. Also, it is recommended that information be provided on the following:

   - Legal and economic factors affecting the entity, including, where appropriate, the regulatory environment governing its activities.

   - The main products and services, as well as the production processes used to obtain them.

   - If the following information is available, has been prepared by third parties and may be verified:

     – the markets in which the entity operates and its competitive position, with the outlook regarding its performance or any changes; and

     – the entity's market shares in the various segments in which it operates.

   - Information of the seasonal trends of the main segments or components of the entity, to the extent that they are relevant for explaining the generation of profits or cash flows for the entity.

2 Business performance and results

The purpose of this section is to explain, from the standpoint of the conduct of business and bearing in mind the entity's objectives and strategies, the effects of the decisions taken with respect to the main variables that determine the performance achieved (either in the form of profits or cash flows) and the final situation attained. The aim is to explain the economic or financial reasons for the results or cash flows obtained in the reporting period, contrasting them, where possible, with the general performance of the economy and the industry in question, with respect to the decisions taken by the entity.

It would be advisable to provide an analysis of the entity as a whole and also of the main business segments[28], which would help the users of the information to under-

28 In Appendix A containing examples, two tables illustrating the detail, by segment, of the total volume of revenue have been included. In practice, the presentation of the information would be determined by the manner in which the company manages its segments and reports on them.

stand the reasons for the changes in revenue and results in the reporting period. The entity could take the opportunity to explain certain items whose performance has been different from the usual performance in the reporting period (for example, describing the casus of singular items that give rise to exceptional or non-recurring results).

Accordingly, it is recommended that entities consider whether they should include information on the following:

3. If the changes in revenue and the result for the period are attributable to:

   a. Price increases/decreases.

   b. An increase/decrease in the volume of goods and services sold.

   c. The introduction of new products and/or services or the discontinuation of previously marketed products and/or services.

   d. Any other significant factor that could have given rise to changes in total revenue.

4. Changes in the most important cost components, gross margin or equivalent measure depending on the sector of activity in which the entity operates, including changes in prices. If for the purposes of its management the entity uses a classification by nature of the components of its results, in the description and explanation the main expense items (procurements, staff costs, outside services, the depreciation and amortisation charge, etc.), which aid understanding of the profit or loss from operations, must be taken into account.

5. Any trend that may have had a significant positive or negative impact on the net sales, revenue or results from continuing operations, and that may persist over time. For example, recurring increases in labour costs or raw material prices. In addition, a description could also be provided of the impact of inflation, exchange rate fluctuations or price changes on the entity's net sales and results from continuing operations in the reporting periods presented in the financial statements. The foregoing is not incompatible with the fact that an entity may analyse its conduct on the basis of a simulation at constant prices or exchange rates in order to separate the rest of the changes from those that result from fluctuations in the exchange rates of the currencies in which it operates.

2.1 Key financial and non-financial indicators

Article 49 of the Spanish Commercial Code and Article 262 of the Spanish Limited Liability Companies Law state that "To the extent that it is necessary to understand the performance, results or situation of the company", a balanced and exhaustive analysis of these aspects "shall include the key financial and, as the case may be, non-financial indicators, that are relevant with respect to the specific business activity".

For the users of the information, the financial and non-financial indicators are useful for three main reasons, namely:

a) To summarise the entity's performance and the conduct of business in a series of key data;

b) For the purpose of explaining the trends observed and the consistency of the figures with the objectives and strategies approved by the entity's bodies; and

c) In order to compare, where possible[29], these indicators with others taken as reference for the sector of activity.

For such purposes, where the aforementioned legal text talks about key indicators, it appears to instruct entities to select a not very large number of indicators that include all the dimensions of an entity's activities to be used in a consistent and uniform manner, so that the analysis performed using such indicators provides relevant data for users. For better comprehension by users, entities are expected to describe the manner in which such indicators are calculated and, if necessary, the characteristic they aim to measure and their interpretation.

The comparability of the information among entities would be improved if the key indicators published by them were generally accepted and commonly used by entities and, in addition, those applicable to specific sectors were taken into account.

Without prejudice to the foregoing, what type of indicator is fundamental or "key" for an entity would have to determined on a case-by-case basis, based on the aggregates used by the body responsible for decision-making at each entity in order to manage its business and the sector of activity or industry in which it operates. In this regard, in the event of a conflict, the objective of the representativeness of the indicators for the entity prevails over their comparability among entities.

Certain financial and non-financial key indicators often have less potential to provide useful information when they are used for the analysis of the company as a whole. Therefore, in addition to the disclosure of the indicators aimed at providing a global analysis of the group, it could also be advisable to disclose them by business segment or other components of the entity, to the extent that they are used by management to take management decisions.

The types of indicator are as follows:

A. Operating measures and statistics that given an idea of the entity's activity potential (sales in physical units, as a total or by segment; number of employees; number of subscribers, users or customers; number of website hits; etc.).

B. Ratios and other measures calculated using data prepared in accordance with IFRSs, which may be the following:

   B.1. Non-financial key indicators: at least one non-financial variable is used (such as productivity per employee).

   B.2. Key financial indicators: financial variables are used (such as ROE or ROCE).

C. Operating or other types of ratios or measures, not based on IFRSs, known as Alternative Performance Measures (APMs), specifically designed by the entity in order to demonstrate a facet of its activities, position or performance, which can originate from the financial reporting or may be of a non-financial nature.

---

29 Such a comparison may not be possible as each entity constructs the indicator in accordance with criteria it considers appropriate.

These APMs may refer to performance measures that differ from those presented in the entity's financial statements or to liquidity measures that differ from the cash flows from the activities, calculated in accordance with accounting standards (IFRSs).

In general, all indicators that provide information which, although they may derive from amounts or quantities reflected in the entity's financial statements (calculated in accordance with IFRSs), do not arise from measures envisaged in IFRSs or in the applicable regulatory framework are considered to be APMs. These measures are often referred to as non-GAAP measures.

Accordingly, it is recommended that entities consider whether they should include information on the following:

6. For each indicator[30], its definition and the aim pursued in its use, the calculation method and value, with the corresponding comparative information. In addition, it may also be useful to indicate the relationship between the indicator and the purpose for which it is used. Disclosing and explaining the relevant changes in the construction of the indicators leads to a greater understanding thereof. Also, when such changes occur, it is advisable, where possible, and in order to provide a comparison between the current and preceding reporting periods, to include a pro forma indicator to replace that presented in the preceding management report, including the change occurred in that reporting period.

7. If the accounting measures considered by IFRSs and disclosed directly in the financial statements have been adjusted for inclusion in the directors, report, this should be indicated, and in this case it could be useful to provide a reconciliation with measures under IFRSs to facilitate an understanding of the nature of the adjustments made.

2.2 Issues relating to the environment and employees

2.2.1 The environment

Environmental issues can have a serious potentially impact on an entity's situation and performance, not only in terms of its financial dimension, but also with respect to other dimensions such as reputation, sustainability, obligations assumed by the entity or with stakeholders, etc.

Inappropriate management of energy and natural resources or waste can have an adverse effect on an entity's current or future performance, as well as on its market positioning and reputation. Therefore, companies pay particular attention to the environmental impact of the supply, production and distribution chain, which goes beyond mere compliance with the environmental regulations in force. An entity's responsibility as regards the environment transcends the purely economic, financial or legal arena and extends to responsibilities such as ethical or philanthropic questions.

30 Appendix B includes examples of indicators. Also, other general integrating references such as those contained in the model proposed in the joint Document issued by the Committees on Corporate Social Responsibility , New Technologies and Accounting and Accounting Principles and Standards of the Spanish Association of Accounting and Business Administration (AECA), entitled Integrated information: the Balanced Scorecard of Performance Indicators (CII-FESG) and its XBRL Taxonomy (Madrid, 2013) may also be used.

Although environmental issues in general cover a wide range of areas, the issues that an entity will concentrate on will depend, on the one hand, on the sector in which it operates and, on the other, on the strategies adopted by management to mitigate the entity's impact on the environment, thereby contributing towards sustainability.

The environmental dimension of sustainability relates to an organisation's impacts on living and inert natural systems, including ecosystems, soil, air and water. Environmental indicators include performance in relation to inflows (materials, energy, water) and outflows (emissions, effluents, waste). They also include performance relating to biodiversity, environmental legal compliance and other relevant data such as environmental expenses or the impacts of the products and services provided.

There is a degree of consensus on fundamental environmental issues affecting all companies in general[31]. Some examples are given below to serve as reference for entities when dealing with information on the environment:

- Materials.
- Energy.
- Emissions, effluents and waste.
- Water.
- Biodiversity.
- Transport.
- Products and services.
- Regulatory compliance.

Therefore, taking into account EU legislation[32] on environmental information to be provided[33], it is recommended that entities consider whether they should include information on the following:

8. The significant environmental issues for the entity, as well as of the manner in which it tries to minimise the impact caused by its activities and, in particular:

    - The entity's objectives concerning performance in relation to environmental variables and the policy defining its general commitment to its conduct, including a description of the environmental management systems in place during the reporting period. It is recommended that a detail of the operative environmental management systems be included, as well as a description of any related certifications obtained, indicating the components of the entity to which they relate.

---

31 UN Conference on Trade and Development: *Integrating Environmental and Financial Performance at the Enterprise Level* (New York: UN, 2000). Similarly, "Information on the environment" contained in Note 15 to the financial statements of the Spanish General Accounting Plan approved by Royal Decree 1514/07, of 16 November; the disclosure requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or the model report derived from the *Global Reporting Initiative* (the related guides can be viewed at https://www.globalreporting.org/ reporting/guidelines-online/Pages/default.aspx).

32 Article 46 of Directive 78/660/EC.

33 Recommendations based on the following interpretative communications: concerning certain Articles of the Fourth and Seventh Council Directives on accounting [Official Journal C 16 of 20/1/1998]; and on the recognition, measurement and disclosure of environmental issues in the annual accounts and annual reports of companies, of 30 May 2001 (2001/453/EC). In Spain, environmental information in financial statements was regulated in the Spanish Accounting and Audit Institute (ICAC) Resolution of 25 March 2002, approving the rules for the recognition and measurement of, and reporting on, environmental issues in financial statements (Official State Gazette of 4 April 2002).

- Available resources to meet the aforementioned objectives, including the policy for attending to any complaints and litigation that may arise.

- The procedures relating to training and awareness of environmental issues, as well as any monitoring and measurement procedures and corrective and preventive actions, including:

  - Main plans for the implementation of policies or the achievement of environmental objectives.

  - Main successes and weaknesses, as well as risks and opportunities relating to environmental issues.

  - Main changes made to in the systems or structures in the reporting period to improve performance.

9. Public incentives for the protection of the environment used, such as grants and tax relief, and it is also recommendable to supply a description of the level of application of any environmental protection measures that have been or are in the process of being implemented due to changes in legislation.

In addition, as indicated in Appendix C, this information may be provided as a supplement to the information contained in the notes to the financial statements on environmental assets, liabilities and expenses that individual companies subject to Spanish law are obliged to provide.

1.1.2 Employees

Entities recruit and retain the employees required to implement their strategies and achieve their objectives. Accordingly, the risks and uncertainties associated with recruitment, management and retention of employees could have a significant impact on an entity's current and future performance.

IFRSs do not require disclosure of the composition of the work force in the financial statements, although listed entities usually include this information in their financial statements, as also established in the Spanish General Accounting Plan for individual and separate financial statements. Therefore, some of the information recommended below could be included as usual in the notes to the financial statements, in which case it would not be necessary to repeat it in the management report, although it is recommendable to make the corresponding references (see Appendix C on information also included in other documents).

Therefore, it is recommended that entities consider whether they should include information on the following:

10. Human resources polices, including those on recruitment, development/promotion, risk prevention and training, providing data on the following:

    - Employment; total number of employees and the breakdown thereof by relevant classes (categories, gender, disabilities, etc.) with an explanation of any changes since the last reporting period and the related reasons. Procedures for the recruitment and, where applicable, retention of employees.

- Company/employee relationship, data on the working environment, employee satisfaction or motivation and employees' identification with the entity.

- Occupational health and safety; statistics on injuries, illness, etc. and the results of occupational risk prevention initiatives.

- Training and education; encouragement for obtaining general or professional qualifications, hours of training on general and job-related topics, study grants for employees and their family members, the promotion of cultural activities carried out by employees, etc.

- Diversity and equal opportunities; data can be provided on the policy for inclusion of groups with difficulties accessing employment and on the policies for promoting equal opportunities for men and women, including the figures for the reporting period and the related effect on the managing bodies.

3 Liquidity and capital resources

Users of the management report find it useful to have an analysis of the solvency of an entity through a description of the sources and use of liquidity, as part of its financial and investment strategy, in order to draw conclusions on whether an entity is able to meet its current or capital obligations with the resources currently at its disposal or that it plans to have available. This type of information is important for assessing the company's outlook and even the probability that it will continue as a going concern.

Some of the data used in this section may come from the information included in the financial statements, which is supplemented by other data on the steps followed or to be followed in the generation and use of cash by the entity. A liquidity analysis and a description of the related structure and foreseeable outlook, based on all of these data, form the genuine content of this part of the management report.

In this section the entity describes the sources of its liquidity, as well as how it uses the cash generated by its operating, investing and financing activities, explaining any trends observed and providing information on possible changes therein, including any non-recurring transactions. It is of particular interest to comment on the policies on short- and long-term borrowing, as well as projections concerning the substitution of debt with equity and the related effect on the cost of the resources used.

Information on liquidity and capital resources may be presented together provided that both aspects are interrelated.

Short-term liquidity and capital resources relate to cash needs in a period of up to twelve months from the reporting date. These cash needs and related financing sources relate to the disbursements required as a result of an entity's day-to-day operations, as well as any significant obligations acquired by an entity which mature within twelve months following the reporting date of the last financial statements.

Also, the long-term liquidity and capital resources analysis relates to especially significant investment needs or commitments, significant payments or other types of payment generated as a result of long-term obligations and any other needs or obligations, the maturity of which is known or is reasonably foreseeable. Any off balance sheet transactions entailing payment obligations or that will require the use of liquid resources should be included in the corresponding heading, as applicable. The available and forecast sources of financing to meet such obligations should also be indicated.

In the analysis of this information it should be taken into account that the aim is to give a true and fair description of the entity's capacity to generate cash and meet both its existing and its reasonably foreseeable expense and investment obligations with a view to achieving the objectives set. The short-term analysis tends to be more accurate that the medium- or long-term analyses and, therefore, it can also be carried out in more detail.

3.1 Liquidity

In general terms, the purpose of this point is to identify and describe internal sources (transactions by the entity and the issue of equity instruments) and external sources (borrowings and other debt) for obtaining liquidity. As the aim is to provide investors with relevant information enabling them to understand trends that have affected past performance or that are expected to be a determining factor in future periods, it is also recommended to that information on any known trends, obligations, events or uncertainties that may result in a significant change in the entity's liquidity be disclosed.

Therefore, it is recommended that entities consider whether they should include information on the following:

11. The main sources of liquidity, as well as the amounts expected to be obtained from each source. In addition, it could be useful for the company to mention the possible existence of any available sources of liquidity (credit facility, loan option, etc.) which has not been used or for which negotiations are underway. It could also be important to include indications on which items should be taken into account in order to assess the entity's liquidity.

12. The entity's capacity to generate the cash required to continue operating and finance the activities aimed at achieving the short- and long-term objectives. If these resources are insufficient, reference may be made to how the entity envisages it will obtain the funds required.

13. Any restrictions that could affect the forecast cash flows, describing the nature and extent of any economic, contractual or legal limits on a subsidiary or joint venture transferring funds to the company in the form of cash dividends, loans or advances. In addition, details can be provided on the impact that such restrictions have had or will have on the company's capacity to meet its payment obligations.

14. The expected trends or fluctuations with respect to the company's liquidity, taking into account any complaints, obligations, activities relating to the business or uncertainties.

15. The company's level of debt at the end of the reporting period, analysing the composition thereof by maturity periods, any significant changes and the foreseeable effect they could have on liquidity.

3.2 Capital resources

The purpose of this point is to describe, firstly, any significant firm commitments made by the entity with respect to the obtainment of capital resources, either from internal or external sources of financing, placing them in the context of the financial policy followed by the entity. Where applicable, information may also be provided on expected investment plans that it will be attempted to finance using capital resources.

A description may also be included of any favourable or unfavourable expectations or uncertainties which could affect the level of the entity's capital resources, including the effect on the capital structure (the debt to equity ratio) and on the cost of the financing sources.

Therefore, it is recommended that entities consider whether they should include information on the following:

16. The changes in the structure and cost of capital resources. It may also be useful to provide an analysis of the foreseeable changes with respect to the company's capital sources and needs, in both the short and long term.

17. The nature and maturity of firm investment commitments or any that are likely in the foreseeable future, indicating:

    a. The amount, nature and purpose of such commitments.

    b. The sources of financing for such commitments.

18. Significant disbursements that have not yet been committed but which are necessary to maintain the company's capacity, in order to meet its growth expectations or finance its development activities.

If the entity uses a concept of capital defined by the regulator or in its financial resources management strategy, the aforementioned analyses must also refer to that concept. The conclusions reached must also set forth the main milestones reached in the reporting period and their relationship with the objectives set in terms of the amount and composition of the capital under consideration, including where applicable an explanation of the level of compliance with potential external requirements during the reporting period, and the prospects regarding future changes[34].

34 The information on disclosures concerning capital management is found in paragraphs 134-136 of International Accounting Standard 1, Presentation of Financial Statements.

3.3 Analysis of contractual obligations and off balance sheet transactions

The purpose of this point is to provide aggregate information on the contractual obligations, contingent liabilities and other firm commitments[35] in order to: 1) increase transparency in relation to the entity's liquidity and capital resources requirements; and 2) provide information on the context to evaluate the role played by contractual obligations in relation to liquidity and capital resources.

Therefore, it is recommended that entities consider whether they should include information on the following:

19. Analysis and description of any contractual obligations giving rise to an future outflow of liquidity, whatever their maturity date.

In addition, the aim of this point is to provide information on the off balance sheet transactions that have had, or may foreseeably have, a material effect on the entity's financial position, the structure of income and expenses, the results from operations, liquidity, capital expenditure or equity.

Guarantees provided in the course of the entity's operations are not considered to be off balance sheet transactions for the purposes of the disclosures addressed here, to the extent that, at the date of preparation of the management report, they are not expected to have an effect on any of the aforementioned aspects, particularly on the changes in liquidity.

The information on off balance sheet transactions relates only to situations where there is a final binding agreement or an agreement subject only to the habitual terms and conditions or, if no such agreement exists, the transactions will be classified in this category only if they give rise to a payment obligation that is not reflected in the balance sheet. Contingent liabilities arising from litigation, arbitration proceedings or other regulatory measures are not considered to be off balance sheet transactions.

It is recommended that off balance sheet transactions and the corresponding obligations be grouped together in groups or categories to ensure that the information is provided efficiently and clearly, provided that the necessary degree of confidentiality be observed in order not to hamper the entity's ability to manoeuvre.

Therefore, it is recommended that entities consider whether they should include information on the following:

20. The nature and purpose of the off balance sheet transactions carried out by the entity, including a description of the counterparties.

35 Firm commitments are considered to be any commitments acquired with respect to a counterparty that is not related to the entity, which is binding upon both parties and generally enforceable by law with the following characteristics:
- All the significant terms and conditions have been specified, including amount, price and times for the execution of the transaction; and
- The agreement contains such costly penalties for the breach thereof that such breach is highly unlikely.

21. The importance for the entity of the off balance sheet transactions with respect to the generation of cash and the changes in liquidity, including the amounts of cash inflows and outflows arising from them.

4 Main risks and uncertainties

When drafting this section entities must select, on the basis of their objectives and strategies, the main sources of risk (operational or financial) to which they are exposed[36], in order to explain and assess appropriately what their effects are, or may be, on profitability and the financial position. As most risks are, due to their nature, foreseeable, entities must indicate, wherever possible, the management systems or tools used to mitigate their impacts, on the basis of their nature and importance, emphasising any priorities that may exist.

As regards the uncertainties regarding the evolution of the main variables involved in a company's activity, entities must indicate those that are of most concern at present or that have caused the most concern in the reporting period to which the management report relates. The entity must indicate their importance, the possibility that they may arise and result in an adverse future performance and any measures that have been or may be taken should they present themselves, including the existence of any contingency plans to tackle them.

It is important that users of the report are able to associate the measures adopted in the reporting period with the existence of the risks giving rise to them.

With respect to the other compulsory information, there are already stringent disclosure requirements concerning financial risks but often it is the risks arising from operations (regulatory, operational, customer concentration-related risks, etc.) that, due to their negative evolution, lead to the appearance of financial risks. Therefore, it is very useful for users to know about such risks, a description of which may be provided elsewhere in the compulsory information, and how they are interrelated and tackled in the management plans, as well as any decisions taken in this regard in the reporting period. Some of the most common operational and financial risks are discussed in greater detail below.

4.1 Operational risks

4.1.1 Regulatory risk

Therefore, it is recommended that entities consider whether they should include information on the following:

22. The requirements and limits established in specific legislation and regulations affecting the conduct of the entity's business, including any arising from industry-specific regulations, applicable tax regimes, professional obligations or codes of conduct, for example, as well as any requirements that may give rise to the withdrawal of authorisation to operate or the imposition of penalties by public authorities.

36 This includes all risks that may have a material impact.

23. Where applicable, the risks arising from breach of contractual obligations of whatever nature, by both the counterparty (customer, supplier, employee, financial institution, etc.) and by the entity.

24. The circumstances in which such risks may result in criminal or civil proceedings (either directly or indirectly), a loss of business or damage to the entity's image or reputation, provided that such circumstances are going to have a significant effect on the company's activities.

4.1.2 Operational risk

This type of risk is closely linked to the type of activity in which the entity engages and encompasses the various aspects of its operations. Should any of these risks arise, the entity could incur losses or suffer a reduction of its volume of business. A series of examples are provided below:

- Accidents or attacks affecting the company or its employees.
- Internal control failures.
- Existence of barriers to entry.
- Prohibitions on operating.
- Fraud or embezzlement.
- Concentration of purchases from a limited number of suppliers.
- Information system failures or crashes.
- Risks relating to new investments.
- Country risk.
- Reputational risk.

Depending on the industry in which the entity operates, operational risks may be covered by specific regulations (particularly in the financial services industry).

Therefore, it is recommended that entities consider whether they should include information on the following:

25. Qualitative and, as far as possible, quantitative information on the operational risks, as well as any existing uncertainties that could give rise to losses or affect the accounting estimates relating to operational aspects, together with the entity's policies for mitigating them.

4.1.3 Customer concentration

Excessive concentration of activity with one or several important customers can be a source of vulnerability for entities. A customer may be considered to be a principal customer when the revenue from transactions with that customer accounts for 10% or more of the entity's revenue, using the computation criterion indicated in paragraph 34 of IFRS 8, *Operating Segments.*

Therefore, it is recommended that entities consider whether they should include information on the following:

26. How management determines the existence of concentrations of activity with principal customers, describing the characteristics of the concentration, the quantity or total percentage of the revenue from customers considered to be principal customers, and identification of the segment(s) in relation to which such revenue is reported. In addition, the entity may explain how it manages the risks arising from such concentrations.

For the purposes of this section, if the entity knows that a group of entities is under common control, they should all be considered to be single customer. In the particular case of public sector customers, the criterion used to calculate the revenue from a single customer should be indicated. It is not necessary for the entity to disclose in the management report the identity of important customers or the amount of revenue relating to each segment for such customers.

4.2 Financial risks

Financial risks arise from transactions that entail the use of collection rights or payment obligations as well as transactions in financial markets. A significant portion of the information on financial risks is contained in the notes to the financial statements and, therefore, the recommendations below relate mainly to the description of the policies followed to mitigate the risks that could have the greatest effect on the entity's situation and its results.

4.2.1 Market risk

It would be recommendable for the entity to disclose the information on this type of risk by category (interest rate risk, foreign currency risk, etc.).

A) Interest rate risk

It is recommended that companies disclose their level of exposure to fluctuations in interest rates and their policies to mitigate the impact of such risk.

Therefore, it is recommended that entities consider whether they should include information on the following:

27. Fixed- and floating-rate financial assets and liabilities (indicating the specific benchmark interest rate in each case and whether limits on the amount thereof are envisaged), as well as the methods used by the entity to deal with the risk relating to interest rate fluctuations. It would be recommendable for this description to specify the connections between the entity's strategies to try to mitigate interest rate risk, indicating, where applicable, the type of hedging instruments used.

To indicate the net exposure to interest rate risk, before and after taking into account any hedges arranged in each case, it would be advisable for the entity to present this information in summarised form (for example, using tables such as those included in Appendix A containing examples).

B) Foreign currency risk

In a context of variable exchange rates, any transaction implying future inflows or outflows of cash in foreign currencies may give rise to the appearance of foreign currency risk as the entity cannot precisely forecast the future value of the foreign currency in question.

Foreign currency risk may be divided into three different sub-types of foreign currency risk[37]:

- Operational; exchange rate fluctuations that affect transactions concerning operating items (revenue flows, cost of sales, etc.).
- Financial; associated with financial instruments in which exchange rate fluctuations affect financial assets and liabilities.
- Arising from investments in foreign operations; these may be significant when the financial statements of the consolidated subsidiaries are translated into the currency of the parent that prepares the management report (impact on equity).

Therefore, it is recommended that entities consider whether they should include information on the following:

28. Foreign currency risks to which the entity is exposed, presenting the data for each of the three sources of risk separately (operational, financial and relating to investments in foreign operations) and explaining the entity's policy for mitigating them.

Appendix A containing examples proposes a tabular format that could help with the presentation of the information recommended to be included in this connection (Table 2).

C) Financial instruments price risk

Entities invest in financial instruments in order to obtain returns from interest or dividends, on the one hand, and, on the other, from differences between the sale and purchase price. Although most of these instruments are assets, some may be classified, either temporarily or permanently, as liabilities.

In various parts of the compulsory information, quantitative information is provided on these risks and, therefore, the management report is the appropriate document for explaining the objectives pursued by the entity in holding such instruments, the control exercised when purchasing, holding and selling them and the risk reduction policies applied.

Therefore, it is recommended that entities consider whether they should include information on the following:

37 The entity's description of this type of risk should be consistent with its management thereof, regardless of whether or not the risk has been divided into three sub-categories.

29. How the investments are made and managed (decision-making, control and monitoring process), indicating how the financial instrument supervision and risk management systems are organised.

The law requires entities, where applicable, to include in the management report a description of their exposure to the risks arising from the holding and use of financial instruments and how such risks are managed.

The tables provided in Appendix A containing examples (Table 3) are merely for illustrative purposes and may be used by the entity to provide the recommended information on this type of risk. For a greater understanding of the information, it is recommended that the entity include information on the financial assets and liabilities, taken separately.

D) Commodity price risk

Apart from the supply risk, which is an operational risk, the entity may be subject to a significant risk in terms of fluctuations in the price of the raw materials it uses in its production processes, which may be mitigated using an active reduction policy through the use of instruments provided by the market itself.

In order to gain an understanding of the situation of the entity and the performance of its business, it may be necessary to provide information on obligations, risks and hedging transactions relating to raw materials. This will help the user of the information to assess, on the one hand, the impact of the changes in prices and, on the other, the existing obligations concerning raw materials.

Therefore, it is recommended that entities consider whether they should include information on the following:

30. The configuration and content of the existing obligations relating to raw materials. In addition information should be provided on how these obligations are supervised. The following should be discussed:

    - The risks relating to the setting of prices, volatility and price trends, and

    - the hedging policies in place to minimise the impact of these risks.

Appendix A containing examples includes a table of contract purchases and sales, which the entity could use to present the information included in this Section. This information may be given for each significant type of raw material.

4.2.2 Credit risk

Entities are exposed to credit risk arising from potential failure to comply with the payment obligations binding them to their counterparties (customers, suppliers, financial institutions, shareholders, borrowers, etc.).

Therefore, it is recommended that entities consider whether they should include information on the following:

31. The significant amounts subject to credit risk.

32. Relevant information on how the entity manages this risk, including information on the systems relating to supervision of exposure, impairment of collection rights and management of the recovery of impaired amounts, as well as a description of the hedging methods used to mitigate credit risk.

4.2.3 Liquidity risk

The recommendations concerning the information on this type of risk and its potential impact on an entity and the policies implemented to mitigate it are contained in heading 2 of Section III on "Liquidity and capital resources" to which you are referred.

5 Significant events after the reporting period

The usefulness of describing and discussing the significant events after the reporting period goes beyond merely listing them. It also goes beyond detailing the accounting treatment afforded to them, as this aspect may be included more appropriately in the financial statements. If data on these events are included in the management report it is mainly to explain to the user the consequences that might arise from events that have occurred after the reporting period to which the annual information relates, indicating how the entity envisages dealing with them.

In this regard, appropriate references may be made to avoid repetition, apart from mentioning the relevant figures in order to provide explanations on the management strategy and the results it has achieved or may achieve. Therefore, it is recommended that entities consider whether they should include information on the following:

33. The consequences of significant events after the reporting period and, where applicable, any management measures envisaged by the entity.

6 Information on the outlook for the entity

The inclusion of information on the outlook for the entity is simply another way of supplying the recipients of the information with evidence of the foreseeable effects that decisions taken might have on the entity's basic variables relating to its financial position, profitability and cash flows. The forward-looking information may be addressed in quantitative or qualitative terms and, therefore, may include the reasons for the current situation, the decisions taken and the expected future situation.

It is the entity in its preliminary considerations regarding which information to furnish, and where and when, that should define the scope and content of this section and include the data it considers most significant, notwithstanding confidentiality and avoiding generalities that are not very useful for users of the management report.

A company is not an isolated entity in the economic sphere and, therefore, its performance is highly dependent on the general performance of the economy and of the industry in which it operates, existing financial conditions and other political and economic variables. Therefore, any remarks on future performance should be supported by assumptions that factor in the conditions of the environment in which the entity operates, changes in which are often beyond the entity's control.

However, the existence of plans that have been discussed and approved by the entity's managing bodies and are also based on such assumptions may serve as a source for the qualitative and quantitative data furnished.

In addition, information on the outlook for the entity is not only included in a special section with this name but in many other sections of the management report as it is the framework used by the entity to develop and justify its policies and initiatives.

When making forecasts, entities use their best knowledge of expected future events, but cannot offer assurance as to whether they will occur, which will depend on circumstances beyond their control. In any event, the forecasts must derive from the assumptions and suppositions used. The entity, where applicable, may include any cautionary statements it considers appropriate regarding management's comments or forecasts.

Therefore, it is recommended that entities consider whether they should include information on the following:

34. The overall analysis of the information on the future provided under various headings discussed previously and an explanation, where applicable, of the source of the information and any uncertainties inherent thereto. In addition, where forward-looking quantitative information is published, the analysis may include a detail of the assumptions used so that users can assess the likelihood that the objectives set by the entity's management will be met.

35. A cautionary statement[38] when assessing information on the future that sets forth the risks inherent to the inclusion of forward-looking information.

7 R&D&I activities

Depending on the industry in question, the information on research, development and innovation activities may be useful for users of the management report in order to better understand the entity's possibilities of continuing to produce goods and services on competitive terms, while maintaining its position in markets or improving it, for the purpose of assuring its future activities.

---

38 The entity's directors' report contains certain forward-looking information that reflects its directors' plans, projections or estimates, which are based on assumptions that they consider to be reasonable. However, the user of this report must be aware that the forward-looking information must not be considered a guarantee of the entity's future performance since such plans, projections or estimates are subject to numerous risks and uncertainties that mean that the entity's future performance may not necessarily coincide with initial forecasts. Such risks and uncertainties are described throughout the directors' report, mainly, but not exclusively, in the section on the main risks and uncertainties faced by the entity.

Therefore, it is recommended that entities consider whether they should include information on the following:

36. The role played in the entity's objectives and strategy by research, development and innovation activities, taking into account the entity's various components, segments or units.

37. The effort represented by research, development and innovation expenditure in relation to the entity's basic figures (sales or profit from operations, for example). In this respect, it is interesting to provide information on the resources used for these types of activities (investments or employment generated), as well as changes in the reporting period. In addition, a description may be provided of the policy determining the expenditure on these types of activities and whether any changes are envisaged in this regard.

38. The most relevant results of the R&D&I activities that may be provided in financial terms (capitalised expenses, for example), non-financial terms (number of registered patents or procedures, for example) or both.

39. The repercussions of the plans and activities on the company's foreseeable performance, particularly if they will influence the maintenance of or increase in production for sale or the launch of new business lines. This point may also be included in the section on the outlook for the company.

8 Acquisition and disposal of treasury shares

The management report should contain information on the acquisition and disposal of treasury shares by the entity preparing it as required by the Spanish Limited Liability Companies Law[39]. However, the information on specific treasury share transactions is included by many entities in the related note to the financial statements, leaving for the management report the disclosures and narrative regarding the objectives and policy in this connection.

The acquisition of treasury shares, while permitted with certain limits and caveats in corporate legislation, introduces the possibility of implementing strategies that could affect shareholders' interests. What users of the management report expect from information of this nature is an explanation of the entity's strategy based on the resolutions adopted by the board of directors.

Accordingly, the explanations to be included in the management report on transactions with treasury shares, more than constituting a description of the transactions performed, should discuss how the resolutions by the board of directors have been managed and what effects have they had, or may have in the future, on the variables showing the share performance, expressed for example in terms of earnings per share, provided that the effect is significant.

In this regard, if the recommended information is included in any other compulsory document, such as the notes to the financial statements or the Annual Corporate

39 The disclosure requirements are contained in Article 148.d) of the Spanish Limited Liability Companies Law.

Governance Report, appropriate references may be made to avoid repetition, besides mentioning the figures relevant to providing explanations on the management and results that such management has achieved or may achieve.

Therefore, it is recommended that entities consider whether they should include information on the following:

40. The reasons for performing the transactions with treasury shares based on the resolutions adopted in this respect, including a description of how sales and purchases are instrumented in practice. In addition, it may be useful to include a reconciliation of the beginning and ending balances relating to treasury shares showing the following:

    - The quantity and par value of the shares acquired by the company and the sum paid as consideration for the acquisition of the shares, if acquired for valuable consideration.

    - The quantity and par value of the shares disposed of in the reporting period, as well the quantity and par value of those retired.

    - Foreseeable use of the shares held at the end of the reporting period, provided that such use arises from firm commitments or resolutions adopted by the board of directors.

    - Percentage of the voting power represented by the main changes described above, calculated on the basis of the votes that may potentially be cast at the transaction date.

41. The company's policy relating to transactions with treasury shares. It would also be recommendable to explain the accretive or dilutive effect of transactions with treasury shares on the value of existing shares at the reporting date.

9 Other salient information

9.1 Stock market information

The purpose of the recommendation to include a summary of the share performance in the management report is to provide users of the report and, in particular, current or potential shareholders, with an indication of the stock market performance of the shares and, where possible and if such relationship exists, explain to what extent the performance is related to management strategy and decisions taken in the reporting period or at another point in the past.

Therefore, it is recommended that entities consider whether they should include information on the following:

42. The selection of a set of simple indicators, relating to the market and the company itself, which are prepared and presented on the entity's stock share performance, with the scope described above.

9.2 Dividend policy

If the entity has followed in the immediate past, is currently following or is committed to following a certain policy with respect to the payment of dividends, including the frequency with which they are distributed each reporting period, it is recommendable to describe it and discuss its effects, as well as the possibilities of maintaining it in the future. Whenever possible, a connection should be made between the dividend policy and the outlook for the performance of the business and its results, in order to show the consistency between them.

Therefore, it is recommended that entities consider whether they should include information on the following:

43. The dividend policy followed, based on the results of the conduct of business and the prospects regarding the continuation of this policy in the future. It is also useful to provide information on the frequency of the payments made in the period.

9.3 Credit rating management

As the entity will have a credit rating that will have evolved over the period, users of the management report will find it useful to know this rating and how it has changed over the reporting period, together with the strategy implemented by the entity to maintain or improve it.

Therefore, it is recommended that entities consider whether they should include information on the following:

44. The steps taken in relation to the credit rating afforded to the entity and the reasons for any changes during the reporting period.

9.4 Other information

It is also recommended to include in the management report any information not contained in the preceding sections due to its not being compulsory that may be of interest to the users for forming an opinion on the way in which the entity has been managed or for making predictions for decision-making purposes.

Therefore, it is recommended that entities consider whether they should include information on the following:

45. Any other news, circumstance or data relating to management, other than those included in the aforementioned sections, knowledge of which may be relevant for the users for forming an opinion on the management of and outlook for the entity.

Section IV. Specific recommendation guide for the banking industry

Introduction

The purpose of this specific guide is to supplement the sections of the general guide whose application to the banking industry, in view of the specific features of the latter, makes a specific industry-based adaptation advisable.

In more sophisticated markets, the users of financial information demand information of this kind. In this connection, the case of the Unites States is paradigmatic. More specifically, item 303 of Regulation S-K addresses the nature and functions of the management report ("Management Discussion and Analysis"), as well as the general requirements relating to its preparation and content, and was used as a reference by this working group to draft the recommendations provided herein, together with other documents such as that issued by the "Enhanced Disclosure Task Force" (EDTF)[40].

The aim of this industry adaptation is, on the one hand, to help banks prepare more transparent and relevant information that is responsive to the expectations of users of the information; and, thus to endeavour to contribute to restoring investors' confidence and trust in banks and, therefore, to improving the health of the financial system.

Furthermore, in view of the vital role played by financial reporting in the capital markets, investors expect financial information to enable them to conduct a more granular analysis of the banking operations and the situation of banks. The publication of this specific recommendation guide seeks to provide a response to these needs of the users of financial reports.

Application of these recommendations, as in the case of the general guide, is considered to be voluntary. Accordingly, the entities to which the recommendations are addressed have to decide whether to use them as a framework to facilitate implementation of the applicable regulations when preparing their management reports. However, as already mentioned in the introduction to the general recommendation guide, enhanced transparency helps better protect the interests of users of the information, which results in a better functioning of the capital markets. In this regard, it is to be expected that investors will reward the entities that choose to adopt these recommendations and that this will lead to easier access to, and better conditions for, financing.

---

40 Promoted by the Financial Stability Board, the EDTF is a private initiative comprising 30 representatives of investors, audit firms and credit institutions, whose mission was to prepare a series of recommendations on how to improve the disclosures supplied by banks in order to facilitate the adoption of investment decisions. The recommendations were set out in the report entitled "*Enhancing the risk disclosures of banks*", published on 29 October 2012.

General recommendations

As explained in the introduction, the purpose of this guide is to adapt the recommendations of the general guide to the banking industry. Where there are no specific differences between the banking industry and other industries, the recommendations of the general guide shall apply in full to the banking industry. For this reason and due to the supplementary nature of these recommendations, matters that do not have any particular features, such as organisational structure, R&D&I activities, events after the reporting period and the acquisition of treasury shares are not given a specific treatment.

Following are certain general recommendations for the preparation of management reports for credit institutions, which will then be expanded upon in a set of specific recommendations for the areas in which supplementary information can be provided. As mentioned in the general guide, both quantitative and qualitative information could be mentioned by means of cross-references, where this information has already been disclosed in the financial statements[41].

1 Risk management

Since the identification of banking risks (in particular market risk and credit risk, in addition to liquidity risk mentioned in recommendation 2 below, and other risks such as reputational risk) and the discussion of the entities' risk profile and capital adequacy are dealt with extensively in the notes to the financial statements and the prudential relevance report (Pillar 3 disclosures), the management report risk disclosures should be confined to describing the specific sources of exposure, their importance for and impact on the entity, the entity's risk appetite or propensity, and the manner in which risk management is organised and its effectiveness. If the entity's business model determines the manner in which risks are assumed and managed, a description of this model will reveal the evolution and impact of these risks and will enable users to make projections.

2 Liquidity risk and capital resources

It is recommended that an analysis be made of the available sources of funds and the charges associated with liquid assets, as well as of expected liquidity requirements and the capacity to generate cash flows. With regard to capital resources, the management report should establish the criteria to be used to distinguish between the various kinds of capital, on the basis of their loss-absorbing capacity, their availability, their term and their seniority in the event of liquidation, and it should indicate the degree to which their use is conditional upon the continuity of the entity's operations. In addition, the report could indicate the sources of uncertainty associated with any complex instruments issued by the entity.

3 Credit risk

Since credit risk constitutes a fundamental aspect of banking activity, it is important to explain the context in which it is assumed, measured, monitored and con-

41 See appendix C of the general guide in this connection.

trolled in each of the entity's business segments or portfolios. In addition to supplying quantitative information, it would be interesting to apprise report users of the management model for each of these segments or portfolios, as well as their future outlook, the loan recovery procedures in place and the foreseeable impact on the entity's results.

4 Outlook

When discussing the manner in which risk is managed, it would be recommendable, provided no strategic information which might be harmful to the entity is revealed, to make references to the outlook for the entity, since both the type of strategy to be implemented and the intensity with which it is employed depend on the future scenarios being considered by management.

5 Implementation of new regulations

The description of business performance and risk management, in light of the entity's targets and the strategy pursued, needs to be supplemented by a precise indication of the measures and plans to implement any new regulations applicable for the first time in the reporting period, as well as of the objectives and prospects for future compliance, in particular when there is a schedule for adaptation or for the performance of the main parameters defined by domestic or international regulators.

This reasoned structure is coherent with the philosophy that pervades and gives meaning to the management report. The management report has a function that justifies its existence as a report separate from the other documents prepared by the entities, namely that of furnishing the context for the information of a purely accounting nature. As a result, the basic content of the management report is of a predominantly narrative nature.

The foregoing enables us to establish the context for the tables and example quantitative disclosures attached hereto in the "Tables" appendix. They are intended, should an entity wish to use them, to serve only to systematise the information or to establish a basis on which to offer a more narrative description, with the nuances mentioned above.

Lastly, it should be noted that the list of the headings contained in this guide is not a "closed list" and, therefore, should any significant change arise with a material impact on the entity, this change should be addressed appropriately in the management report, even if it cannot be classed under any of the proposed headings.

Specific recommendations

As mentioned in the general guide, both quantitative and qualitative information could be mentioned by means of cross-references, where this information has already been disclosed in the financial statements[42].

42 See appendix C of the general guide in this connection.

1 Distribution of assets, liabilities and equity; interest rates and interest rate spread

As already stated in the introduction, the aim of the information disclosures recommended below is to eliminate the seasonal component inherent to the presentation of the income statement and the balance sheet at the closing date of the reporting period. This seasonality might be acceptable in other industries. However, in the banking industry, given its peculiar features, it can give rise to harmful effects that it would be advisable to remedy. Moreover, the greater granularity already described in general terms is particularly important in this area, since the market expects disclosures of this kind to enable it to conduct a more detailed analysis of the banking activity and of the situation of the entities operating in this industry.

Therefore, disclosure of the following information is recommended:

A) For each reporting period, it would be recommendable to present an **average balance sheet**[43]. It would suffice to present a condensed version of the balance sheet presented as part of the entity's financial statements[44]. An example tabular presentation is included under the Tabular presentations and examples heading (Table 1).

B) For each reporting period, it is recommendable to present an analysis of **net interest income**, to include the following:

1. For each principal interest-bearing asset and liability category, the average outstanding balance and the interest accrued in the period.

2. The average interest rate for each of the principal interest-earning asset categories.

3. The average interest rate for each of the principal interest-bearing liability categories.

4. The average interest rate for all interest-earning assets and all interest-bearing liabilities.

5. The net return on interest-earning assets (net interest income divided by total interest-earning assets).

6. In any case, entities may opt to present the information contained in this section using average balances, in keeping with the recommendation in heading A above.

43 Unless otherwise indicated, whenever the concept of "average balances" is used throughout these recommendations, it refers to average daily balances. Nevertheless, should the preparation of these data constitute a disproportionate burden for the entity, it may use average weekly or monthly balances, provided that they are representative. The entity should indicate this matter in the report.

44 In any case, the average balance sheet should include the most significant categories of interest-earning assets (loans, investments in charged and uncharged securities, interest-earning deposits held at other banks, Government bonds sold and fixed-income securities acquired under reverse repurchase agreements, other short-term investments and any other significant categories, to be specified) and interest-bearing liabilities (savings deposits, other term deposits, short-term debt, long-term debt and any other significant categories, to be specified).

C) It is recommended that entities present, for the last two years:

1. The quantification in euros of the change in interest and similar income; and

2. The quantification in euros of the change in interest expense and similar charges.

D) It would be recommendable for the entity to provide a breakdown, for the changes in each of the main interest-bearing asset and liability categories, into amounts attributable to: changes in volume, changes in interest rate and changes in interest rate/volume[45].

However, it is recommended that the entity include the possible impact of any other type of effect it may consider appropriate (non-performing loans, etc.). The disclosure could be made in a table similar to that contained in Table 2 of the Tabular presentations and examples heading.

Guidance for preparation of the information corresponding to this section:

1. It would be recommendable to explain the treatment afforded to non-interest-earning loans in the analysis recommended in heading B.

2. The calculation of changes in interest and similar income should exclude any item not realised or any adjustment not made in the reporting period. Entities are recommended to mention this exclusion in a footnote (indicating type of item and amount).

3. It is recommended that entities disclose any material loan fees included in interest and similar income.

4. If it is necessary to disclose information on activities in each of the markets over which the entity's business is distributed[46], it is recommended that the information required in headings A, B and C of section 1 be broken down, for each significant asset or liability category (established in accordance with heading A), into domestic transactions and transactions in other markets. In addition, it would be recommendable to disclose the percentage of total assets and liabilities attributable to activities in other markets in which the entity carries on its business, based on the related average balances.

45 Change in interest rate multiplied by the change in volume.

46 It would be recommendable to disclose the information relating to activities in the various markets in which the entity carries on its business in each reporting period in which one of the following components: (1) assets, (2) income (3) profit (loss) before tax, relating to transactions in currencies other than the functional currency, accounts for more than 10% of the corresponding amount reflected in the financial statements.

2 Financial assets held for trading, other financial assets at fair value through profit or loss and available-for-sale financial assets

Disclosures of this kind require a combination of qualitative and quantitative information.

Accordingly, it would be recommendable for the quantitative information to include the following:

A) At the end of each reporting period, the detail *(see Table 3)* of the carrying amount of investments in:

(1) Debt securities issued by central, autonomous community and local governments, other similar regional public authorities and other political subdivisions, and public-sector companies; and issues for which suretyships or any other unconditional guarantee has been provided by the aforementioned institutions, with a breakdown of the debt by issuer country.

(2) Securities of other kinds, such as bonds, shares and debentures of entities, debt certificates issued by central banks, derivative financial instruments, etc.

B) It is recommended that each of the instruments mentioned in the preceding paragraph be presented, as at the end of the reporting period, by grouping them together on the basis of their maturity dates into the buckets that the entity considers most appropriate, e.g.: 1 year or less, 1 to 5 years, 5 to 10 years and more than 10 years. In addition, entities are recommended to publish the weighted average return for each maturity bucket *(see Table 4)*.

C) When the carrying amount of the securities issued by a single issuer exceeds 10% of the equity of the reporting entity, it is recommended that the latter disclose the aggregate carrying amounts and market values of those securities. It would also be recommendable to include a reference to the risk associated with the securities.

If this quantitative information is to be genuinely useful for users, it should be accompanied by additional comments to put it into context. In this connection, it would be recommendable to provide an explanation of the policies for managing the trading book, in such a way as to make it possible to relate these policies to the level of measurements within the fair value hierarchy and the methodology for determining and validating those measurements.

3 Loans and credits

It is recommended that the entity disclose certain key matters which may help users of the information to understand the entity's loan book. Thus, it is suggested that, first of all, the entity explain its lending policy. In this connection, it would be interesting to apprise users of the manner in which the entity's commercial and loan book risk management policies are incorporated into its loan approval procedures, as well to provide an assessment of the possible effects of its lending policy on its credit loss coverage.

Furthermore, in order to provide useful information on the entity's lending policy and its transaction approval process, it is recommended that certain indicators, such as, for example, the loan-to-value ratio, be presented broken down by customer segment.

In addition to this information, in order to furnish the reader with the appropriate context, and provided that the related disclosures have not already been included in the financial statements, it would be recommendable for the entity to:

A) Present *(see Table 5)* the **total amount of loans and credits** at the end of the reporting period[47], distinguishing between:

Domestic area (International area[48]).

1. Commercial, financial; agriculture and industry

2. Finance leases by:

   – Companies
   – Public sector

B) **Maturity profile and sensitivity of loans and credits to changes in interest rates**: it is recommended that the entity present, separately, the total amount of loans and credits for each of the above-mentioned categories[49] *(see Table 6)* maturing at: 1 year or less, 1 to 5 years; and more than 5 years.

It is recommended that entities also present *(see Table 7)* the total amount of the aforementioned loans and credits maturing at more than one year that earn interest at:

(a) a predetermined fixed rate.
(b) a floating rate.

The entity could assess which type of breakdown it can include, due both to the relevance of the breakdown and to the fact that it is not included in the notes to the financial statements. Possible examples of breakdowns include those by nature, counterparty, (fixed or floating) interest rate, geographical area and industry.

It is also recommended to link the above-mentioned breakdown with the entity's credit risk distribution and, therefore, mention could be made of the distribution by geographical area or counterparty (individuals, companies, etc.) of credit risk.

47 This breakdown is presented for illustration purposes only. The entity must decide to what extent this breakdown applies to its particular case or to the manner in which it manages its loan book.

48 Where applicable,this heading would comprise the balances granted at Group branches or subsidiaries located abroad.

49 This would not be necessary for categories 3, 4 and 5; categories 6 to 9 could be presented in aggregate form.

Guidance for preparation of the information relating to this section:

1. Scheduled repayments should be included in the maturity profile within which the payment is to be made.

2. Demand loans, loans without a fixed repayment and maturity schedule and overdrafts shall be considered to mature at 1 year or less.

C) **Risk elements**.

1. **Associated with doubtful assets and any other classification specifically monitored by the entity (e.g. substandard assets); and restructured/refinanced assets.**

   It is recommended that at the end of each reporting period the entity establish the aggregate amount of loans corresponding to debt instruments that have been classified as doubtful or as pertaining to any other category being monitored by the entity, such as restructured/refinanced assets, for example.

   Users of the information would find it useful if the quantitative disclosure of loans of this kind were accompanied by some kind of explanation regarding the policy implemented by the entity to manage and monitor them. Therefore, in relation to:

   1) **Doubtful assets or any other category specifically monitored by the entity,** it is recommended that the entity disclose the type of policy adopted by it to classify a debt instrument as doubtful or as pertaining to any other category used by the entity.

   2) **Restructured or refinanced assets,** in order to illustrate the entity's management policy for these assets, it would be recommendable to provide information on how the assets were restructured/refinanced (restructuring/refinancing policy); namely, by means of loan term extensions, grace periods, additional guarantees, etc.

      With regard to both types of assets described above (1 and 2), it would be recommendable to furnish a summary of:

      – Any movements in the reporting period among the various categories; and

      – The type of debt collection policy applied by the entity.

      In addition, it is recommended to provide a brief description of the changes in these debt instruments following implementation of the management policies described. Lastly, it would be advisable to provide information on what the entity considers to be the outlook for these debt instruments in the coming years.

2. **Country risk**[50]: it is recommended to provide the name of the country and the aggregate amount of any outstanding cross-border balances exposed to country risk and relating to foreign debtors from countries in which these balances exceed 1% of total assets at the end of the reporting period.

Guidance for preparation of the information relating to "country risk":

1. Outstanding cross-border balances susceptible to country risk refer to debt instruments (including accrued interest), interest-earning deposits held at other banks, other interest-earning investments and any other monetary asset, denominated in euros or another currency, which bears country risk. To the extent that such euro-denominated balances have not been hedged or have not been financed using local-currency loans, the related amounts should be considered to be outstanding cross-border balances. Commitments such as irrevocable documentary credits should not be included as outstanding balances; however, where the related amounts are material, it would be recommendable to treat them in such a way as to distinguish them from the rest.

2. It is recommended that amounts of cross-border balances be disclosed separately, as specified above in section 3A.

3. If any of the assets referred to in 3 C.1 (unpaired and restructured or refinanced) represents significant outstanding balances with foreign countries, it is recommended to identify those countries and the relative outstanding balances.

4. Loans granted or deposits placed at a branch of a foreign bank located in a country other than the country of origin of that bank will be considered for the purpose of disclosure as loans or deposits with the foreign bank.

5. When the conditions of a given foreign country give rise to liquidity problems that may significantly affect the repayment of the principal or interest on loans to the public or private sector of that country pursuant to the original terms of the loans, it is recommended to provide:

   (a) A description of the nature and impact of those terms.

   (b) An analysis of the changes in the aggregate outstanding balances with debtors in that country, except where the country does not need to be included, given that the aggregate balances with all borrowers in the country, at the end of the reporting period, do not exceed 1% of total assets in the reporting period using the following or a similar format:

50 Although it has already been mentioned on numerous occasions throughout the text of this guide, entities are reminded once more that they should only disclose information that is relevant in their particular case and which will contribute added value for users of the information. Thus, the specific information relating to country risk should be disclosed only to the extent that the entity's situation, the state of its business and its performance may be affected by this risk.

	Country A	Country B
Aggregate outstanding balances (beginning of reporting period)		
Net change in short-term outstanding balances		
Changes in other outstanding balances		
Additional outstanding balances		
Accrued and recognised interest income		
Principal repayments received		
Interest payments received		
Other changes		
Aggregate outstanding balances (end of reporting period)		

For the purposes of the table shown above, short-term outstanding balances are commercial loans and interbank deposits (and similar instruments) which when granted had a maturity of one year or less. It would be recommendable for this table to be supplemented with a breakdown, by country, of the amounts of short-term outstanding balances included in the aggregate amounts at the end of the reporting period.

(c) The total amounts accrued as interest income and the total interest received during the reporting period with respect to all the outstanding balances for each country in accordance with subheading (b) of these general instructions, if the aforementioned totals are significantly different from the amounts disclosed under subheading (b) for the items called:

– Accrued and recognised interest income; and

– Total accrued interest income.

The amounts could be different if, for example, all or part of the outstanding balances had been classified as doubtful and interest accrual had ceased.

(d) If a significant proportion of the outstanding balances, of any of the countries, identified under point 6.b were restructured/refinanced during or after the reporting period, or if a significant portion of those balances might be restructured/refinanced following an agreement to that effect reached between the creditor and the debtor; it would be advisable to provide the following information:

– A description of the terms of payment of the outstanding balances before and after the restructuring; it is recommended to include at least the following information:

	Country A	Country B
Amount restructured (or to be restructured)	EUR X	EUR X
Weighted average maturity date (including deferrals)		
Prior to restructuring	20XX	20XX
After restructuring	20YY	20YY
Weighted average interest rate		
Prior to restructuring	X%	X%
After restructuring	Y%	Y%

The entity, if it deems it advisable, may elect to use a different tabular format to present this information; however, it is recommended that, at least, the items shown above be presented.

– A description of the commitments arising, or expected to arise, from the restructurings/refinancings.

– The amount of outstanding balances, broken down by country, that have been reclassified or are expected to be reclassified, and thus no longer classified as doubtful as a result of the restructurings/refinancings.

6. It is recommended that the names of any countries whose outstanding balances represent between 0.75% and 1% of total assets and the total amount of the outstanding balances attributable to them be disclosed.

3. **Risk concentration:** taking as a reference the closing date of the reporting period, it is recommended to describe any risk concentration exceeding a certain percentage of total risk exposure that has not been classified in any other category under Section 3 of this specific recommendation guide. Credit concentrations are deemed to exist when amounts have been lent to multiple borrowers that either are concentrated in a specific geographical area or carry on similar business activities, so that certain economic conditions of their industry, of the geographical area in which they are concentrated or of another kind would have a similar impact on all of them. It is also recommendable to explain any difference between the way in which credit of this kind is managed and the policy applied to other loans.

4 Disclosure of the coverage of credit losses on credit exposures

A) It would be recommendable to provide an analysis of the losses incurred in the reporting period, using a format similar to that presented under the Tabular presentations and examples heading (Table 8).

Guidance for preparation of the information relating to this section:

(1) Table 8 is not intended to be an obligatory format in which to publish this information. On the contrary, entities are recommended to use alternative formats if they believe that they convey the information more effectively; nonetheless, it is advisable to at least furnish all the information required in the table.

(2) For each reporting period, it is recommended to give a brief description of the factors that influence management's judgement when determining the losses relating to the coverage of credit losses on credit exposures.

(3) For the disclosure recommended herein, it is advisable to use the same categories as those used to present the information under heading A of section 3 of this guide.

B) At the end of each reporting period, it is recommended to furnish a breakdown of the allocation of the coverage of credit losses on credit exposures *(see Table 9)*.

Guidance for preparation of the information relating to this section:

(1) See instructions (1) and (3) of heading A above.

(2) The entity could supply a narrative discussion of the risk elements of its credit exposures and of the factors considered when allocating the coverage of credit losses on credit exposures. The discussion could encompass the risk components of certain loan categories. It is recommended to disclose in advance the amount of loan write-offs, by category, expected to take place in the following reporting period.

C) It would be important to know the reasons underlying the expected losses, as well as the impact on expected losses of the adoption of commercial policies geared towards increasing market share, and of the proliferation of transactions that is habitually observed in periods of economic expansion.

5 Foreclosed assets

A) It is recommended that entities describe their policies for the control, administration and management of foreclosed assets, as well as the related marketing strategy, indicating for example whether the assets have been placed with a company incorporated for the purpose of selling them.

B) In addition, it would be recommendable to provide information on the fair values of foreclosed assets, grouped together into various types (e.g. buildings, land and financial assets). Other interesting disclosures that could be taken into consideration are, for example, the geographical distribution of the assets, their age (time held by the entity), the gains or losses on asset disposals and the financing of sales.

C) Lastly, it would be recommendable for the entity to disclose its expectations with regard to these assets, mainly in relation to their disposal and the potential impact on profit or loss.

6 Deposits

Although there are numerous quantitative disclosures for deposits, there are not many disclosures of a qualitative nature.

A) The management report could be the ideal place to address the following matters:

– Deposit classification policy and criteria of the entity (wholesale/retail, etc.).

- Deposit management policy: growth targets, potential of a given type of deposit with respect to others, etc.

- Foreseeable trend in the entity's deposits and the projected impact on profit or loss.

B) When addressing this heading in the management report, it would be recommendable to express the relationship between the entity's deposits and its liquidity and sources of funding. In this connection, it would be useful to reflect on the policies in place in relation to the management of deposits and the loan-to-deposit (LTD) ratio. Thus, if the LTD ratio were high, an explanation could be given of the reasons for the entity's aggressive policy and of how it manages the potential liquidity risk at the same time. If on the other hand the LTD ratio were low, it would be advisable to give a detailed definition of the numerator and the denominator; this would enable users to determine whether the ratio is the result of a conservative strategy or the inclusion in the denominator of alternative sources of funding to retail deposits (e.g. central bank funding), in which case it would be useful to know the potential impact of excluding these sources.

C) Lastly, it would be recommendable to discuss the risk of deposit concentration based on the deposit segmentation criteria applied. Reference could be made to the greater exposure to a given type of deposit, to the policies for managing such deposits by, for example, establishing special redemption policies, etc.

7 Regulatory capital, return on capital and equity

The current disclosures are based on the definitions set in the Basel I and II Capital Accords. However, since each State has interpreted and implemented the Basel capital definitions in a different way and, accordingly, requires specific disclosures, users of financial information face a series of problems when it comes to analysing and comparing information between different entities. Also, many entities worldwide have not yet adopted Basel II. Furthermore, the reconciliation of regulatory capital to equity gives rise to certain complexities.

A) Accordingly, the following information would be of considerable use to users:

- Pillar 1 capital requirements, including the capital surcharges for global systemically important banks (G-SIBs) and the use of counter cyclical capital buffers or the minimum internal ratio set by management.

- Qualitative and, where appropriate, quantitative description of the impact of the decisions/strategies adopted regarding capital targets throughout the year within the general framework of management's strategic planning; it would also be recommendable to include general information on management's view of the level of capital required or set as a target for the coming years.

- The financial institution's involvement in and ability to use internal models or standardised models for calculating regulatory capital and, in particular, an explanation of which business segments are being assessed using internal models and of when this approach was validated.

B) Also, it would be recommendable to provide a reconciliation of equity to regulatory capital, a summary of the instruments composing regulatory capital and a statement of changes in capital to help users put the entity's financial position into context (Table 10).

C) Lastly, it is recommended that the possibility be assessed of including in the management report any stress tests that might have been carried out by third parties, if they have been published, together with any necessary qualifications or explanations of the results.

8 Liquidity, funding and capital resources

The disclosures of liquidity and sources of funds should provide information to facilitate comprehension of the entity's liquidity position and sources of funds at consolidated level (or with a greater level of detail, where appropriate).

A) It would be recommendable for the entity to show how it manages its potential **liquidity** requirements. As a complement to this qualitative disclosure, a quantitative analysis could be offered of the components of the liquid reserves held in order to meet potential liquidity requirements. The analysis would be more complete if it were provided not only at year-end, but also using average figures[51].

The entity could disclose the **components of its liquid reserves** following the internal definition provided by management. The entity could also discuss the extent to which this internal definition corresponds to the one prescribed or proposed by the regulatory authorities. The entity could describe any assets or securities that could be used to meet its liquidity requirements but which would not meet the definition of *component of liquid reserves* provided by the regulatory authorities.

This qualitative description could in turn be supplemented with an explanation of any possible limitations on the use or transfer of the liquid reserves of subsidiaries (or reserves denominated in foreign currency) that might be restricted in some way, when they have a significant impact on the entity or a business line.

Another recommendable disclosure with regard to liquidity would be that of **charges associated with liquid assets**[52]. It would be very useful for users for financial information to be able to identify the assets that cannot be pledged or used to obtain funding in any other way, either because they have already been pledged or because of other restrictions affecting them. It

51 See footnote 44 (average balances) in this connection.

52 In this connection, the rules that may ultimately be approved as a result of the ongoing consultation process launched by various international bodies would have to be taken into account.

would also be recommendable and useful to quantify the assets available to be used as a guarantee in the ordinary course of business because they are unencumbered. This quantification could be used as a starting point for identifying assets available to cater for potential funding or guarantee requirements.

B) It would be recommendable for the entity to disclose its strategy regarding **funding**, focusing the explanation on key sources of funding and any potential funding concentrations that might exist. The objective would be to enable users of the information to acquire a precise idea of the sources of funding available, the confidence in wholesale funding, any restrictions due to country or currency risk and the changes in these funding sources over time.

The following would be some of the key aspects on which it is recommended that disclosures be made, pursuant to the preceding discussion:

– Funding plan: types of funding sources available and the level of access the entity has to them.

– Concentrations: significant concentrations of funding sources, paying particular attention to wholesale funding and its distribution across different jurisdictions and currencies.

– Change: how the funding sources to which the entity has had recourse have changed over time.

C) Also, the management report could be an appropriate place to present the entity's strategies regarding the management of capital resources. In this regard, the management report could be used to provide a detail of the allocation of economic capital to the various businesses, facilitating a measure of the margin for the adoption of risks by the entity (e.g. the ratio of available funds to economic capital), or to indicate the managers' expectations regarding the possible generation of "cushions" of resources as a result of the disposal of assets (reporting on the quality and weighting of these resources, the expected impact on results, the resulting capacity to adopt risks and other effects, such as the possible reduction of the funding capacity associated with the collateralisation of the assets disposed of).

D) It would be advisable for the entity to provide a qualitative description of the calculation methodology, the circumstances taken into account and the assumptions used when internal **stress tests** are performed on liquidity and funding, without it being necessary to publish the quantitative results of the tests. The most commonly assessed circumstances are a downgrade of the entity's credit rating, a change in systemic market risk, changes in interest rates and significant losses in the stock markets.

Lastly, it would be recommendable for the entity to provide a description of its contingency plans and the actions that would be undertaken in the defined stress scenarios.

9 Response to regulatory change

The current environment is characterised by a substantial regulatory burden which, to a large extent, is an attempt to respond to the problems evidenced by the crisis. Accordingly, entities are experiencing a more uncertain environment which, to a certain extent, forces them to reassess how they carry on their businesses.

Therefore, it could be useful for users of the information (and perhaps also for the entities themselves) to present an assessment of their ability to respond to regulatory change in the light of their organisational structure. In this respect, reference could be made to the possible existence of a Regulation Committee or, in more general terms, to the entity's attitude towards regulatory change.

10 Key financial indicators

Following is a series of key indicators of the entity's business performance, which supplement the corresponding section of the general guide (Section III heading 2.1, Key financial and non-financial indicators). Accordingly, we refer to the content of that heading with respect to the description of the importance and meaning of indicators of this kind and the recommendations regarding their treatment and presentation in the management report. Also, since it is the entities themselves that decide which indicators are of key importance in the framework of the management of their own particular business, the following list is provided solely as an example and in no case is intended to be an exhaustive list of such indicators.

It would be appropriate to define all the ratios and concepts used, especially where there are differences with respect to the definitions in the guide or the applicable banking regulations.

The following indicators should be calculated on an annual basis using average balances (following the criteria specified in the footnote on page 40 of section 1) whenever this is possible and the entity considers that it adds value for users of the information. If these indicators have been disclosed in the notes to the financial statements, the corresponding reference could be made to this disclosure.

A) It is recommended that the entity disclose only the indicators of each of its management areas (capital adequacy, asset quality, etc.) that it considers representative of the directors' management efforts.

B) **Additional disclosures**. To the extent that it might be representative with respect to the manner in which the directors manage the entity's businesses and that it might help users of the financial information to understand the changes therein, it is recommended that the following additional information be disclosed:

- Earnings and returns.

- Main gaps relating to the components of profit before tax with respect to the previous reporting period.

- Earnings: separate and cumulative earnings of one reporting period with respect to the previous one.
- Costs: Analysis of and changes in salient items.
- Staff cost budget model.
- Liquidity.
- Breakdown of maturities between wholesale and retail.
- Breakdown of wholesale maturities between guaranteed (collateralised) or cleared at clearing houses, and other wholesale maturities.
- Breakdown of wholesale maturities not guaranteed (collateralised) or cleared at clearing houses by maturity and type of instrument.
- Analysis of changes in retail liabilities (deposits).
- Statement of position of the various liquidity lines defined by the entity.
- Comparison of liquid assets with retail maturities.
- Analysis of liquid assets by rating and eligibility.
- Stress scenarios on the structural liquidity gap.

Capital adequacy

TABLE A

Name	Possible purpose
Ratio of regulatory capital to risk-weighted assets.	This is the ratio required by Basel III to determine the entity's ability to absorb losses with the available Tier 1 and Tier 2 capital.
Ratio of Pillar 1 regulatory capital to risk-weighted assets.	This is the loss-absorbency ratio that measures only the ratio of common equity to risk-weighted assets. The minimum required by Basel III is 4.5%.
Change in risk-weighted assets in the portfolios.	Detail of and change in the weighting assigned to each loan portfolio for capital adequacy purposes.
Leverage ratio.	The ratio of capital to total exposure (including all on balance sheet assets and certain off balance sheet assets such as loan commitments). It enables the size and profile of the entity's risk exposure to be identified.
Capital planning in stress situations.	Future capital needs arising from compliance with future Pillar 1 capital requirements, including the assessment of all additional risks (e.g. those arising from the internal capital adequacy assessment process and from the consideration of various stress scenarios).
Use of capital by type of financial product.	Identifies the structure of the portfolio of financial products classified by the cost of regulatory capital. Enables enhanced measurement of the actual return on products and strategy management that is more in line with the cost-benefit ratio.
Use of guarantees for capital adequacy purposes.	Percentage ratio of eligible guarantees for capital adequacy purposes to total risk coverage. This enables the quality of the guarantees received to be assessed and stratified by product, identifying areas of improvement so that risk mitigation actions can be taken.

Asset quality

TABLE B

Name	Possible purpose
Ratio of debt instruments classified as substandard (or any other equivalent classification) to total loans.	Percentage ratio of substandard assets to total lending; this makes it possible to project changes in the non-performing loans ratio due to the migration of these substandard instruments to written-off loans.
Distribution of debt instruments by industry/total debt instruments.	Structure of the loan portfolio by industry classification, identifying percentages for industries with higher or lower risk profiles. This enables industry-based lending strategies to be identified.
Ratio of doubtful assets to total assets by segment, and the related changes.	Percentage ratio of loans granted to customers classified as doubtful (because they have not been repaid on the agreed-upon dates) to total assets. It is recommended that these data be classified by segment, since the information thus obtained from this ratio is more relevant because it is more precise. Also, it would be advisable to present the ratio for at least the years covered by the financial statements so that changes in the ratio can be analysed.
Changes in segment aggregates based on distribution of credit risk.	Inter-period comparison of the structure of the loan portfolio by purpose. This enables significant changes in lending with specific characteristics to be stratified and identified.

Earnings and returns

TABLE C

Name	Possible purpose
Return on assets (ROA)	The return on total assets. It is calculated by dividing the company's profit after tax by the carrying amount of all its assets.
Return on equity (ROE)	This is the return the company obtains on its shareholders' money. The ratio of accounting profit to the resources required to obtain that profit.

It is proposed to redefine the following ratios using a logical step presentation of (5) salient lines in an entity's income statement, breaking down each one by: *amount, percentage of gross income and change in terms of average total assets (ATA).*

Income statement line	Amount	Percentage of gross income	Change in terms of ATA
1. Net interest income			
2. Gross income			
3. Administrative expenses			
4. Depreciation and amortisation charge			
5. Provisions and impairment losses			
6. Profit from operations			
7. Profit before tax			
8. Profit for the year from continuing operations			
9. Consolidated profit for the year			

Efficiency ratio	The ratio of administrative expenses to gross income; in this case, the lower the ratio, the more efficient the entity is. This ratio enables the bank's stability to be measured: a bank with a lower efficiency ratio that suffers significant falls in income will incur losses much later.

Liquidity

TABLE D

Name	Possible purpose
Ratio of liquid assets to total assets	Liquid asset ratio.
Liquidity Coverage Ratio (LCR)	Ratio of liquid assets to short-term liabilities. This ratio measures the extent to which short-term claims of creditors are covered by assets that can be converted into cash in the period until the claim matures. In other words, it indicates the extent to which the entity will be capable of realising its current assets in order to meet its current liabilities.
Net Stable Funding Ratio (NSFR)	The aims of this ratio are for entities (1) to finance their medium- and long-term assets with stable long-term funds, and (2) to reduce their over-reliance on wholesale market funding.
Lending gap and moving annual total average balances	Difference between the global lending portfolio and average borrowed funds. This is an indicator of purely global banking activity. It is important for changes to be discussed.
Ratio of customer deposits to total (non-interbank) loans	Difference between the retail lending portfolio and average borrowed funds. This is an indicator of purely retail banking activity. It is important for changes to be discussed.
Liquidity coverage ratio by currency	Also called the short-term liquidity ratio, this ratio aims to guarantee that an entity retains an appropriate level of available liquid assets to cover the net balance of inflows and outflows in a stress scenario over a 30-day horizon.

Sensitivity to market risk

TABLE E

Name	Possible purpose
Ratio of the net position in currencies other than the functional currency to capital	This ratio is intended to be used to assess the entity's vulnerability to fluctuations in the exchange rates of currencies other than the functional currency. Thus, higher exposure in foreign currency is synonymous with higher foreign currency risk.

Other

TABLE F

Name	Possible purpose
Geographical distribution of loans/total loans	Stratification of the lending portfolio by geographical distribution enables country-risk exposure to be assessed so that it can be actively managed when international macroeconomic events occur.
Spread between the benchmark lending rate and the average rate on deposits	Difference between the interest rate established by investment management for loan transactions and the average interest rate on the portfolio of deposits. This makes it possible to identify the leeway available for the management of net interest income.
Spread between the average rate on the entity's deposits and the official benchmark interest rate	This ratio aims to compare the average interest rate on the entity's deposits to the official benchmark rates, which are those defined in Article 27 of Ministry of Economy and Finance Order EHA/2899/2011, of 28 October, on transparency and customer protection in banking services.
Spread between the highest and the lowest interbank interest rates (for each period reported upon in the financial statements)	Identifies the cost of funding by wholesale counterparty, facilitating possible strategies for the management of the cost of access to funding.
Ratio of loans denominated in currencies other than the functional currency to total loans	Percentage exposure of lending to fluctuations in the exchange rates of currencies other than the functional currency. It allows lending to be classified by currency and significant concentrations to be identified.
Ratio of liabilities denominated in currencies other than the functional currency to total liabilities	Percentage exposure of liabilities to fluctuations in the exchange rates of currencies other than the functional currency. It allows liabilities to be classified by currency and significant concentrations to be identified.

11 Branch network

Disclosures relating to a banking institution's branch network and its possible impact on the bank's future development could be very useful to users of the financial information. This type of information is very closely linked to the outlook for an entity's positioning and to the projections made with respect to the markets in which the entity operates or is considering doing so in the near future.

Furthermore, the impact of new technologies on the banking sector should not be disregarded and, in this connection, entities are recommended to provide information on the impact of new technologies on their distribution models and on how they interact with customers. Thus, it is recommended that the following information be provided:

A) Geographical distribution, or segmented information prepared using any other criterion, with respect to the business management model, on the basis of the entity's branch network.

B) Future outlook with respect to the expansion or contraction of the branch network, by geographical area (or by the segmentation criterion used in managing the entity), based on management's expectations regarding whether the entity is likely to increase or reduce its business volume.

C) Policy for the establishment of branches by segment; it would also be recommendable to show the number of branches by type and relate this information to the level of bankarisation in the geographical area or any other segment (companies, consumer loans, individuals, private banking, etc.).

D) Description of the extent to which new technologies have affected the customer relationship model; which would include e-banking, telephone banking, the development of applications for electronic devices, etc. and their possible impact on the entity's distribution model.

Tabular presentations and examples

Average balance sheet[53]

TABLE 1

	Year N			Year N-1		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets and interest income						
Assets						
Cash and balances with central banks						
Loans and advances to credit institutions						
Loans and advances to customers						
Debt instruments[54]						
Income from hedging transactions						
Other interest-earning assets						
Total interest-earning assets						
Investments in Group entities						
Total earning assets						
Other assets						
Assets arising from discontinued operations						
Average total assets						
Liabilities and equity						
Deposits from credit institutions						
Customer deposits						
Marketable debt securities						
Subordinated liabilities						
Other interest-bearing liabilities						
Expenses of hedging transactions						
Total interest-bearing liabilities						
Other liabilities						
Non-controlling interests						
Shareholders' equity						
Liabilities arising from discontinued operations						
Total average liabilities and equity						

53 If the condition described in the footnote 48 of this specific guide is met, it would be recommendable for the entity to break down the information differentiating between domestic transactions and transactions in the markets over which the entity distributes its business.

54 If applicable, a distinction should be made between corporate and public-sector debt; in the latter case, the information should be broken down by issuer country.

Analysis of changes due to rate/volume[55]

TABLE 2[56]

	Year N			Year N-1		
		Arising from changes in			Arising from changes in	
	Net change	Volume	Interest rate	Net change	Volume	Interest rate
Interest income						
Cash and balances with central banks						
Loans and advances to credit institutions						
Loans and advances to customers						
Debt instruments[57]						
Other interest-earning assets						
Total interest-earning assets disregarding hedging transactions						
Income from hedging transactions						
Total interest-earning assets						
Interest expense						
Deposits from credit institutions						
Customer deposits						
Marketable debt securities						
Subordinated liabilities						
Other interest-bearing liabilities						
Total interest-bearing liabilities disregarding hedging transactions						
Expenses of hedging transactions						
Total interest-bearing liabilities						

Detail of available-for-sale financial assets and held-to-maturity investments

TABLE 3

	31/12/N			
	Cost/ amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value
Available-for-sale financial assets				
Treasury bills				
Other public corporations				
Guaranteed foreign debentures				
Other debt securities				
Investment securities				
Money market funds				
Other assets				
Total available-for-sale financial assets				
Held-to-maturity investments				
Other assets				
Total held-to-maturity investments				
Total securities				

55 If the condition described in the footnote 48 of this specific guide is met, it would be recommendable for the entity to break down the information differentiating between domestic transactions and transactions in the markets over which the entity distributes its business.

56 The entity may add as many columns as it considers necessary in order to reflect the impact of any other effect it considers appropriate (non-performing loans, etc.).

57 If applicable, a distinction should be made between corporate and public-sector debt; in the latter case, the information should be broken down by issuer country.

Detail by residual maturity date

TABLE 4

	31/12 N				
Residual maturity	**Amortised cost**	**Gross unrealised gains**	**Gross unrealised losses**	**Fair value**	**Average rate**
Less than 1 year					
1 to 5 years					
5 to 10 years					
More than 10 years					
Total					

Detail of the total amount of loans and credits[58]

TABLE 5

	Year N	**Year N-1**
Credits, loans and leases to residents		
Commercial, financial; agriculture and industry		
Real estate – Development and construction		
Real estate – Mortgage		
Term loans granted to individuals		
Finance leases		
Loans to public authorities		
International credits, loans and leases		
Governments and official institutions		
Banks and other financial institutions		
Commercial and industrial		
Other loans		
Total credits, loans and leases		

Detail by maturity (see footnote to Table 5)

TABLE 6

31/12/N	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Credits, loans and leases to residents				
Commercial, financial; agriculture and industry				
Real estate – Development and construction				
Real estate – Mortgage				
Term loans granted to individuals				
Finance leases				
Loans to public authorities				
International credits, loans and leases				
Governments and official institutions				
Banks and other financial institutions				
Commercial and industrial				
Other loans				
Total credits, loans and leases				

58 This detail is presented solely as an example. The entity shall decide the extent to which this detail applies to its particular case or to how it manages its portfolio, and it must be consistent in the presentation of the various tables detailing its lending.

Detail of difference between fixed and floating rate loans

TABLE 7

	Loans to residents	Loans to non-residents	Total
Fixed rate			
Floating rate			
Total			

Detail of losses relating to the coverage of credit losses on credit exposures (see footnote to Table 5)

TABLE 8

	Year N
Balance at beginning of year	**EUR X**
Credit loss write-downs and provisions	
Residents	
Commercial, financial; agriculture and industry	
Real estate – Development and construction	
Real estate – Mortgage	
Term loans granted to individuals	
Finance leases	
Loans to public authorities	
Non-residents	
Recoveries	
Residents	
Commercial, financial; agriculture and industry	
Real estate – Development and construction	
Real estate – Mortgage	
Term loans granted to individuals	
Finance leases	
Loans to public authorities	
Non-residents	
Write-off of impaired balances against recorded impairment allowance	
Reclassifications	
Other changes	
Balance at end of year	**EUR X**
Ratio of net write-downs in the year to average outstanding balances in the year	X

Allocation of the coverage of credit losses on credit exposures (see footnote to Table 5)

TABLE 9

	Amount	Loans in each category/ total loans (%)
Residents		
Commercial, financial; agriculture and industry		
Real estate – Development and construction		
Real estate – Mortgage		
Instalment loans granted to individuals		
Finance leases		
Loans to public authorities		
Non-residents		
	EUR X	100%

Example of reconciliation of regulatory capital to on balance sheet equity

TABLE 10

	EUR million	EUR million	EUR million
Total equity according to the balance sheet			
Paid-in share capital			
Retained earnings			
Share premium			
Other equity instruments			
Other reserves			
Regulatory accounting adjustments to accounting basis			
Preference share premium			
Other equity instruments			
Deconsolidation of special purpose entities			
Prudential valuation adjustment			
Deferred tax assets that rely on future profitability			
Goodwill and intangibles			
According to the balance sheet			
Deferred tax liabilities			
Positive purchased goodwill on acquisition			
Other (regulatory adjustments)			
Securitisation positions			
Securitisation positions			
Shortfall of provisions to expected losses			
Impairment losses per IRB approach			
Expected loss			
Other (regulatory adjustments)			
Threshold deductions			
Investments in insurance subsidiaries			
According to the balance sheet			
Reverse amount relating to banking associates			
Reverse positive purchased goodwill on acquisition			
Investments in joint ventures and associates			
Deferred tax assets arising from temporary differences			
Amounts below threshold			
Other (items under transitional arrangements)			
Other (items under transitional arrangements)			
Prudential filters			
Gain on pension fund adjustments			
Assets according to the balance sheet			
Liabilities according to the balance sheet			
Taxes			
Other (regulatory adjustments)			
Own credit spread			
Cash flow hedge reserve			
Other (items under transitional arrangements)			

	EUR million	EUR million	EUR million
Non-controlling interests			
According to the balance sheet			
Transferred to other tiers of capital			
Restricted amount in common shares, Pillar 1			
Common Equity Tier 1 capital			
Additional Tier 1 capital			
Preference share premium			
Other equity instruments			
Transfer from common shares, Pillar 1			
Hybrid capital securities			
According to the balance sheet			
Reversal of own credit spreads			
Other (items under transitional arrangements including regulatory adjustments)			
Tier 2 capital			
Transfer from common shares, Pillar 1			
According to the balance sheet			
Reverse the amount that relates to banking associates			
Collectively assessed provisions			
According to the balance sheet			
Amortisation			
Reversal of own credit spreads			
Subordinated debt			
Other (items under transitional arrangements including regulatory adjustments)			
Other (items under transitional arrangements including regulatory adjustments)			
Total regulatory capital			

Section V. Specific recommendation guide for management reports of listed small and medium-sized enterprises (LSMEs)

Recommendations regarding the points to be included

The aim of the following specific recommendations is to summarise, in accordance with the applicable legislation and the philosophy established in pillars I, II and III of the guide, the content that the management reports of listed small and medium-sized enterprises might have.

Recommendation 3.10 of the guide for preparing the management reports of listed companies acknowledges the need for adapting the content of the report to the size and complexity of the entity, particularly in the case of listed small and medium-sized enterprises:

> "3.10. **Tailor the management report to the nature of the business, taking into account the size and complexity thereof**. It is recommended that the content of the management report should be balanced and adapted to the activity carried on by the company and to the size and complexity of its operations. In particular, the content of the management reports of listed small and medium-sized enterprises should be consistent with their size, *which may involve summarising or abridging the content recommended herein to ensure that preparation costs are not disproportionate."*

As a result, the following recommendations were prepared in an attempt to adapt the content of the management report to the particular characteristics of this type of company, by summarising or abridging its content, in order to take into consideration that the complexity of their organisation and operations, and the nature of the risks they assume, may be reduced by the small size of their activity. It was also taken into consideration that a simplified report model would give rise to cost savings and that certain formats would be helpful for those responsible for drafting and approving the management report.

In strict accordance with the Fourth Directive[59] for the purposes of applying this specific guide, an LSME is understood to be an entity other than a credit institution that does not exceed two of the following limits in two consecutive reporting periods:

- Revenue exceeding EUR 35 million
- Total assets exceeding EUR 17.5 million
- Average number of employees for the reporting period exceeding 250 employees

Companies failing to reach, for two consecutive years, two of the thresholds referred to in the paragraph above may be considered LSMEs.

59 Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies establishes the limits, updated periodically (the last time being 2006), that define medium-sized companies.

The management report aims to present a fair review of the performance of the business, together with a description of the main risks that the entity faces. As a result, irrespective of the simplification objective encouraged by this recommendation, no information that, due to its nature or significance, should be known by the entity's shareholders and the players in the market may be disregarded as a result of following certain formats the purpose of which is to facilitate the preparation of the management report.

Accordingly, if there is any such information not included in the formats shown below, it should be added and explained by the entity when preparing the management report, using either items of information contained in this recommendation or others. However, if any of the items shown below were not applicable to the entity's particular circumstances, this would be mentioned specifically in the management report and the related explanation would be provided if deemed necessary.

As explained in Appendix B, if the information requested in the formats mentioned above is included in the financial statements or the ACGR, reference may be made to these documents.

Entities following this guide when preparing their management reports may include, at the beginning, a statement that it was prepared following the guide's specific recommendations for listed small and medium-sized companies for preparing management reports.

The adaptation of the nine points of the general guide that are of particular importance for the management reports of companies of this type in view of their particular characteristics is shown below.

1 Situation of the entity

1.1	**Organisational structure**
Contents	Structure of the entity and modus operandi of the board. Rules for delegating management powers and responsibilities according to the division of the entity into components.
Comments	

1.2	**Modus operandi of the entity**
Contents	The entity's general objectives and main actions for achieving them, including a description of the business model.
Comments	

2 Business performance and results

2.1	**Evolution and trend relating to income**
Contents	Description of the main factors (market, new products or services, technological progress, etc.) that explain the changes in the main income items in the reporting period, differentiating between changes in volume, price and exchange rates. Where appropriate, this analysis should be provided by segment.
Comments	

2.2	Evolution and trend relating to costs
Contents	Description of the main factors that explain the changes in the most significant cost items in the reporting period, differentiating between changes in volume, price and exchange rates. In particular, commentary should be provided on the trend in staff and procurement costs, reflecting the past and forecasts. Where appropriate, this analysis should be provided by segment.

A commentary on the changes in staff costs:

A commentary on the changes in procurement costs:

A commentary on the changes in other significant cost items:

2.3	Evolution and trend relating to profit or loss
Contents	The changes in profit or loss in the reporting period and its components (profit (loss) from operations, profit (loss) before tax, etc.), and trends observed, taking into consideration the trends in recurring income and costs, and the impact of non-recurring transactions (sales of non-current assets, transactions with financial instruments, unusual impairment losses, discontinued operations, etc.). Where appropriate, this analysis should be provided by segment.

Comments

2.1 Key financial and non-financial indicators

2.4	Economic and financial indicators
Contents	Basic economic and financial indicators, covering as many reporting periods as necessary to explain changes, including as much narrative as necessary to cover their meaning and performance. Where appropriate, the indicators may be selected from among those included in Appendix B to the guide.

Selected indicators relating to the company's competitive position (by segment):

Selected indicators relating to the returns on assets (by segment):

Selected indicators relating to the return on equity:

2.2 Issues relating to the environment and employees

2.5	Indicators of environmental matters
Contents	Indicators of the results of environmental management, comparing the policies with the results achieved in the reporting period, including as much narrative as necessary to cover their meaning and performance. Where appropriate, the indicators may be selected from among those included in Appendix B to the guide.

Description of the objectives and policies relating to environmental management, including the operation and control of the established risk management systems:

Applicable legislation and degree of compliance:

Main actions carried out in the reporting period to improve environmental quality:

Results of environmental management in the following areas: materials, waste, energy, water and gas emissions:

2.6	Indicators of social matters
Contents	Basic social indicators. Reconciliation of the objectives pursued to the actions and results obtained in the period. Where appropriate, the indicators may be selected from among those included in Appendix B to the guide.
Description of the social objectives and policies, and the main actions carried out in the reporting period:	
Main actions and indicators relating to employment, safety, health and the working environment:	
Main actions and indicators relating to the training and education of employees:	
Main actions and indicators relating to the management of equality in diversity (women, social minorities, people with disabilities, etc.):	

3 Liquidity and capital resources

3.1	Liquidity
Contents	Identification of the entity's sources for obtaining liquidity, for both the payment of current obligations and for investment commitments and loan repayments, as well as the short- and long-term liquidity management objectives and the degree of compliance.
Description of the entity's usual sources for obtaining liquidity, including any restrictions on the transfer of the Group companies' funds:	
Alternative or additional sources:	
Likely trends and fluctuations in the expected cash flows:	
A commentary on the sufficiency of the expected liquidity in order to cover the entity's investment and financing objectives:	

3.2	Capital resources
Contents	Description of the policy for raising equity and borrowings, for the purpose of meeting the contractual obligations arising from investing activities or for maintaining the entity's operating capacity. Recommendations 11 to 18 of Section III may provide certain indications for covering this area.
Policy for raising equity and borrowings at the entity and capital structure:	
Description of the investment commitments/needs, together with the required disbursements:	
Objectives relating to the cost of borrowed funds:	

3.3	Contractual obligations and off balance sheet transactions
Contents	Analysis and description of the cash outflows in future years for which a commitment has already been made, whether or not they arise from items recognised in the balance sheet.

Description of the payment needs, identifying the liability items that give rise to them (loans, obligations under finance leases, etc.) and the off balance sheet transactions that create an obligation to use liquidity in the future (operating leases, purchase/investment commitments, etc.):

Overall estimate of the payments arising from contractual obligations and off balance sheet transactions for the following and subsequent reporting periods, grouped together by interval in the most significant way for the entity. As a more informative alternative, the following figure may be used:

	Maturity (payments per period)				
Contractual obligations	**Total**	**Within 1 year**	**1 to 3 years**	**4 to 5 years**	**After 5 years**
Payables					
Obligations under finance lease					
Operating leases					
Purchase commitments[60]					
Other obligations[61]					
Total contractual obligations					

4 Main risks and uncertainties

4.1	Operational risks
Contents	Analysis of the entity's objectives and the actions it carries out to manage operational risks.

Description of the operational risks and the uncertainties that represent:

The most important objectives and actions in the reporting period to mitigate operational risks (in particular, those relating to industry regulation operating security, the concentration of customers and suppliers and internal control failures):

4.2	Financial risks
Contents	Analysis of the entity's objectives and the actions it carries out to manage the risks connected with the use of financial instruments. In each case an indication is given of the level of acceptable risk and the entity's hedging policies.

Interest rate risk:

Foreign currency risk, making a distinction between transactions in currencies other than the euro and investments in subsidiaries with a currency other than the functional currency:

Financial instrument price risk:

Commodity price risk:

Credit risk:

60 "Purchase commitments" are understood to be agreements to purchase goods or services that are enforceable and legally binding on the entity, in which all the important terms and conditions are specified, including: set or minimum amounts that must be acquired, price provisions (pre-set, minimum or variable) and the approximate terms in which the transactions will be performed.

61 "Other obligations" are understood to be other financial liabilities reflected in the entity's balance sheet.

5 Significant events after the reporting period

5	Significant events after the reporting period
Contents	Expected consequences of the events occurring after the reporting period.
Events providing evidence of conditions that existed at the end of the reporting period:	
Events indicative of conditions that arose after the reporting period:	

6 Information on the outlook for the entity

6	Outlook for the entity
Contents	Foreseeable effects of the decisions taken on the overall evolution of the key variables relating to the entity's financial position, profitability and cash flows. Recommendations 34 and 35 of Section III may provide certain indications for covering this area.
General forecasts regarding the financial position:	
General forecasts regarding results and profitability:	
General forecasts regarding cash flows:	

7 R&D&I activities

7	R&D&I activities
Contents	Objectives and activities relating to research, development and innovation, with the results obtained and the foreseeable impact on the entity.
Efforts relating to R&D&I (affected segments, material and financial resources used):	
Results of the R&D&I activities in the reporting period (patents, procedures, production improvements, etc.):	
Impact of R&D&I on the entity's outlook (if not included in point 6):	

8 Acquisition and disposal of treasury shares

8	Acquisition and disposal of treasury shares
Contents	Objectives and policies relating to the entity's treasury share transactions that enable it to explain the activities performed in the reporting period.
Explanation of, and reasons for the main treasury share purchase transactions in the year:	
Explanation of, and reasons for the main treasury share sale transactions in the year:	
Percentage of the issued shares and foreseeable use to which the treasury shares held by the entity at the end of the reporting period will be put:	

9 Other salient information

9.1	Stock market information
Contents	Commentary on the evolution in the year of the key indicators that show the share performance on the market.

Commentary on the changes in the share price in the year, with a comparison to the market as a whole:

9.2	Dividend policy
Contents	Explanation of the dividend policy followed by the company, based on the results obtained.

Commentary on the dividends declared in the year, as part of the policy followed by the entity, with an indication, where appropriate, of the prospects regarding the continued implementation of this policy in the future:

9.3	Credit rating management
Contents	Information, where appropriate, on any changes in the credit rating in the reporting period.

Comments on the changes in the entity's credit rating in the reporting period, indicating the measures taken:

9.4	Other information
Contents	Description of any other news, circumstances or data relating to management that may be relevant for users.

Comments

Appendices

Appendix A: Examples and proposals to serve as guidance (in relation to Section III)

These examples, which are merely for illustrative purposes, have been selected from true cases and have been drawn up to better explain the guide's recommendations. They have no regulatory value and are not intended to cover all the matters that could be addressed in the management report, as their sole purpose is to act as a guide so that companies may draw inspiration from them when drafting certain of the sections of which management reports are composed. As the sources of the texts are highly diverse, upon reading them a degree of heterogeneity may be noted, but it has been considered that they contribute the value added of covering a broader spectrum of entities, management styles or business sectors. In most cases names, figures and dates have been replaced with generic references ("X", "Y", "Z", "N" or similar denominations), in order to avoid revealing the sources.

A.1 Situation of the entity

Example of the organisational structure

Organisational structure: among the main responsibilities of the group's board of directors are strategy management, resource allocation, risk management and corporate control, in addition to accounting and financial reporting.

The group's executive committee (GEC) is made up of the members of the board of directors, heads of major business segments who do not sit on the board of directors and the head of region "A". On (date:) the appointment of the head of region "B" (which excludes country J) as a member of the GEC became effective. His/Her appointment underlines the strategic importance of this region as one of our most important growth factors. At its regular meetings, the GEC analyses business performance, discusses issues related to the strategy of the group and makes recommendations which are then presented to the board of directors. Mr "Z" chairs the two bodies, the board of directors and the GEC.

Example relating to strategy

Strategy: despite the volatility of the IT industry over the last decade, the company has achieved excellent returns with stable growth in earnings per share. The company has changed its business structure, discontinuing certain segments while increasing its presence in high-value areas such as software services and integrated solutions. As part of this change, it has acquired more than X companies since year "N" to supplement and adjust its portfolio of products and offerings.

This very clear strategy adopted by the company has led to stable earnings in key business areas, while its offering and the number of potential markets have both grown. The detail of the cornerstones of this strategy is as follows:

– Transmission of value to the company's customers through business integration and information technology innovation.

– Redirection of the structure of the business towards higher value-added products and services.

– Become the leading globally integrated entity.

Consistent with this strategy, the company is also using its capabilities to strengthen its position in certain growth areas. Some of the growth initiatives of the company are "Initiative 1", "Initiative 2" and "Initiative 3". Each represents a significant growth opportunity with very attractive profit margins for the company.

Example of a description of the business model

Business model: the company's business model is designed with the aim of achieving two main goals:

1) Help customers to increase their capacity for innovation, efficiency and competitiveness through the application of business knowledge and solutions based on information technology.

2) Provide long-term value to the company's existing stakeholders.

The business model has been developed over time through strategic investments in capabilities and technologies with a potential for higher long-term growth in relation to the value they are able to provide company's customers.

The company's overall capabilities include services, software, systems, research and the funding required by these capabilities. The extensive range of businesses and capabilities are combined so that it is possible to offer integrated solutions to the company's customers.

The business model is sufficiently flexible to adapt to the ongoing changes that occur in the market or in the global economic context. The company continues to sell certain businesses and strengthen its position through strategic organic investments and the acquisition of high-value segments such as "A, B or C". In addition, the company has become a globally integrated enterprise, which has resulted in an improvement in its overall productivity, and is directing its investments and operations at markets with the highest growth rates in the world.

The business model -underpinned by the company's financial model- has enabled it to achieve strong revenues and cash flows and high returns for stakeholders on a sustainable basis.

A.2 Outlook and earnings for business activities

Example of commentaries on the changes in evolution of sales and profits

	Year N		Year N-1	
Segments	**Millions of euros**	**Percentage of the total**	**Millions of euros**	**Percentage of the total**
Segment 1	A	M	S	P
Segment 2	B	N	T	Q
Segment N	…	…	…	…
Revenue	∑V(N)	100	∑V(N-1)	100

	Year N		Year N-1	
Segments	**Millions of euros**	**Percentage of the total**	**Millions of euros**	**Percentage of the total**
Segment 1	X	K	W	Q
Segment 2	Y	L	Z	R
Segment N				
Segment profit	∑B(N)	100	∑B(N-1)	100

Sales increased in all segments with respect to year N-1, except in "Segment 1" due to the crisis that the geographical area covered by the segment activity is experiencing and the considerable increase in local competition. For this reason, the results of this Segment are negative, and will probably continue to be for the next two years. To put an end to this situation, agreements are being entered into with very powerful distributors in the region, who consider this time period necessary in order to consolidate their commercial channels.

The sharp increase in the sales of "Segment 2" was due to the bankruptcy of one of our major competitors, which has left the market partially undersupplied. This situation will be short lived, as the entry of new owners in the competitor group will restore production levels in the near future.

Example of commentaries on the evolution of changes in profit/loss from operations:

(in millions of euros, except percentages)	N	N-1	Change (N / N-1)
Revenue	X	M	-S%
Operating expenses	Y	N	T%
Earnings per share (diluted)	Z	O	U%

Year N compared with year N-1

Operating income increased primarily due to the sales of products from the “A” Range -the new OS X-2020- but decreased due to the low demand for the products of the “B” Range, the updating of which was discontinued two years ago. The negative performance of the euro against the US dollar had an adverse impact on the final figure for revenue this reporting period.

Profit from operations increased as a result of a rise in revenue, partially offset by higher operating expenses. The main changes in operating expenses were as follows:

– The cost of sales increased by EUR “P” million due to the higher cost of foreign purchases and the average increase of “k%” in staff costs for the year, arising from the obligations assumed vis-à-vis employees in collective bargaining processes in prior years.

– The advertising and selling expenses increased by EUR “H” million, as a result of the major effort in promoting the “A” Range and the operating system.

– The research and development expenditure not capitalised increased by EUR “G” million, due to the improvements made to the “OX” operating system.

– In addition, losses on uncollectible receivables increased by EUR “Q” million and higher local taxes accounted for an increase in costs of EUR “B” million.

The significant change in diluted earnings per share is a reflection of the increase in revenue net of operating expenses and of the lower effective income tax rate. Acquisitions of ordinary shares during the reporting period also had a positive effect on the final figure for earnings per share.

Example of commentaries on price seasonality

Additionally, the price of product “X” has a distinctly cyclical nature, having experienced considerable price volatility in recent years. This price behaviour is associated primarily with changes in volumes or the conditions under which supply and demand are established, and the financial position of the various market operators. To reduce this risk, in recent years the group has made significant investments aimed at increasing productivity and the quality of the product sold. Also, the possibility of using hedges on the price of product “X” for future sales is assessed on an ongoing basis. Regardless of the cyclical behaviour of the market, the business of producing and selling product “X” carried on by the group is subject to the industrial and commercial risks inherent to this industry and the term of the concession for the factory located in “place”.

Example of commentaries on the changes in sales

For the segment/product S, revenue in year "N" was EUR "X" million, representing an increase of "X%" with respect to the EUR "Y" million earned in year "N-1". This increase in revenue was due mainly to the "T%" increase in sales of products and, to a lesser extent, a favourable exchange rate, which helped increase revenue from sales by "P%".

Example of commentaries on the changes in the gross margin

The cost of goods sold amounted to EUR "X" million in year "N", representing "X%" more than the EUR "Y" million incurred in year "N-1 ". The gross margin decreased from "Y%" in "N-1" to "X%" in "N" (Y>X). The reason for the decrease in this margin is the increase in raw material prices, to which the negative impact of the increase in the cost of labour must be added.

Example relating to raw material prices

The raw materials used in the production process of "Product 1" (or of "Segment 1"), experienced a significant price increase in the reporting period. In certain cases these effects were significant and, therefore, in the severest cases, the combination of the effects of pressure on the end prices of the products and the price rise in raw materials made the manufacture of certain products unprofitable.

Example of reconciliation with figures obtained from the financial statements

When presenting earnings, the group considers that the calculation and presentation of free cash flow and operating free cash flow -despite not being measures recognised within the framework of IFRSs- are useful to users of the information for the following reasons:

The free cash flow enables both the group and third parties to measure our liquidity and the cash generated by the operations of the group. This indicator reflects the cash available for discretional activities.

The free cash flow makes it easier to compare earnings with other companies, although our measurement of free cash flow may not be directly comparable with indicators with the same or a similar name published by other companies.

These measures are used directly by the company's managing bodies for purposes of planning, reporting or establishing incentives.

These measures are useful for financial analysts and rating agencies.

Following is a reconciliation of the free cash flows to the figures obtained from the financial statements:

(amounts in millions of euros)	N	N-1	Change
Cash generated by operating activities	Z	Y	O%
Capex	(B)	(A)	-P%
Disposals of assets and rights on property, plant and equipment	C	D	Q%
Operating free cash flow	G	H	I%
Taxes	F	E	V%
Dividends received from associates and other investments	W	W	R%
Dividends paid to non-controlling shareholders of subsidiaries	(L)	(J)	M%
Interest received and paid (net)	K	N	S%
Free cash flow	T	U	-X%

Free cash flow decreased by “X%” to EUR “T” million due to higher tax charges and the payment of dividends to the non-controlling shareholders of subsidiaries. However, this negative impact was tempered by an increase in cash generated by operations and lower capital expenditure disbursements.

Cash generated by operating activities increased in year “N” by “O%” to EUR “Z” million, due to favourable exchange rate fluctuations and improved working capital. Capex decreased by “P%”, due largely to a decrease in the expenditure on investments in “Market 1”. Tax payments increased by “V%” compared to “N-1”, which was due to the elimination of the exemption for prompt payment that existed in the “Market 2” during that reporting period. Dividends received from associates and investments remained stable at EUR “W” million. The net interest payments decreased by “S%” to EUR “K” million, due to a lower net average debt balance.

Example of disclosures on environmental management

The company is committed to the integration of the concept of “sustainability” in its business, especially with regard to resource conservation and climate change. For us, this is an opportunity and a responsibility.

Strategies and plans

Our environmental strategy acknowledges the company’s impact along the entire value chain, from raw materials to finished goods. Our aim is, firstly, to reduce the company’s impact on the environment and second, to save costs, which are estimated to amount to EUR “X” million until year “N +5”. This dual objective will be achieved through a reduction in demand for energy, materials and distribution costs. The analysis of the impact of the company on the environment shows that we need to focus on three main areas:

1. *Reducing CO_2 and other substances that contribute to climate change*: action needs to be taken within the scope of the company’s own operations, which generate 40% of the CO_2 emitted to the atmosphere (the rest is divided among product use by customers, distribution, etc.). Since year “N-3” resources have been allocated to a fund to finance energy saving projects. A total of “x” projects have been completed to date, which have prevented the emission of “t” tonnes of greenhouse gases into the atmosphere. Investment in renewable energy production has also increased through the fund created for this purpose.

2. *Use of water*: in year "N" the company reduced water consumption by approximately "m" million litres. Net water consumption decreased from "y" to "z" between "N-3" and "N", which is an improvement of "X%" with respect to the established target. The company also improved wastewater treatment.

3. *Environmental management, which includes the use of materials, the generation of waste and pollution*: the company attempts to ensure efficient use of materials, by minimising the generation of waste, pollution and harm to persons and the environment. Increasing the efficiency with which materials are used is a priority and aims to achieve a reduction of "Z%" until year "N +5". This will help to reduce the use of raw materials and the generation of waste by "H%", which will represent a reduction "v" times higher than the norm for this type of industry.

The company manages environmental issues using a system in accordance with recognised international standards, focusing on prevention and planning rather than on subsequent intervention to remedy adverse events that have already occurred. Each segment is responsible for achieving the management, sustainability and improvements in this area.

The internal audit team includes environmental issues among its routine tasks and inspections of plants and processes, and reports its finding to the audit committee on a regular basis. The company is working in conjunction with its suppliers to reduce the environmental impact of the production process.

Example of disclosures the impact of emission allowances on the financial statements

Profit from operations for the year ended "31/12/N" was positively affected by a net gain of EUR "X" million from the sale of "carbon credits" (which will be reinvested in energy saving projects). In year "N-1" income of EUR "Y" million was recognised in this connection.

As mentioned previously, the gains on the sale of "carbon credits" will be used in full to finance energy efficiency projects.

Example of disclosures on employees and the remuneration policy

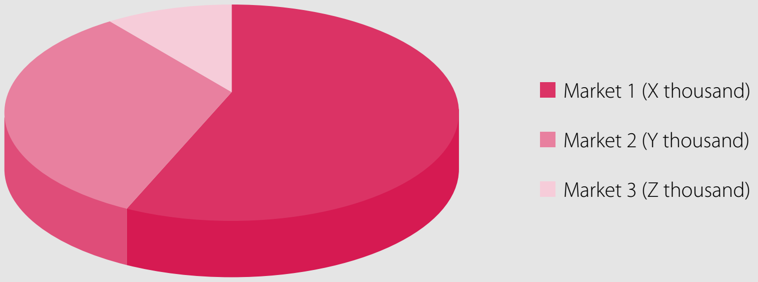
Performance and remuneration

Advancement within the company is configured to promote high performance, which helps retain the best employees and also attracts new hires. The performance-based remuneration, bonuses and share-based incentives serve the function of aligning the interests of employees with the objectives of the company, at both short and, especially, long-term.

Communication and the employees' degree of involvement

Our communication channels are designed to keep employees informed of, committed to and involved in the activities across all areas of the company. Management encourages open and honest communication with employees. In year "N" a new and updated intranet portal was introduced. In view of the evolution of the business, changes that affect employee are expected to take place; however, the company will remain committed to these policies and the employees will be consulted internally about such changes.

Distribution of the employees by segment



Inclusion and diversity

The company is committed to employment policies free of discriminatory practices against existing and potential employees on the basis of race, colour, creed, age, disability, etc. The company is particularly committed to providing access to the recruitment process to potential employees with mental handicaps through positions specially designed for them to enable them to develop their skills.

Health and safety

The health and safety programmes are designed to address the causes of excessive pressure in the work environment and the pursuit of reconciliation of work and family life.

In this regard, the company has set out to minimise the number of accidents in the workplace because they reduce employee morale and damage the reputation of the company. An indicator has been developed based on the average time lost due to injuries or occupational illness per million hours worked. The company's goal is for this indicator to fall by "X%"; this objective was achieved in year "N", because the indicator stood at "P", whereas in year "N-1" the value was "Q".

Although the company carries out campaigns to reduce absenteeism among employees, over the last three years it has not been possible to significantly reduce the rate of absenteeism of factory (by "T%") and sales staff (by "Y%"), although absenteeism among administrative staff and the purchasing and warehouse divisions has been virtually eliminated.

Employee satisfaction

The company needs to ensure that it retains the best employees and, therefore, it needs to know what their level of satisfaction is and how the work environment is changing. To this end, as in previous years, a survey was conducted among company employees in which they were asked to indicate their degree of satisfaction on a scale from 1-5. The results indicate that the average degree of satisfaction of the workforce is "Z" points ("W" points in "N-1") (Z>W). This change in the degree of satisfaction is due to "reason 1", "reason 2" and "reason 3". The breakdown of the results, by geographical area, is as follows [*breakdown by geographical area*].

A.3 Liquidity and capital resources

Examples of a description of the cash situation and management

CASE 1:

At “N” (date) the company’s main source of liquidity was a cash item amounting to EUR “X” million. There is no available source of liquidity which has not been used.

CASE 2:

In the current complex scenario in which obtaining liquidity is a complicated and increasingly expensive exercise, the company ensures its liquidity by arranging long-term loans and credit lines.

The company’s cash is managed centrally in order to achieve maximum resource optimisation based on cash pooling systems. Debt is concentrated at the parent (“X%” of the total at the end of “N” and “Y%” of the total at the end of “N-1”).

Example of disclosures on the generation of liquidity

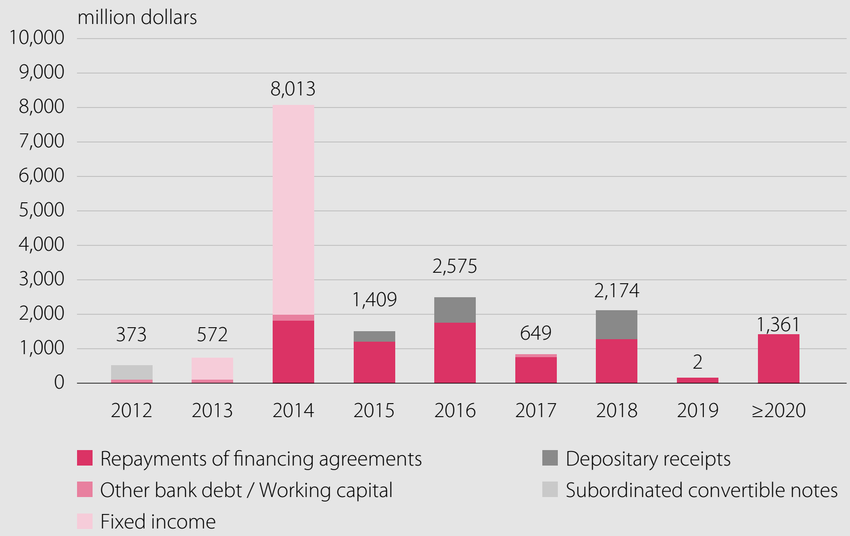
Management believes that given the current levels of spending, approximately EUR “X” million will be required in order to maintain the company’s operating capacity over the next twelve months. In addition, the company has a debt of EUR “Y” million which will mature during this period.

Some of the funds will be generated through future revenue collection and debt rescheduling agreements, although there is no certainty as to the outcome of such restructuring.

Company management is considering various options and is exploring alternatives to obtain the cash required to maintain the company’s operating capacity and achieve the objectives set for the next twelve months, either through the arrangement of debt or equity. If the additional funds described are not obtained, the company would be forced to restrict, or reduce, its level of operations. Furthermore, the failure to obtain sufficient capital to maintain the company’s operating capacity could have an adverse effect on its earnings.

Example of disclosures on the policy regarding the term of borrowings

The company's total borrowings at 31/12 year "N (N-1)" amounted to EUR "X (Y)" million, of which, EUR "V (W)" million were classified as current borrowings, or non-current borrowings maturing at short-term, and "XV (Y-W)" as non-current borrowings. This increase (X>Y) in the level of borrowings is due to [*insert reason*].



A 31/12/"N", the average maturity profile of borrowings (EUR "P" million) was "t" years. The accompanying bar chart details the exact amount of borrowings and the maturity thereof:

The company seeks to match the maturity profile of its debt to its capacity to generate the cash flows needed to repay it, maintaining a suitable buffer. In practice, the goal is to attempt to ensure that the average maturity of the company's borrowings is at least "y" years (e.g., y> t), or that this time period is regained in a reasonable period of time if it were to fall below this period.

Examples of disclosures on the composition of capital resources

CASE 1:

The company does not expect any material change in the ratio of equity to debt, or in the relative cost of capital resources in year "N +1", compared with that of year "N".

CASE 2:

The company expects that in year "N +1" the following changes will take place with respect to liquidity and capital resources. On one hand, the cash and cash equivalents position will foreseeably decrease as a result of increased cash used in operating and investing activities and in debt repayments to third parties not related to the company.

On the other hand, the company's objective is to endeavour to reduce its debt, which will lead to a decrease in the debt-to-equity ratio.

Example of a table of liability maturities

The MRWG proposes the use of a tabular format to provide the breakdown of the scheduled maturities of all contractual obligations, accrued or otherwise. This tabular presentation should include, in principle, all the obligations included in the categories listed in the table below.

The proposed time intervals cover various maturity scenarios of the company's contractual obligations, however, different intervals could be used if in this way the understanding of the information detailed is improved.

		Maturity (payments per period)			
Contractual obligations	**Total**	**Within 1 year**	**1 - 3 years**	**4 - 5 years**	**After 5 years**
Borrowings					
Obligations under finance leases					
Operating leases					
Purchase commitments[62]					
Other obligations[63]					
Total contractual obligations					

The tabular format is accompanied by footnotes, or other types of comment relating to the information contained in the table that facilitate the understanding of the maturities and amounts of the company's contractual obligations. Also, although the table contains figures that are not reflected in the balance sheet (off - balance sheet transactions), the other figures should correspond to those contained in the company's audited financial statements for the last reporting period.

Examples of disclosures on the limits on the transfer of funds

CASE 1:

The company is part of a group that operates in the "1, 2, 3 and 4 market segments". To date, except in "Market 3", we are unaware of the existence of any economic or legal restrictions on the possibility of transferring funds to the company from subsidiaries, either as dividends, loans, advances, capital repatriation or any other form. However, there is no certainty as to whether such restrictions will be adopted in the future. If they are adopted, the potential impact on the business would be [...]. The geographical diversification of the business would reduce the impact of any such restrictions, should they be adopted in any of the countries in which the company operates.

CASE 2:

The company depends on dividends, distributions and other payments from our subsidiaries to finance the payment of its obligations. Restrictions of a regulatory or legal nature could limit our ability to transfer funds freely.

62 Purchase commitments are understood to mean an agreement to purchase goods or services that is enforceable and legally binding on the entity, which specifies all significant terms and conditions, including: certain or minimum amounts that must be purchased, price provisions (pre-established, minimum or variable) and the approximate periods in which the transaction will be performed.

63 "Other obligations" are understood to be other financial liabilities reflected in the entity's balance sheet.

Example of off balance sheet transactions

In the ordinary course of business, and in order to manage its own operations and financing, the company has resorted to performing certain transactions that are not reflected in the balance sheet, such as guarantees or other obligations, in relation to both capital expenditure and other expenses.

The total amount of possible penalties and other guarantees, on which no losses have arisen, was EUR "X" million for year "N" (EUR "Y" million for "N-1").

Our goal is to optimise borrowing costs on certain financial transactions. In this regard, when it is economically beneficial, we have opted to use operating leases instead of purchasing assets. The future rental payment obligations amount to EUR "Z" million (EUR "V" million in "N-1"), which correspond to the lease of "Equipment" in "Market 1". The amount that had to be paid as a result of continuing operations in year "N" was EUR "W" million (EUR "T" million in "N-1").

A.4 Main risks and uncertainties

Example of disclosures on operational risks

Main risks associated with the activity: due to the very nature of the activity (production and sale of products for human consumption), the risks are mainly concentrated in three areas: food and environmental safety, specific responsibility of the Quality Department, which reports regularly to the General Manager who in turn reports to the Executive Chairman; Customer credit risk, responsibility of the Risk Committee, which reports directly to the General Manager; and Industrial safety on the integrity of the company's business assets.

All the processes –in line with the certification standards that the group has consolidated– include mechanisms to identify, quantify and hedge risk. Notwithstanding the foregoing, the Board of Directors closely monitors the situations that may pose a significant risk and the measures taken in this regard, including the periodic testimonies of the persons responsible for risk areas.

Example of disclosures on interest rate risk

The company's financial instruments are exposed to interest rate risk (floating interest rates), which poses a degree of uncertainty regarding the amount of interest payable. In order to manage this risk, the interest rate curves are analysed regularly and on occasion derivative instruments consisting of interest rate swaps are used that satisfy the conditions for being considered as cash flow hedging instruments. The fair value of the interest rate swaps is the estimated amount that the company would receive or pay to settle the swap at the balance sheet date.

Example of disclosures on foreign currency risk:

The risks related to exchange rates and the policy to manage them are summarised as follows:

- In order to control the foreign currency risk on transactions in currencies other than the euro, the company uses purchase and sale currency forward contracts. They are negotiated by the "D Department" in accordance with policies approved by management.

- To control the exchange rate on financial transactions, relating mainly to long-term loans received in currencies other than the euro, the company uses financial derivatives such as "cross currency swaps".

- The company is also exposed to foreign currency risk as a result of the translation of the financial statements of three of its subsidiaries in Latin America, the functional currency of which is not the company's presentation currency. The sensitivity to a change in the value of the euro against these currencies is as follows: (include table/paragraph that shows/describes a sensitivity analysis).

Example of disclosures on price risk (raw materials)

To address the risk of volatility in raw material prices, a natural hedge is applied to "X%" of the company's sales through the application of an alloy surcharge that makes it possible to pass on to the customer the price fluctuations in "Material m" on the commodities exchange of "Country P" in the period of manufacture of the order as well as fluctuations in the euro/US dollar exchange rate.

Owing to this hedge, a decrease of "Y%" in the price of "Material M" in the commodities market of "Country Q", represents for the company a change in the gross margin as a percentage of sales of "Z%" (Z>Y).

Example of the assessment of credit risk

It is company policy to hedge credit risks through credit insurance, documentary credits or bank guarantees confirmed by banks with AA credit ratings in countries with low financial risk. In year "N" compensation arising from the insurance policy amounting to EUR "X" million was claimed (EUR "Y" million in "N-1").

The company also has a risk committee responsible for monitoring the company's policy regarding credit risk. Also, if necessary, customers' creditworthiness is analysed on a case-by-case basis, establishing credit limits and payment terms and conditions. Customers who do not meet the necessary credit conditions are billed in cash. Depending on the local laws of the country in which the customer operates, there are retentions of title clauses which make it possible to recover the goods in the event of default.

The company makes any valuation adjustments to trade receivables that it deems necessary to provision for doubtful debt risk, to cover balances of a certain age or those affected by circumstances that allow them to be reasonably considered to be doubtful debts.

Example of disclosures on customer concentration and the management thereof

In "Market 1", the company's sales are concentrated at certain large customers. Sales to the three largest customers in year "N" generated X% of all profits obtained by the company in that market (Y% in "N-1"). On 31/12/"N", the company had notes receivable from these customers amounting to EUR "V" million (EUR "W" million at 31/12/"N-1").

The company is exposed to a concentration of credit risk with respect to these large customers and, therefore, if one of them had some kind of financial problem, the negative impact on the financial profit or loss of the company could be significant.

Example-proposal of tabular presentation of interest rate risk

	Financial assets (define) (a)		Financial liabilities (define) (a)		Net exposure before interest rate hedging instruments (c)=(a)-(b)		Hedging instrument interest rate (d)		Net exposure after hedging transactions (e)=(c)-(d)	
31/12/N	At fixed interest rate	At floating interest rate	At fixed interest rate	At floating interest rate	At fixed interest rate	At floating interest rate	At fixed interest rate	At floating interest rate	At fixed interest rate	At floating interest rate
Within 1 year										
Between 1 and 2 years										
Between (other intervals)										
After 5 years										
Total										

NOTE: For a better understanding of the company's exposure to this type of risk, the foregoing information could be broken down based on the exposure by currency, where necessary

Example-proposal of tabular presentation of foreign currency risk

31/12/N	Assets (a)	Liabilities (b)	Obligations denominated in a foreign currency (c)	Net position before hedging transactions (d)=(a)-(b) +/- (c)	Hedges (e)	Net position before hedging transactions (f)=(d)-(e)
EUR						
USD						
Other						
Total						

Example-proposal of presentation of risk exposure to financial instruments

Assets

31/12/N	Assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Hedging derivatives	Total
Shares					
Bonds and interest rate instruments					
Cash equivalents and other current financial assets					
Derivatives					
Other instruments					
Total					

Liabilities

31/12/N	Liabilities at fair value through profit or loss	Available-for-sale financial liabilities	Other financial liabilities	Hedging derivatives	Total
Deposits from banks					
Customer deposits and loans					
Debt securities					
Derivatives					
Other instruments					
Total					

Example-proposal relating to commodity price risk *(table of purchase and sale of contracts)*

Raw material "X" (or rather for all raw materials)	Nominal amount by maturity			Total	Market value	Entity's intention (own use, hedging, trading)
	N + 1	N+ 2	N + …			
Exchange rate or unit of measurement						
Buy contracts						
Futures or purchase options						
Buy contract hedge						
Sell contracts						
Put options						
Buy contract hedge						

A.5 Significant events after the reporting period

Example of disclosures on events after the reporting period

CASE 1

From December 31 "N" up to the date of preparation of the consolidated financial statements, the following events took place at the group, which do not affect the amounts contained therein:

Financing activities

- On "day d of month m" of "N +1", "company 1" renewed the loan from "Bank B", guaranteed by the group, for a total amount of USD "X" million (equal to approximately EUR "Y" million) at a floating rate and maturing in N+20. This renewal removed the uncertainty existing at 31 December, which led to the classification of the loan under current liabilities in the consolidated balance sheet at that date.

- On "day d of month m" of "N+1", as part of its programme to issue debt instruments, "Company S" registered with the Financial Services Authority ("FSA") in London and updated on "day d of month m" of year "N", a EUR "Y" million an extension to the issuance of mortgage bonds carried out on "day d of month m" of "N" for an initial aggregate amount of EUR "Z" million, maturing on "day d of month m" of "N +15". The amount, following the strategy designed by the board of directors, will be used to acquire non-controlling interests in subsidiaries in country "P".

Sale of the group's ownership interest in "Company S, S.A."

"Company D, S.A.U.", wholly owned by the group, entered into an agreement with "Company W" on "day d of month m" of "N +1" for the sale by the former of "S%" of the share capital of the Company H held by it. The purchase and sale amounts to EUR "T" million, which "Company D, S.A.U." will receive in cash when the transaction is closed. The agreement is subject, among other conditions, to the approval of the transaction by the Spanish cabinet.

CASE 2

The coup d'état that occurred in the country "PZ" last February raises uncertainties about the evolution of the group's business in the region in which "PZ" is located. Although there is no risk regarding the group's assets, operations may not return to normal for several months and, therefore, a decrease in sales can be expected as well as a possible reduction in profits in the coming year, which are currently impossible to quantify.

A.6 Information on the outlook for the entity

Example of information on the outlook for the group

To estimate the prospects of the group it is necessary to consider the evolution and development achieved in recent years, which points to a future that offers medium-term growth prospects. The group's medium-term strategy is based on the growing contribution of the activities related to the "A", "B", "C" markets, and the continuing development of the activities in market "D".

Moreover, the strengthening of the group's capacity in market "A" through "Segment 1", the increased production capacity of "Product X" as well as the development of the "T" business, will also help to strengthen long-term prospects. To the extent that current projections are met, "the group" will have a new business base that may be stable and ongoing for the coming years.

With the understandable reservations caused by the current situation but taking into account the greater flexibility of the organisational structure, the specialisation and diversification of activities within the investment opportunities projected for the domestic market and the competitive capacity in the international market, as well as the exposure of a portion of its business activities to the sale of raw materials and currencies other than the euro, we are confident that the group should be in a position to continue to progress positively in the future.

Example of disclosures relating to the outlook for the entity

Our revenue, earnings and financial position are affected by, among other things, the market conditions that affect the demand and pricing of "Activity 1" and "Activity 2" and the decisions of our customers with respect to whether to use our products and services rather than buy equipment from or contract our competitors. However, we believe that, unless there is a significant and widespread global recession, industrial activity should be less affected in view of the longer-term nature of the development projects of "Activity 1" and "Activity 2" in international markets.

Example of disclosures on changes in significant items

For the year N the group expects its consolidated revenue to be close to EUR "X" million, while its gross profit from operations should stand at EUR "Y" million. Net debt at year-end is expected to be less than three times the EBITDA discussed in the previous sections, thereby fulfilling one of the basic objectives of the financial policy decided upon by the Board of Directors.

To achieve these objectives the group will continue to implement its operating policy of internationalisation, operating efficiency and the search for profitability.

In terms of debt, the divestment plan initiated in year N-3 will continue to be implemented, based on selling assets that are considered mature and non-strategic, including "Asset A", "Asset B", "Asset C", and other developed businesses. The losses on the sale of these assets –to be made in the coming two years– are not expected to have a significant effect on consolidated earnings.

A.7 R&D&I activities

Example of the disclosures on R&D activity policy

The group carries out research and development activities in the following fields:

a) development of "A"-based new products,
b) design of containers and packaging, and
c) enhancement of industrial production processes.

To carry out these activities a Research Division was created, provided so far with a permanent staff of "I" researchers, who carry out certain programmes, approved by the Board of Directors, in association with universities and other research centres.

Based on the average for the last three years, "P%" of the group's consolidated sales revenue has been earmarked for research and development, although the target over the next five years is "Q%".

Example of R&D&I

The company remains committed to technological innovation as a key tool to gain competitive advantages, pre-empting market trends and differentiating its products. By introducing new technologies and developing new products and business processes, we seek to become a more effective, efficient and customer-oriented group.

We have developed an open innovation model for managing technological innovation, with priorities for applied research and development, or R&D, which are aligned with our strategy. This model promotes open innovation initiatives such as the creation of a venture capital fund and participation in forums of cooperation with the company, among other activities.

It also makes use of the know-how developed at technological centres, universities and start-ups, among other sources, and encourages innovation in association with other agents that become "technology partners", including customers, universities, public authorities, suppliers, content providers and other companies. The group believes that differentiating its products from those of the competitors and improving market position must not be based solely on acquired technology.

It is also important to promote R&D in an effort to achieve this differentiation and to make headway with other innovation activities. The objective of the group's R&D policy is to:

- Develop new products and services to gain market share;
- Increase customer loyalty;
- Improve innovation management;
- Promote global products;
- Support open innovation.

In year "N" projects relating to sustainable technological innovation, process efficiency, the creation of new sources of revenue, customer satisfaction, the presence in new markets and technological leadership were carried out. Technological innovation activities are integral to the activities of the “Business segment 1”, “Business segment 2” and “Business segment 3”.

Most of the R&D activities are carried out by División de Investigación y Desarrollo, S.A.U. our wholly-owned subsidiary which primarily works on its own business lines. In carrying out its functions, División de Investigación y Desarrollo S.A.U. receives assistance from other companies and universities. Its mission focuses on improving our competitiveness through technological innovation and product development. Our R&D division conducts experimental and applied research and product development to extend the range of our services and reduce operating costs. It also provides technical assistance to its operations in Latin America and Europe.

The technological innovation activities at División de Investigación y Desarrollo S.A.U. focus on certain areas, which are as follows [*detail areas*]. At December 31 “N”, División de Investigación y Desarrollo S.A.U. had “I” employees and was working with skilled professionals from more than “E” companies and “Z” universities.

The total expenditure on R&D was EUR “X” million and EUR “Y” million in “N” and “N-1” respectively. These costs in turn accounted for S% and T% of consolidated revenue. These figures were calculated using the guidelines established in the OECD manual.

In “N” the group registered “P” patents, “S%” of which were registered at the Spanish Patent Office and (1-S) at the European Patent Office, the US Office or are international patents.

Examples of company innovation

The company understands research and development to be a series of activities aimed at introducing innovative elements in the business. These range from introducing new technologies to improving sales processes, etc. Based on our strategic objectives the following initiatives and activities were carried out in year “N”:

– Trials regarding the new generation of [...]
– New machine to machine (M2M) capacities for [...]
– Use of specific designs for process safety [...]

Investment in research –essential for the company– amounted to EUR “I” million in “N” (EUR “U” million “N-1”); an amount charged in full to income, since it was commissioned from specialised companies and university research centres.

In “N” and “N-1” the cost of development projects, using entirely in-house resources, amounted to EUR “X” million and EUR “Y” million, respectively. Of this amount “S%” was capitalised in “N” (“T%” in “N-1”). The company expects to maintain a similar level of expenditure on R&D in “N +1”.

Expenditure on innovation projects, charged in full to income, amounted to EUR “V” million in “N” (EUR “W” million in “N-1”).

As a result of the achievements in the development of new products, the launch of a brand of “X” and one specific to “Y” are being completed. Additionally, five patents related to manufacturing processes for these products were registered, two of which have been assigned for use by third parties for a period of ten years.

A.8 Acquisition of treasury shares

Example of disclosures on acquisitions due to withdrawal of a shareholder

In "N", one of the shareholders exercised its right of withdrawal and the company bought its shares, as provided for in the bylaws approved by the shareholders at the Annual General Meeting. After the appropriate valuation of the shares, the company purchased 0.5% of the ordinary shares –the full shareholding of the withdrawing shareholder– for a price of EUR "X" million. In order not to adversely affect the price of the other shares, it was decided to submit a request to the General Meeting for the retirement of the shares, which will be performed in the coming months if the related approval is obtained. The effect that the purchase and subsequent retirement will have on equity per share is a reduction of EUR 0.12 with respect to the value at year end.

Example of disclosures relating to treasury shares to cater for long-term remuneration plans

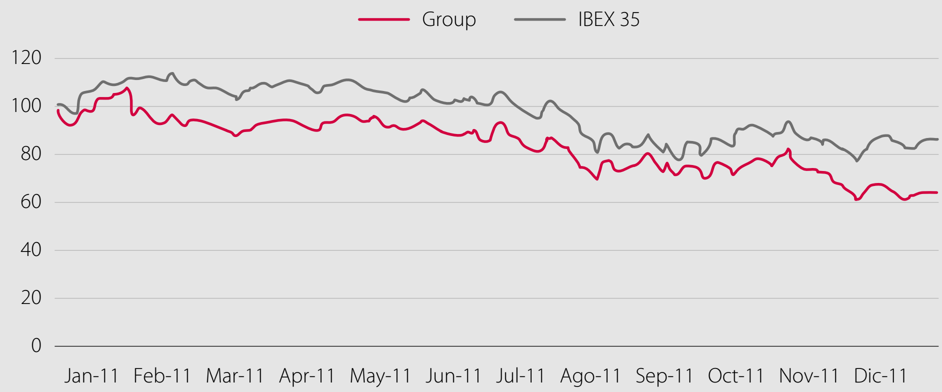
In the past the group's policy was based on a lack of intervention in the stock market, leaving traders to set prices according to conditions of supply and demand. Three years ago the Board proposed the acquisition of treasury shares account to the shareholders at the General Meeting in order to cater for the share-based remuneration plan established for employees of the group to acquire -in two years when the plan vests and the payments have to be made- "X%" of the ordinary shares, or a smaller amount if the shares granted to the employees (see note "N" to the financial statements) do not reach that figure.

As a result of this policy, forward purchases of treasury shares were arranged that cover "Y" ordinary shares for an amount of EUR "Z" each. These commitments ensure access to almost "W" treasury shares bought at an average price of EUR "T", which represents a significant saving over the closing price ("C%") and ensures full coverage of the obligations vested to date under the share-based remuneration plan.

A.9 Other salient information

Example of stock market information

In stock market terms, year N was negative for the IBEX 35 index and the group. The group's share price fell by X%, while the IBEX 35 registered a decrease of Y% (e.g. X>Y):



The detail of the group's key stock market data in years "N" and "N-1" is set out below:

	N	N-1
Closing price (EUR)		
Change in price		
Period high (EUR)		
Date of high for period		
Period low (EUR)		
Date of low for period		
Period average (EUR)		
Total volume of shares traded (thousands)		
Daily volume of shares traded (thousands)		
Effective total volume traded (millions of euros)		
Effective daily volume traded (millions of euros)		
Number of shares (millions)		
Stock market capitalisation at end of period (millions of euros)		

The diluted earnings per share, reported at the bottom of the income statement amount to an "X%" return on the opening market price in "N" ("Y%" in "N-1"). Also, the dividend yield earned in the year is a shareholder return of "Z%" ("R%" in "N-1") on the opening market price.

Therefore, by adding the dividend yield to the changes in the share price, the total return was "V%" in N ("W%" in "N-1").

Example of disclosures on comparative stock market performance

The major European markets ended year "N" with widespread falls affected by the sovereign debt crisis throughout Europe, which resulted in the bailout of Portugal and the request by Greece for a second bailout, continuing doubts about the financial stability of the other peripheral countries and pressure exerted by the rating agencies.

The performance of the markets in year "N" was marked by the sovereign debt crisis especially in the southern European countries. Thus, the yield on Spanish 10-year bonds closed year "N" at "X%" ("Y%" at the end of "N-1") and the spread vis-à-vis the German benchmark bond stood at "x.x" basis points ("y.y" basis points at the end of "N-1" The benchmark Portuguese bond closed with a spread of "v.v" basis points ("w.w' points at the end of "N-1"), the Italian bond with a spread of " z.z" basis points ("r.r" points at the end of "N-1", whereas in Greece, the 10-year bond closed at "t.t" basis points ("s.s" at the end of "N-1").

The group's shares saw a negative return of "P%" (EUR "S" per share at the end of "N"), underperforming European benchmark sector (-V%) mainly as a result of Spain's macroeconomic risk in view of its exposure to southern Europe and the revaluation of "Competitor 1" (+ A%) due to its high relative weighting in the index. The other main European competitors also ended the year with decreases: "Competitor 2": - B%; "Competitor 3":-C%; "Competitor 4"-D%.

However, the overall performance of the group's shares in "N" stood at "M%" (including dividends paid in "N", EUR "Q" on "day d of month m" of "N" and EUR "W" on "day d of month m"). At the end of N, the group occupied seventh position globally in the "sector S" in terms of market capitalisation (EUR "L" million) and is ranked "O" among the hundred largest companies in the world. The group's daily traded volume in the Spanish continuous market was "R" million shares in "N" ("U" million shares in "N-1").

Example of disclosures on dividend policy

The strategy of the parent of the group is to continue with the dividend policy in place to date, distributing for this purpose at least 50% of the profit of each year. To date this policy has ensured a field of "X%" of the opening market price for the year. It is currently considered that two interim dividends may be distributed a year, with a value of EUR "Y" each.

Appendix B: Indicators (relating to Section III)

The following tables contain examples of indicators, including their name, purpose or aim and, in the case of ratios, a possible calculation method that may vary according to the entity using them. Each entity should assess and, accordingly, use the indicators that are most representative of its activity, and should describe how they are calculated and, where necessary, explain what they aim to measure and their interpretation. The intention is not for all entities to apply them for the same purposes. Similarly, this list does not aim to include all the indicators to be used. Some of the indicators are ratios and others frequently used aggregates.

To improve understanding the indicators have been divided as follows: general financial and economic indicators (Table A), industry-specific indicators (Table B), social indicators (Table C) and environmental management indicators (Table D).

Industries have been divided as follows: Energy, Products and Services, Manufacturing, Construction and Real Estate and Insurance, notwithstanding that in some cases subsector ratios are given. In relation to the Banking industry, it should be noted that the proposed indicators may be found in the corresponding specific recommendation guide in Section IV.

General financial and economic indicators

TABLE A

Name	Possible calculation (Ratios)	Possible purpose
Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)	Profit or loss from operations + Depreciation and amortisation +Impairment losses + Other items that do not give rise to cash inflows or outflows from transactions (to be defined by the user)	Alternative performance measure used by entities to estimate the resources that may be obtained from operating assets.
Liquidity from profits	Cash flows from operating activities / Consolidated profit or loss	Measure of the relationship between the profit or loss and the liquidity obtained from operating activities.
Adjusted profit from operations	Profit or loss from operations + Profit or loss of associates – Non-recurring items	Measure used to assess operating performance, including the profit or loss of associates attributable to the entity and excluding any non-recurring profit or loss.
Equity structure indicators		
Liquidity ratio	Current assets / Current liabilities	Measures the company's ability to meet its short-term payment obligations.
Solvency ratio	(Equity+ Non-current liabilities)/Non-current assets	Measures the extent to which non-current assets are financed by long-term funds.
Debt-equity ratio	Net debt (Gross debt – Cash and financial assets) / Capital employed (Equity + Net debt)	Indicates the company's level of leverage through borrowings.
Debt service coverage ratio	Net debt / EBITDA	Measures the ability to repay borrowings in terms of number of years.
Profitability indicators		

Name	Possible calculation (Ratios)	Possible purpose
Gross margin	(Sales – Cost of sales) / Sales	Percentage used by management to assess the company's profitability.
ROE - Return on Equity	Profit or loss for the year / Average equity in the year	Assessment of the profits that the company obtains from its assets and liabilities in relation to shareholders' investment in the entity.
ROA - Return on Assets	Profit or loss for the year / Average total assets	Measures the return on average total assets not taking into account the company's financial structure.
ROCE-Return on Capital Employed	Profit or loss from operations profit after tax / (Fixed capital + Working capital used in operations)	Assessment of the capacity of the company's assets to generate profits from operations. It may be calculated on the basis of average capital (ROACE).
Operating or management indicators		
Inventory turnover ratio	(Average inventories in the year / Sales) x 365	Measures the average number of days that inventories remain in the company's warehouse (the effect of VAT, where applicable, should be taken into account).
Average collection (payment) period	[Average accounts receivable (payable) in the year / Sales (operating costs)] x 365	Measures the average number of days from the sale (purchase) until the related collection (payment) is made. The effect of VAT, where applicable, should also be taken into account.
Number of customers	–	Measures the company's ability to generate or, where applicable, maintain revenue.
Proportion of new customers	Number of new customers / Total customers	Measure that evaluates the company's success at attracting new customers.
Revenue from new customers	Revenue from new customers / Number of new customers	Measures the company's success with respect to the attraction of customers in the year.
Default ratio	Write-downs for the year/Sales	Provides information on the effectiveness of the process of collection from customers.
Customer cancellation rate	–	Relates to the migration, turnover or cancellation of customers in a given period.
Stock market indicators		
Market price	–	Market price of the share at the end of the reporting period.
Market capitalisation	Market price at the end of the reporting period x number of shares issued at the end of the reporting period	The company's value on the stock exchange.
PER – Price-Earnings Ratio	Share market price / Earnings per share	Its value indicates the number of times that net annual profit is included in the price of a share. A higher PER means that investors are paying more per unit of profit.
Equity per share	Equity / number of shares outstanding at year-end	Indicates the proportion of equity represented by each share.
Dividend yield	Dividend payments per share/average price	
Other		
Market share	–	Valid for analysing the company's overall performance and its future prospects. The information can be broken down by segment.
Credit rating	–	Measure of the market's perception of the company's solvency provided by the agency that awards the rating.
Exchange rates	–	It is advisable to include information on the changes in the exchange rates applicable to the various currencies with an influence on the company's cash flows, profits or equity.

Financial and economic industry-specific indicators

TABLE B

Name	Industry	Possible calculation	Possible purpose
Number of stores	Products and services	–	It is recommended to provide a breakdown by own stores (distinguishing in turn between leased or owned stores) and franchised stores/by country and segment.
Sales at own stores and franchised stores	Products and services	Revenue of own stores (franchised) / Total revenue	Measures the distribution of sales by type of store.
Net store openings	Products and services	Additions – Disposals of stores	Measures the net change in the number of stores.
Commercial surface area	Products and services	–	Surface area in square metres for commercial use.
Sales at comparable stores	Products and services		Amount of sales at stores that have been open for the last two full years. Enables two years to be compared to determine what portion of the increase is due to higher sales of the existing stores and which portion is due to new openings.
Sales per m^2	Products and services	Total sales / m^2 of retail space	Aids analysis of the performance of sales outlets over time.
Employee ratio	Products and services	Sales/average headcount	Reflects the average commercial efficiency of the company's employees.
ARPU - Average Revenue per User	Products and services	Total revenue for the period / total active users	Measures the average revenue per user obtained in a period by a company with a large customer base. Particularly relevant in the services industry (for example at telecommunications companies).
Number of subscribers	Products and services		Indicator used to estimate future profit growth.
Accesses	Products and services (Telecommunications)	Number of connections or any other telecommunications service contracted at year-end	This is a more accurate indicator than the number of customers taking into account that the same customer may contract several services. This data is usually broken down by category (landlines, mobile phones, data and internet, pay TV etc.).
Churn rate	Products and services (Telecommunications)	Number of disconnections/ average number of customers	Measures the percentage of disconnections or access cancellations in the period.
Penetration	Products and services (Telecommunications)	Number of customers of a certain category or type / Total customer base	
Traffic	Products and services (Telecommunications)	–	Minutes of voice communications consumed by clients.
Minutes of use (MOU)	Products and services (Telecommunications)	Total number of minutes of annual voice use per mobile access /12 months	Average monthly use per mobile access.
AVERAGE SACS	Products and services (Telecommunications)	Acquisition costs/ number of accesses	Average subscriber acquisition cost.
RevPar -Revenue Per Available Room	Products and services (Hotels)	Revenue per room / total number of available rooms	Indicator to assess the results of a hotel chain or establishment. It relates to a specific period. The number of available rooms is multiplied by the number of nights per period.
Number of products under development	Manufacturing		Indicator related to the company's foreseeable outlook.
Percentage of revenue from new products	Manufacturing		Indicative of returns obtained by the company on new products. Helps to assess whether or not it is appropriate to develop new products.
Installed capacity	Energy and manufacturing		Volume of production that can be obtained in a given period in a particular branch of activity.
Average use of capacity	Energy and manufacturing		Average percentage performed by a plant in the period to be analysed.
Change in the demand for gas and electricity	Energy (generation, distribution and retailing business)	–	Measures the performance of the market in which the entity carries on its activity. The changes may be explained by factors associated with management or influenced by seasonality and/or climate.

Name	Industry	Possible calculation	Possible purpose
Production and sales in physical units	Energy and manufacturing	–	Data in the measurement unit corresponding to each significant product (e.g. oil, petrochemical products, etc.)
Unit selling prices	Energy and manufacturing	Revenue from sales / Units sold	Individual monetary value assigned to products (e.g. crude oil, gas, etc.)
Market prices of reference products	Energy and manufacturing	–	Market prices of the various products with a significant influence on the entity's revenue and expenses, for example, market prices of raw materials (e.g. international benchmarks for the price of crude, natural gas and metals: Brent / WTI/ Henry Hub/ Spanish electric pool /LME).
Clean dark spreads	Energy and manufacturing	–	Relates to the profit obtained by a coal-fired power plant after payment of the cost of the coal and emission allowances.
Clean spark spreads	Energy and manufacturing	–	The profit obtained by a gas-fired power plant after payment of the cost of the fuel.
Load factor	Energy (generation business)	Actual energy generated / Total generable energy at full load	Measures the use of the plant's capacity in a given period.
Availability factor	Energy (generation business)	Available time / Total period (as a %)	Time during which a plant has been available with respect to the total period analysed.
Total energy distributed	Energy (transmission and distribution business)	–	GWh distributed.
Transmission/ distribution network (electricity/gas)	Energy (transmission and distribution business)	–	Size of the network.
SAIDI	Energy (transmission and distribution business)	–	Interruption time compared to the medium-voltage installed capacity. It is an indicator of the quality of supply (by segment and country).
Segmentation of contracts or sales	Energy (regulated and retailing business)	Customers in each segment / total (as a %)	Distinguishes the manageable market share from the non-manageable market share as the latter depends on price decisions made by the regulator.
Grid loss rate	Energy (transmission and distribution business)		
Availability of supply	Energy (transmission and distribution business)		
Hydro reserves	Energy (generation business)	Reserve / reservoir storable total (as a %)	Measures the generation company's future capacity with hydro resources at a given date; the estimate of the equivalent can be provided in MWh or GWh.
Power under construction	Energy (generation business)		Indicator of the entity's future capacity.
Lifting cost	Energy (exploration and production)	Cost of extracting crude oil and gas / Production	The purpose is to calculate the unit cost of extracting a barrel of crude and gas.
Finding cost	Energy (exploration and production)	(Investment in exploration) / Incorporations of proven reserves as a result of discoveries and extensions	The purpose is to calculate the cost of incorporating a new barrel to the company's proven reserves.
Proven reserves	Energy (exploration and production)		The quantities of product (crude oil, etc.) that may be estimated with a reasonable degree of certainty, that may be produced –on the basis of a given date, of known reserves and under existing economic terms and conditions, operational methods and government regulations– prior to the expiry of the agreements whereby the corresponding operating rights are obtained.
Reserve replacement ratio	Energy (exploration and production)	Additions to net proven reserves for the period / Net production for the period	The purpose is to identify whether proven reserves above production for the period are being incorporated.

Name	Industry	Possible calculation	Possible purpose
Number of wells	Energy (exploration and production)		Indicates the number of exploratory and development wells finished in the period and the number of exploratory wells being drilled at the end of the year. Indicates the number of productive wells of the company at the end of the year.
Mining ownership	Energy (exploration and production)	Number of blocks or net area (km^2)	Area in which the company owns a share measured in number of blocks or surface area which, in turn, may be broken down into "developed/exploratory".
Principal productive assets	Energy (exploration and production)		Principal assets used by the company in operations, indicating the % owned by it, whether they are operated or not and whether they contain mainly liquids or gas.
Number of points of supply	Energy (downstream, transmission and distribution)		Number of points of supply by country.
Project/order backlog	Construction / Manufacturing / Products and services		Amount of agreements entered into for the execution of construction or services projects.
Coverage period	Construction / Manufacturing / Products and services	Order backlog / Turnover	Indicator used to evaluate the entity's future revenue.
Apparent consumption	Construction / Manufacturing	Production- changes in inventories – exports + imports	Steel and cement for example.
Km built	Construction		Railways, roads, tunnels.
Occupancy rate	Real estate	m^2 leased / total m^2 available	Measures the occupancy level of properties available for lease.
Number of units sold and remaining	Real estate	–	Number of housing units or premises sold, broken down by each development in the period. And the number of remaining units.
Fraction of recycling	Construction (urban services and industrial waste)	Total tonnes of waste treated/ total tonnes of collected waste	Percentage of waste treated in recycling plants of the total waste collected. It would be useful to supply data of the numerator and denominator.
Treatment of hazardous and non-hazardous waste	Construction (urban services and industrial waste)		Percentage of hazardous/non-hazardous waste according to use: recovered, stabilised or transferred to an end manager/ other uses.
Water collection / consumption for management	Products and services (water services)	m^3 of water collected (consumed) and percentage of represented by each source of the total	Measures the proportion of water collected / consumed according to origin (underground, surface, desalinated and other means of collection / municipal supply, recycled, underground, surface and other sources).
Water lost in distribution	Products and services (water services)		Percentage of water lost in the distribution network.
Number of vehicles/ travellers	Construction (concessions)		Average number of vehicles / travellers per day.
Solvency margin	Insurance	Realisable equity/Minimum solvency margin amount	Sufficiency of the realisable equity to cover the required minimum under regulations, expressed as a percentage.
Excess solvency margin	Insurance	Realisable equity - Minimum solvency margin amount	Sufficiency of the realisable equity to cover the required minimum under regulations, expressed in absolute terms.
Expense ratio	Insurance	(Operating expenses net of resinsurance +Bonuses and rebates- Other technical income + Other technical expenses)/ Earned premiums net of reinsurance)	Proportion of the operating and technical expenses for the year to the amount of the premiums for the year.
Claims ratio	Insurance	(Incurred losses net of reinsurance + Change in other technical provisions)/Earned premiums net of reinsurance)	Incurred losses in relation to earned premiums.
Combined ratio	Insurance	Expense ratio + Claims ratio	Effect of management costs and losses for the year on the premiums for the year.

Social indicators

TABLE C

Name	Possible purpose
Executive retention rate	Measures the degree of retention and attraction of executive personnel. Useful for the strategic management of the company.
Employee retention rate	Measures the staff turnover, regardless of employee role.
Integration rate	Percentage of the workforce with a disability (may be used in relation to other groups to be integrated into the entity).
New employees	Growth of the workforce in the period.
Employee welfare supplement	Amount of employee welfare aid (for medical expenses and education of children) per employee.
Training hours per employee	Refreshing employee knowledge and the assimilation of new technologies. This indicator measures the employees' ability to adapt to change.
Customer satisfaction index	Measures customer satisfaction in the markets in which the company operates (based on surveys performed by independent agents).
User complaints and claims index	A statistical summary of the complaints and claims handled by the Customer Care and Service department in the year, according to the classifications given by the entity to the complaints and claims it manages.
Absenteeism rate	Percentage of working hours lost due to common minor illnesses or lack of motivation for work.
Working hours lost due to occupational accidents or illness	Total number of working hours lost.

Environmental management indicators

TABLE D

Name	Possible purpose
Greenhouse gas emissions (Total/ Direct / Indirect)	Refers to the equivalent tonnes of CO_2 emitted directly in production activities, indirectly (through the purchase of electricity, materials, etc.) or both.
CO_2 emissions avoided	Tm of carbon dioxide emissions avoided as a result of a change in procedures or improved production techniques.
Emission-free installed capacity	Amount in MWh and percentage of total installed capacity (%).
Emission-free output	Amount in MWh and percentage of total output (%).
Energy saving	Percentage reduction in MWh acquired from the electricity grid in the year.
Water recycling	Reused water (in tonnes).
Effluent management improvements	Percentage reduction in the discharge of liquids into the network with respect to the figures for the previous period.
Activity as regards quality/environmental certification	Percentage of total revenue represented by revenue from businesses carried on with quality/ environmental certification.

Appendix C: Information also included in other documents

1 General considerations and principles

As an integral part of the recommendation guide for the management report, this Appendix will address all the identified cases of information being duplicated in the documents constituting entities' financial and management information, laying down in the first place certain general principles for the treatment of this information that must or may be included in more than one document.

The discussions of the Working Group have brought to light several instances of duplication with regard to the information that must be, or is recommended to be, included in the management report and that which has to be included in other documents that must mandatorily be presented, such as the notes to the financial statements or the Annual Corporate Governance Report (ACGR), or in documents that are very commonly presented on a voluntary basis, such as those which contain social or environmental information.

The reflections of the Group have led it to advocate that such duplications be avoided to the extent possible, for which purpose it has drawn up the following recommendations, the main objective of which is to identify what type of information, among the disclosures that could potentially be duplicated, is the most suitable for inclusion in each document with a view to obviating the unnecessary repetition of information.

Possible duplications in the management report FIGURE 1

Cases of duplication of information	Pillar II Section	Documents which include information on… Notes to the financial statements	Annual Corporate Governance Report (ACGR)	Management report	Documents presented voluntarily
Situation and activity	2.1	X			X
Liquidity and capital resources	2.3	X		X	
Significant events after the reporting period	2.5	X		X	
Research and development activities	2.7	X		X	X
Acquisition and sale of treasury shares	2.8	X	X	X	
Main risks and uncertainties	2.4	X	X	X	X
Social and environmental information	2.2.2			X	X
Share performance	2.9.1			X	X

There are several reasons for this duplication, but in general it is due to the significant increase in corporate reporting disclosures required. Regulators and standard setters initially established a general obligation to report certain matters in the management report, and have subsequently required disclosure of information of the same nature, in greater detail, in more formal documents such as the notes to the financial statements or the ACGR, leading to repetition, a good example of which are the current rules on financial risk reporting.

Also, companies have perceived the need to report fully certain aspects of their business activities, and they continue to do so through reports specially prepared for this purpose, even though the related legislation obliges them to include certain matters in the management report. The clearest example of this duplication is the information on social or environmental issues.

The principles that should serve as a guide for companies when taking decisions about what to include in each of the documents constituting their corporate information are as follows:

Principle of hierarchy: the information that must mandatorily be included in obligatory standard documents (notes to the financial statements or the ACGR) may not be replaced by that contained in the management report. Similarly, the information that must be included in the management report may not be replaced by that included in documents presented on a voluntary basis.

Principle of separation of content by level: the management report should, preferably, include the objectives and strategy relating to the various matters, together with a description of their possible evolution, leaving specific data on the business activities carried on in the reporting period for the other documents. However, the description of a company's policies may require, so that it can be correctly understood, the inclusion of data summarising the business activities carried on.

Principle of cross-referencing: in order to enable users to adequately follow the performance of a company in each of the areas included in the various documents, the relationship between the data included should be established through cross-referencing. This cross-referencing must include the name of the document or a specific section and, when it does not form part of the same reporting package, the means of finding or accessing it. When references are made to documents not drawn up or signed by the board of directors, this circumstance should be indicated.

Even if these principles are followed, it may be inevitable to repeat, in the various documents, certain information contained in others, in order to make it possible for users to understand the data pertaining to certain matters. In such cases, it is recommended that summaries or outlines containing the essential data and information be used, using cross-referencing so that any users interested in broadening their understanding can do so.

The cases of duplication identified have been grouped together into three types, which are addressed in the sections below. Firstly, repetitions between the notes to the financial statements and the management report are dealt with, followed by those between the management report and the ACGR and, lastly, those between the management report and documents presented on a voluntary basis.

2 Information to be included in the management report and in the notes to the financial statements

The information on the company's activity or situation, the capital managed by it, events after the reporting period and research and development activities is included in both the notes to the financial statements and the management report. The criterion for deciding which part of the information is to be included in the notes and which part is to be included in the management report is as follows: the management report should contain information on policy, objectives and strategy, while the specific information on activities is more appropriate for the notes to the financial statements.

2.1 Activities or situation of the company

IAS 1.138 requires certain minimum disclosures in the financial statements relating to the legal identification of the company, its activities and the name of its ultimate parent. Companies use this note to disclose, among other things, the geographical scope of their activities, a general description of their products and services, their main business areas, the composition of the group and their functional currency.

However, Recommendations 1 and 2 on the situation of the company in the management report (see Section III of this guide) place emphasis on the organisational and functional structure of the entity, so that users can ascertain how decisions are made and the company's activities are controlled and the risks involved in these processes.

Based on the philosophy that should govern the preparation of the management report, a description of the company's circumstances and the way it manages its business is more relevant than a description of its legal situation. The important thing in this description of the context of the business is to provide an understanding of the entity's objectives and the type of strategies that it implements to achieve them, the business model, the markets in which it operates (together with the related regulatory framework and degree of competition) and the exposure of its products or services to technology or seasonality risks or risks relating to changes in the administrative regulations to which they are subject.

Therefore, the idea underlying the division envisaged by the Working Group between the activity-situation note and the section of the management report of the same name is to separate the objective data required to understand the status of the entity and of the group (to be included in the notes to the financial statements) from those relating to the organisational and control activities performed by the board of directors, taking into account the economic and business context in which the entity operates (to be included in the management report).

2.2 Liquidity and capital resources

Paragraphs 134-136 of IAS 1, *Presentation of Financial Statements* require listed entities to disclose information that enables users of their financial statements to evaluate their objectives, policies and processes for managing what they regard as capital (which is either imposed as a result of regulatory requirements or defined by the entity for internal purposes).

Except for certain entities in the financial services and insurance sectors whose capital is defined in the related regulations, companies usually define capital as consisting of shareholders' equity, plus certain other equity items (e.g. some or all of the valuation adjustments included in accumulated comprehensive income) and liabilities with special characteristics (e.g. convertible bonds or participating loans).

The information that it is recommended be included in the management report under liquidity and capital resources may bear a certain relation to the concept of managed capital, but it does not necessarily relate to the same notion of capital nor does it aim to provide complementary information on this concept. Rather, the philosophy underlying Recommendations 11 to 21 in Section III is that of requiring a description of the sources and of the uses of a company's liquid funds within the context of its financial and investment strategy.

Therefore, emphasis is placed on a company's capacity to generate sufficient liquid funds to be able to maintain its liquidity at short term and its solvency at medium to long term, which entails having sufficient net cash inflows from operations to cover current liabilities and supplementing these cash flows with other sources of financing in order to be able to implement investment plans.

When describing liquidity and capital resources it is particularly important to discuss the projected trends in the company's liquidity position, foreseeable changes in the capital structure and the impact of contractual obligations and other off balance sheet transactions that might jeopardise the sufficiency of the company's liquid funds in the future.

2.3 Events after the reporting period

Events that occur in the period between the end of the reporting period and the date when the financial statements are authorised for issue may provide evidence of conditions that existed at the end of the reporting period, in which case they change the measurement of certain items and lead to the adjustment of the financial statements (Type I); or may be indicative of conditions that arose after the reporting period, knowledge of which is important for the users but which, because of their nature, do not lead to any adjustment to the financial statements (Type II).

Events that provide new evidence of existing conditions must be described in the notes to the financial statements in order to support the accounting adjustment made. The treatment given to these events in the notes to the financial statements will generally be sufficient to completely disclose their effects.

Knowledge of events that occur in the period between the end of the reporting period and the date when the financial statements are authorised for issue which provide new information (e.g. a business combination, the grant of a new loan or the loss of an important customer) may be important for the users to be able to assess the current situation of the company and make future predictions, particularly if a Type II event indicates that the application of the going concern assumption may no longer be appropriate.

A company must include in the notes to the financial statements a description of the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made (see paragraph 21 of International Accounting Standard 10, *Events after the Reporting Period*).

The information and comments to be included in the management report focus, except in highly atypical cases, on these Type II events, and the philosophy underlying Recommendation 33 in Section III is to tie in the expected effects of these events with the manner in which the entity conducted its business in the past or that in which it will undertake it in the future, so that in the users can place the event in context and project its consequences at short, medium and long term, in the light of the strategy that the company is going to implement as a result of the occurrence thereof.

2.4 Research and development activities

Under paragraph 118 of International Accounting Standard 38, *Intangible Assets*, an entity must disclose, in the particular case of each class of intangible assets, their nature, their useful life, the amortisation method used and the line item(s) in which the period amortisation charge is included and a reconciliation of the carrying amount at the beginning and end of the reporting period. Also, under IAS 38.126, an entity must disclose the aggregate amount of research and development expenditure recognised as an expense during the period and, therefore, not included in any asset account.

The content of the aforementioned information, which addresses above all accounting categories, can make it possible for the users of the financial information to ascertain the results that the company has achieved in the reporting period from its R&D&I activities. However, the greatest use can be gained from knowledge of these results if they are placed in the context of the entity's objectives and strategy concerning R&D&I activities, where their importance and expected effects on the company's economic situation and performance can be explained.

For this reason, recommendations 36 to 39 in Section III, assuming that the required information is disclosed in the financial statements, focus on providing an analysis of the consequences that the research and development policy has for the company's situation and profitability and of those that it might have in the future.

Similarly, the objective of the aforementioned recommendations is that the company describe the areas on which its research is centred, explaining the results thereof (e.g. registered patents or procedures) and their use in innovations made to the products or services provided.

In summary, the recommendations serve to ensure that the reporting company describes the role that R&D&I activities play in its general policy and the consequences that they had in the reporting period and those that they might have in the future.

3 Information to be included in the management report, in the notes to the financial statements and in the ACGR

Information on treasury share transactions and on the management of the main risks and uncertainties is provided in the notes to the financial statements, in the management report and in the Annual Corporate Governance Report. The criterion for deciding which part of the information is to be included in the notes and which part is to be included in the management report is as follows: the management report should contain information on policy, objectives and strategy, whereas the specific information on activities is more appropriate for the notes to the financial statements or the ACGR.

The Recommendations made below were drawn up taking into account that, as provided for in Article 526 of the Spanish Limited Liability Companies Law, the ACGR forms part of the management report of listed companies and, therefore, that the users will have simultaneous access to both documents, meaning that the duplication of information can be avoided without being detrimental to the interests of possible stakeholders.

However, since the ACGR is much more standardised, the criterion applied has been to preserve the completeness of the information included in the mandatory models created and, specifically, in Circular 5/2013, of 12 June, of the Spanish National Securities Market Commission and any subsequent implementing regulations, which establish the format of the ACGR and the information to be included.

3.1 Acquisitions and sales of treasury shares

IFRSs do not contain any significant reporting requirements in relation to treasury shares, apart from disclosure of the amounts relating to the shares acquired and sold in the reporting period, together with the number of treasury shares held at the end of the reporting period and their value. Also, this information may be disclosed in the principal financial statements or in the notes to the financial statements (see paragraphs 33 and 34 of IAS 32, *Financial Instruments: Presentation* and the references to treasury shares in IAS 33, *Earnings per Share* and to treasury share transactions in the examples contained in IAS 7, *Statement of Cash Flows*).

Under Spanish corporate legislation, the reporting requirement relating to treasury shares encompasses both those issued by the company presenting the management report and those of the parent of the group of which the company forms part. More specifically, Article 148.d of the Spanish Limited Liability Companies Law (SLLCL) states as follows:

> "The management report of the acquirer company and, as the case may be, that of the parent must disclose at least:
>
> 1. The reasons for the acquisitions and disposals made in the year.
>
> 2. The number and par value of the shares acquired and disposed of during the year and the percentage of share capital they represent.
>
> 3. In the case of acquisition or disposal for valuable consideration, the consideration paid for the shares.
>
> 4. The number and par value of all the shares acquired and held as treasury shares by the company itself or by a nominee and the percentage of share capital they represent."

As regards the ACGR, section A.8 of the Schedule to Circular 5/2013 requires that information be disclosed on the number of shares acquired during the reporting period, together with the terms and conditions and deadline of any possible mandate bestowed on the board of directors by the shareholders at a general meeting to carry out transactions involving treasury shares. It also provides that information must be disclosed on the number of treasury shares controlled directly or indirectly at the end of the reporting period.

The stance taken in the recommendation guide regarding the management report, applying the philosophy described at the beginning of this Appendix, is to respect the content of the requirements concerning the ACGR, since it is understood that this information complements that provided for in Article 148.d of the Spanish Limited Liability Companies Law. In this connection, the ACGR must contain very specific information on the number of treasury shares acquired and held, together with certain details concerning the resolutions adopted by the shareholders at a general meeting in this regard, whereas the SLLCL requires more detailed monetary information on the amounts of the treasury share acquisitions and sales, together with an explanation of the reasons for such transactions.

Recommendations 40 and 41 in Section III of this guide were specifically designed to offer the users an explanation of the policy implemented by the company in relation to treasury shares and of the consequences that the implementation of this policy in the reporting period has had for the shareholder.

Alternatively, should the company so prefer, the disclosures concerning the number of treasury shares and the amounts relating to the treasury share transactions performed referred to in recommendation 40 (including any retirements of shares and the details relating to reserves that are restricted as a result of treasury shares) can be provided in the notes to the financial statements, with the information contained in the management report being restricted to an explanation of the related policy and the consequences that the strategy and actions involving treasury shares have had for the shareholders in the reporting period.

3.2 Main risks and uncertainties

IFRS 7, *Financial Instruments: Disclosures* requires very detailed qualitative and quantitative information, in the notes to the financial statements, about the nature and extent of exposure to the risks arising from transactions with financial instruments performed by a company (credit risk, liquidity risk and market risk). The other risks to which an entity is exposed are not addressed on an individual basis by IFRSs.

Section E of the Schedule to Circular 5/2013 requires that certain information be disclosed in relation to risk control systems, starting with a general description of the company's risk policy (operational risk, technology risk, financial risk, legal risk, reputational risk, tax risk, etc.), together with an indication of the risks that have arisen in the reporting period. In addition, it requires disclosures on the bodies responsible for establishing or supervising risk control mechanisms and information on the level of compliance with regulations affecting the company or its group.

In recommendations 22 to 32 of Section III of this guide these possible information overlaps have been taken into account with a view to minimising their effect. To this end, it was decided to follow a general approach that identifies the main risks, dividing them into two large groups (operational risks and financial risks). Moreover, special attention was paid to liquidity risk which, although a financial risk, because of its nature, is of particular importance for the continuity of a company and, therefore, as mentioned earlier, a special section was created, called "Liquidity and capital resources", which contains an explanation of the sources and projected uses of liquid funds and of the way in which the entity's capital structure is expected to change.

Accordingly, the approach adopted in drawing up the recommendations is to explain in the management report the policy implemented by the company to mitigate these operational and financial risks and the strategy followed and measures taken in the period, followed by a description of the effects of each of the risks, where material, or, if they have been dealt with in another document, the related references. If such other documents contain complementary information, it might be useful for them to have a reference to the related information contained in the management report so that the users of the information can gain a complete understanding of the risks affecting the company and the way in which the company eliminates or mitigates such risks.

4 Information to be included in the management report and in documents presented voluntarily

The diversification of business reporting has given rise to documents presented voluntarily containing specialised information for the parties interested in the evolution of companies. These documents address highly important issues such as social or environmental matters or share performance.

During its deliberations, the Working Group showed respect for the issuance of such documents, because they provide information on a company's commitment to issues of concern to investors and the general public. However, since the management report is a document of a general nature, it was concluded that it should contain at least the most essential information on policies and indicators relating to these issues so that users can find all the important information in a single document, without prejudice to the possibility of including the appropriate references that will enable them to gain a more in-depth knowledge of the actions taken in the areas concerned.

4.1 Social and environmental information

There has been a significant move towards highlighting the social and environmental aspects of companies' operations as a result of a very widespread policy of being more in touch with society and of building awareness of "sustainability" in all meanings of the word. Financial and management reporting, within this across-the-board shift, is complemented by the publication of information from a triple economic, social and environmental perspective constituting an integrated approach to the data that project a company's identity.

Financial statements of companies prepared in accordance with the SGAP must include a note containing information on environmental issues, a rule which also applies to consolidated financial statements. The information to be included is defined in the Spanish Accounting and Audit Institute (ICAC) Resolution of 25 March 2002 (Spanish Official State Gazette (BOE) of 4 April) and relates to expenses, assets, provisions and obligations corresponding to the prevention, reduction and remediation of the environmental impact of the business activities carried on.

The information that must be included in the management report pursuant to Article 262 of the SLLCL in relation to both key financial indicators and, where appropriate, key non-financial indicators relevant to the particular business, including information relating to environmental and employee matters, does not conflict with and is not incompatible with the issuance of independent documents containing information of this nature.

In any case, the objective of recommendations 8 to 10 of Section III of this guide is merely to ensure that companies explain their social and environmental policies, along with their targets and the measures that they plan to adopt to achieve them, including the related management systems, and provide certain key indicators evidencing their achievements in the reporting period, together with their future objectives in these areas and the actions that they intend to take in order to achieve them. In this regard, the information included in the management report may take the form of a summary of that contained in more extensive voluntary documents explaining these issues in greater detail.

As regards the employees and the related breakdowns, companies may opt to include this information in a note to the financial statements rather than in the tables showing a detail of the headcount by category in the management report.

4.2 Stock market information

The reason underlying the publication by listed entities of data relating to their share performance and yield lies in their desire to demonstrate to shareholders and potential investors the attractiveness of their shares. As a result, a large number of companies publish shareholder updates in this connection.

In this regard, recommendation 42 in Section III of this guide, on stock market information, constitutes a suggestion aimed at ensuring that the management report contains information that is useful for the users thereof. The management report should include the essential data relating to the shares issued, including an assessment of the changes in the share price and yield, based on the policy regarding dividends and other distributions to the shareholders (recommendation 43 of Section III). The related data may be supplemented with an explanation of the measures taken to further the interests of the shareholders.

Consequently, as in the case of the social and environmental information, the information relating to the share performance may take the form of a summary of the content of independent documents made available to the shareholders, to which the appropriate reference may be made. When there are no documents of this nature, it is much more advisable to include information on share performance in order to complete the perspective that the users of the management report can gain of the company’s policy and strategy in the period and of the measures that the company has taken in this connection.

Appendix D: Analysis of the regulatory framework of the principal markets

Introduction

This Appendix analyses in greater detail the form and content requirements for the management report existing in the applicable documents in certain markets (Canada, the US, Germany and the UK) and in two documents drawn up by international bodies (the IOSCO and the IASB).

The objective here is to expand upon the section *Regulatory framework of the principal markets* included in the general guide drawn up by the Working Group. The aim is to analyse the content of the main documents currently existing in this field, issued by both national and international bodies, and to be able to assess the similarities or differences with respect to the document prepared by the MRWG. In addition, two tables have been included for the following purpose:

1. One contains a list of the documents indicated above and an analysis of their structure from the standpoint of four parameters: **1**) objectives; **2**) content; **3**) principles and rules for the preparation of the management report; and **4**) examples and illustrations. The last column of the table relates to the document drawn up by the MRWG, which encompasses the four parameters indicated above.

2. Since the document issued by the IASB in 2010 was considered to be the international reference document for the purposes of the management report, the second table contains a comparison of that document with that drawn up by the MRWG. The references for the analysis are, once again, the four parameters indicated above.

The document issued by the IASB in 2010 was considered to be the international reference document because it was the most recent of those analysed to be published and, as confirmed by the IASB in the 2005 Discussion Paper and in the *Basis for Conclusions* of the 2010 document, when it was drawn up the work performed on the most advanced legislation of the time (in Canada, the US, Germany and the UK) was taken into account.

The **main conclusions** can be summarised as follows:

The documents analysed are practically identical in terms of parameters 1 and 3 (objectives and principles and rules for the preparation of the management report, respectively) in the sense that, in essence, the objectives, principles and rules considered are the same but in certain cases are worded differently.

As regards the content of management reports (parameter 2), the requirements of all the European documents are very similar, which is not surprising because the content requirements are set forth in EU directives[64] that must be complied with in all EU Member States. The only difference in this regard is that since the guide drawn up by the MRWG offers specific recommendations as to how to implement the content requirements relating to the matters that have to be reported, it addresses this issue in greater detail, as is the case of the US MD&A, which, in keeping with a criterion of best international practices, served as the inspiration for the development of the recommendations contained in this guide.

The most significant differences relate to the inclusion of examples and illustrations (parameter 4). Only the US and UK documents include certain illustrations or examples. However, there are fewer examples than in the guide drawn up by the MRWG and they are less detailed. It was considered positive to include examples of this nature in the MRWG Guide so that they could assist issuers of management reports in interpreting the disclosure recommendations addressed herein.

Analysis

IASB

In 2007, following the publication of a Discussion Paper by the International Accounting Standards Board (IASB) in 2005, a project to draw up a guide for management reports was included in the IASB's agenda. Thus, in December 2010 the IASB published a document called IFRS Practice Statement *Management Commentary*. This document has three main objectives:

1. To set out a non-binding framework for the presentation of management commentary;

2. To foster good practice; and

3. To promote comparability across all entities that present management commentary.

"Management commentary" is defined by this document as a narrative report that relates to financial statements that have been prepared in accordance with IFRSs: "Management commentary is a narrative report that provides a context within which to interpret the financial position, financial performance and cash flows of an entity. It also provides management with an opportunity to explain its objectives and its strategies for achieving those objectives. Users routinely use the type of information provided in management commentary to help them evaluate an entity's prospects and its general risks, as well as the success of management's strategies for achieving its stated objectives. For many entities, management commentary is already an important element of their communication with the capital markets, supplementing as well as complementing the financial statements."

This document attempts to provide a broad non-binding framework for the presentation of management commentary to accompany the financial statements prepared in accordance with IFRSs. Its methodological approach seeks to establish:

64 See "EU Directives" in "Regulatory framework".

1. Principles.

2. Qualitative characteristics and criteria for presentation.

3. Content or items making up the management commentary.

The document[65] states that management should present commentary that is consistent with the following principles:

a) To provide management's view of the entity's performance, position and progress.

b) To supplement and complement information presented in the financial statements.

c) In aligning with those principles, management commentary should include forward-looking information.

The document cites as qualitative characteristics[66]: relevance, faithful representation, comparability, verifiability, timeliness, understandability and materiality.

Also, the presentation criteria[67] are as follows: management commentary should be: 1) clear and straightforward; 2) suitable for the nature of the business, taking into account the size and complexity of the entity and the regulatory environment in which it operates; 3) consistent with its related financial statements; 4) free from duplication; 5) useful to users; 6) free from generic disclosures; and 7) free from immaterial disclosures.

Lastly, the document[68] indicates that although the particular focus of management commentary will depend on the entity publishing it, it should include information that is essential to an understanding of:

1. The nature of the business: depending on the nature of the entity publishing the management commentary, it should include a discussion of aspects such as the industries in which the entity operates, the entity's main markets and competitive position within those markets, significant features of the legal, regulatory and macro-economic environments that influence the entity, the entity's main products, services, business processes and distribution methods and, lastly, the entity's structure and how it creates value.

2. Management's objectives and its strategies for meeting those objectives: management should disclose its objectives and strategies in a way that enables users of the financial reports to understand the priorities for action as well as to identify the resources that must be managed to deliver results. Management should discuss significant changes in an entity's objectives and strategies from previous periods.

3. The entity's most significant resources, risks and relationships: management commentary should set out the critical financial and non-financial resources

65 Paragraph 12 et seq.
66 Paragraphs 20 and 21 of the document.
67 Established in paragraph 22 of the document.
68 Paragraphs 24 et seq.

available to the entity and how those resources are used in meeting management's stated objectives for the entity.

Also, as regards risks, management should disclose an entity's principal risk exposures (strategic, commercial, operational and financial risks) and changes in those risks, together with its plans and strategies for mitigating those risks, as well as disclosure of the effectiveness of its risk management plans and strategies. Management should disclose its principal strategic, commercial, operational and financial risks. The description of the principal risks facing the entity should cover both exposures to negative consequences and potential opportunities.

Lastly, management should identify the significant relationships that the entity has with stakeholders, how those relationships are likely to affect the performance and value of the entity, and how those relationships are managed.

4. The results of operations and prospects: management commentary should include explanations of the performance and progress of the entity during the period and its position at the end of that period. Those explanations provide users of the financial reports with insight into the main trends and factors affecting the business. Management should discuss the degree to which objectives have been met through management's strategies, and provide analysis of significant changes in financial position, liquidity and performance compared with those of previous periods. In this way, according to the IASB, the extent to which past performance may be indicative of future performance can be analysed. As regards prospects, management should provide an analysis of the prospects of the entity, which may include targets for financial and non-financial measures. This information can help users of the financial reports to understand how management intends to implement its strategies for the entity over the long term. When targets are quantified, management should explain the risks and assumptions necessary for users to assess the likelihood of achieving those targets.

5. The performance measures and indicators that management uses to evaluate the entity's performance against stated objectives: Management should disclose performance measures and indicators (both financial and non-financial) that are used by management to assess progress against its stated objectives. These indicators will be affected by the evolution of the industry in which the entity operates. Comparability among entities is enhanced if the performance measures and indicators are accepted and used widely within the related industry. As regards comparability among reporting periods, consistent reporting of performance measures and indicators increases the comparability of management commentary over time. However, if an entity's objectives or strategies change, management should consider whether the measures and indicators presented in previous periods continue to be relevant. If management changes the performance measures and indicators used, the changes should be identified and explained.

Financial performance measures that are not required or defined by IFRSs should be defined and explained. When financial performance measures are derived or drawn from the financial statements, those measures should be reconciled to measures presented in the financial statements that have been prepared in accordance with IFRSs.

IOSCO

The Technical Committee of the IOSCO published a report called "General Principles Regarding Disclosure of Management's Discussion and Analysis of Financial Condition and Results of Operations" in February 2003. This report, which aims to provide a non-binding framework for analysing the financial information presented in companies' financial statements, is structured as follows:

1. Objectives or principles that the document must achieve/respect; and

2. Qualitative characteristics and presentation criteria.

The report states that "the purpose of MD&A-type disclosure is to provide management's explanation of factors that have affected the company's financial condition and results of operations for the historical periods covered by the financial statements, and management's assessment of factors and trends that will have a material effect on the company's financial condition and results of operations in the future. Companies should provide the information that is necessary for an investor's understanding of the company's financial condition, changes in financial condition and results of operation".

UK

In 2003 the Accounting Standards Board (ASB) revised a guide issued in 1993 with a view to specifying the content of a financial statement, called Operating and Financial Review (OFR) and provided for in the UK Companies Act (1985). The purpose of this revision was to establish a framework to enable management of companies to discuss the principal factors underlying the companies' performance and financial position. The application of this report was, initially, voluntary and it coexisted with the management report. The management report, which was intended for users of companies' financial information and published in conjunction with it, had to contain, for example, information on a company's activities, development, results, corporate governance, shareholders and management team.

At the beginning of 2005 UK legislation introduced corporate reporting-related measures from a dual standpoint: on the one hand, it strengthened the reporting requirements relating to the management report, broadening the range of matters to be included in the Business Review (a document forming part of the management report), as a result of the transposition of Directive 2003/51/EC amending certain other Directives and, on the other, it gave mandatory force to the requirement for listed companies to prepare an OFR. In addition, it established the need to draw up certain standards for the preparation of the OFR now that its preparation was to become mandatory. The Government gave the ASB a statutory power to make those standards.

UK legislation described the objective of the Operating and Financial Review as follows:

"The objective of this Reporting Standard is to specify the best practice for an OFR, which should be a balanced and comprehensive analysis, consistent with the size and complexity of the business, of:

a) the development and performance of the business of the entity during the financial year;

b) the position of the entity at the end of the year;

c) the main trends and factors underlying the development, performance and position of the business of the entity during the financial year; and

d) the main trends and factors which are likely to affect the entity's future development, performance and position".

In May 2005 the ASB issued a document called Reporting Standard (RS) 1. This document constituted a guide to help the issuers of an OFR, now mandatory, to prepare it. RS 1 is a Standard based on principles which establish that the Operating and Financial Review should set out an analysis of the business through the eyes of the board of directors. Similarly, the Standard offers a general framework that management can apply in order to comply with the requirements set forth in the related legislation. However, the application of the framework and structure of the OFR constitutes a discretionary power of company management. RS 1 defines the Operating and Financial Review as follows:

> "The OFR is a narrative explanation, provided in or accompanying the annual report, of the main trends and factors underlying the development, performance and position of an entity during the financial year covered by the financial statements, and those which are likely to affect the entity's future development, performance and position" (#3. Definitions).

In addition to this general-framework or principle-based approach, the ASB also prepared an implementation guide to accompany RS1. The guide proposes certain examples, illustrations and suggestions regarding specific content and key indicators relating to the information to be included in the document.

However, in 2006 the obligation for listed companies to present an OFR was replaced by the obligation to present a Business Review. Government circles considered that the requirements of the two documents were similar and, therefore, they opted for the Business Review, through which the requirements of Directive 2003/51/EC were met. The presentation of a Business Review became obligatory for large and medium-sized companies, including listed companies. This mandatory document in which, as in the case of the OFR, company management provides information about the business, must contain a balanced and comprehensive analysis of the development, performance and position of the business, which will include a description of the main risks and uncertainties, together with an analysis using such financial and non-financial indicators as might be required. It can be seen that the new requirements constituted a considerably faithful transposition of the wording of Directive 2003/51/EC.

The former Reporting Standard 1 was renamed "Reporting Statement" and was revised by the ASB and published in 2006. This document contains good practices for preparing the information to be included in the Business Review. Its application is voluntary.

In summary, the documents currently used in the UK in relation to the management report are, as a general rule, the Business Review, included as a part of the more extensive Management report, governed by Section 417 of the UK 2006 Companies Act, and, as a guide, the aforementioned Reporting Statement. The specific content of the Business Review is as follows:

A. Results of operations for the period.

B. Key performance indicators.

C. Description of the main risks and opportunities of the entity.

D. Forward-looking information.

E. Dividend policy.

F. Capital and R&D expenditure.

G. Capital structure.

H. Cash flows.

I. Liquidity.

J. Events after the reporting period.

K. Corporate responsibility (Reporting Statement 28).

- Environmental issues
- Employees (Equality Act, Section 78)
- Social and community affairs
- Contractual obligations

Germany

Tradition in Germany regarding management reports dates back to 1931, with Germany being the European pioneer in this connection. Initially, all listed companies were obliged to prepare a management report with certain requirements that were very similar to those currently in force.

Several changes gave rise to the current management report, which is based on the legal requirements established by the European Union in this connection and its content is practically identical to that specified in the related directives.

In September 2012 the *Deutsches Rechnungslegungs Standards Committee* (DRSC), the German accounting standards committee, published German Accounting Standard (GAS) 20, on the management report. This Standard is based on the legal requirements of the European Union and also takes into account SEC requirements and the guides existing in Canada and the UK. GAS 20 establishes the principles, format and content to be used in preparing the management report. The document states that:

> "The Group management report (management report) must present a fair review of the development and performance of the business and the position of the group. The expected development must be addressed and discussed in conjunction with the most significant risks and opportunities. The main factors that might affect the future value of the company should be described; and it would be advisable for the key performance indicators used internally in the

management of the company to be identified. The management report constitutes the means of presenting information to the users through the eyes of management. Thus, GAS 20 establishes that the intention of the management report is to redress the information asymmetry between, on the one hand, company management and, on the other, the users of the information contained in the financial statements".

The principles set forth in the document are as follows: completeness, reliability, clarity and transparency, materiality, proportionality of the information and conveyance of management's perspective. The basic structure is as follows:

A. Nature of the business:

1. Business model.
2. Objectives and strategies.
3. Management control system.
4. Research and development.

B. Results:

5. Macroeconomic and industry data.
6. Business development and performance.
7. Position of the entity.
8. Performance measures and indicators.

C. Forward-looking information.

D. Risks and opportunities.

9. Risks.
10. Opportunities.

Canada

In Canada the provincial regulatory bodies known collectively as the Canadian Securities Administrators (CSA) are responsible for establishing the requirements and content of the information complementing the financial statements. In December 2003 a document called National Instrument 51-102 Continuous Disclosure Obligations was published, which contained the new requirements for preparing MD&As applicable in Canada.

In November 2002 the Canadian Institute of Chartered Accountants (CICA) drafted a guide on the information to be published in MD&As. It identified six principles and a framework divided into five sections containing recommendations regarding disclosure practices. The CICA does not have statutory powers to publish standards on financial information of this nature and, therefore, this guidance is used by companies on a strictly voluntary basis. However, the four largest Canadian regulators (members of the CSA) have explicitly encouraged companies to follow the recommendations of the CICA.

The guide establishes that "useful MD&As explain the 'why' behind both past performance and future prospects by connecting the internal and external information. They should enable readers to view the company through the eyes of management and provide material information for investors that enables them to make better investment decisions. They should have a forward-looking orientation and focus on management's strategy for generating value for investors over time".

United States

In the US the Securities and Exchange Commission (SEC) is responsible for the Management Discussion and Analysis (management report). The Sarbanes-Oxley Act of 2002 established that the SEC had to carry out extensive additional legislative work which included the publication of various rules and proposals on issues such as accounting policies and fundamental estimates, liquidity, off balance sheet arrangements, contractual obligations and transactions with dependent third parties.

The SEC published two interpretative guidance documents in 2003 (nos. 33-8350 and 34-48960) in which it was stated that "the purpose of MD&A is not complicated. It is to provide readers information "necessary to an understanding of [a company's] financial condition, changes in financial condition and results of operations". The MD&A requirements are intended to satisfy three principal objectives:

1. to provide a narrative explanation of a company's financial statements that enables investors to see the company through the eyes of management;

2. to enhance the overall financial disclosure and provide the context within which financial information should be analysed; and

3. to provide information about the quality of, and potential variability of, a company's earnings and cash flow, so that investors can ascertain the likelihood that past performance is indicative of future performance".

The content of the US MD&As (Management Discussion and Analysis of Financial Condition and Results of Operations) is regulated in Item 303 (§ 229.303) of Regulation S-K. This report must include:

A) Content of the MD&A:

- Liquidity;
- Capital resources;
- Results of operations;
- Off balance sheet arrangements;
- Contractual obligations;
- Quantitative and qualitative disclosures about market risk.

B) The causes for material changes in financial statement line items from one period to the next, to the extent necessary to an understanding of the company's business as a whole.

C) The information provided must refer to the segments into which the company is divided.

D) In addition to this information, the entity must provide such other information that it believes to be necessary for users to gain an understanding of its financial condition, changes in financial position and results of operations.

Table of similarities/differences between markets

	Canada NI 51-102	US MD&A	UK RS 1	Germany GAS 20	IASB MC Framework	OICV-IOSCO MD&A	MRWG Document
Objectives of the management report	✓	✓	✓	✓	✓	✓	✓
Content of the management report	✓	✓	✓	✓	✓	☒	✓
Principles and rules for preparing the management report	✓	✓	✓	✓	✓	✓	✓
Illustrations and examples	☒	✓*	✓**	☒	☒	☒	✓

✓ Includes ☒ Not included

* The volume and level of detail of the examples/illustrations are less extensive than in the case of the document drawn up by the MRWG (tables showing disclosure examples).

** Included in Section on Implementation Guidance. It is specified that they should not be used as a template. The level of detail is less than in the MRWG Document.

Name per MRWG Document	IASB MC Framework for Presentation	MRWG Document
Objectives of the management report (Pillar I)	1. Provide management's view of the performance, position and progress of the company. 2. Complement the information presented in the financial statements. 3. To achieve the foregoing, forward-looking information should be included in the content of the report.	1. Provide a faithful representation of the situation of the company and its business performance. 2. Disclose the entity's risks, uncertainties and opportunities. 3. Complement the information contained in the financial statements. 4. Relevance, reliability, understandability, comparability, timeliness and usefulness for the user at which it is aimed.
Content of the management report (Pillar II)	1. The nature of the businesses. 2. Management objectives and strategies aimed at achieving them. 3. The most significant resources, risks and relationships of the entity. 4. The results of operations and prospects. 5. Performance measures and indicators used by management to assess the progress of the company with respect to the targets set.	1. Situation of the entity: – Organisational structure. – Modus operandi. 2. Business performance and results: – Key indicators. – Issues relating to the environment and employees. 3. Liquidity and capital resources. 4. Main risks and uncertainties. 5. Significant events after the reporting period. 6. Information on the outlook for the entity. 7. R&D activities. 8. Acquisition and disposal of treasury shares. 9. Other salient information.
Principles and rules for the preparation of the management report (Pillar III)	1. Relevance. 2. Faithful representation. 3. Comparability. 4. Verifiability. 5. Timeliness. 6. Understandability. 7. Materiality. 8. Be clear and straightforward. 9. Suitable for the nature of the business, taking into account the size and complexity of the entity and the regulatory environment in which it operates. 10. Consistent with its related financial statements. 11. Avoid duplication. 12. Be useful to users. 13. Avoid generic disclosures. 14. Avoid immaterial disclosures.	1. Discussion through the eyes of management. 2. Clear, concise and coherent wording. 3. Objectiveness when explaining and analysing events, plans, forecasts and their consequences. 4. Specify sources, bases and assumptions contained in the forward-looking information. 5. Consistency with prior reports. 6. Avoid, to the extent possible, duplication with respect to the financial statements and other information. 7. Avoid immaterial disclosures. 8. Avoid the use of generic or standard disclosures. 9. Identify information from external sources and that produced by the company. 10. Tailor the management report to the nature of the business, taking into account the size and complexity thereof.
Illustrations and examples	Does not contain illustrations or examples.	Contains detailed guidance, illustrations and examples.

Appendix E: Glossary of terms and abbreviations

In order to enhance the usefulness and uniformity of the information for investors and analysts of listed entities, set forth below are definitions of certain of the terms, together with the meanings of the main abbreviations, used in this document:

Term	Content/Definition/Explanation
ACGR	See Annual Corporate Governance Report.
Alternative performance measures (APM)	Financial variables (aggregates, indexes, ratios, etc.) specifically designed by the entity in order to show a facet of its activity, position or performance. The calculation of these variables is not standardised and, therefore, they require an explanation or, where appropriate, a reconciliation to other measures envisaged in accounting legislation.
Annual Corporate Governance Report (ACGR)	A document which contains information on the composition, functioning and certain governance aspects in the period of the board of directors of listed entities. It is a specific part of the management report and, therefore, it is subject to the same approval and publication requirements. Apart from the obligatory information required by the relevant legislation, the ACGR must follow, through a "comply or explain" approach, each of the 58 recommendations of the Unified Code of Good Governance prepared by a special working group for the CNMV in 2006.
Annual financial statements	A set of accounts made up of a balance sheet, an income statement, a statement reflecting changes in equity in the period, a statement of cash flows and notes to the financial statements which entities issue on an annual basis and which are authorised for issue by the directors. If the entity is obliged to apply consolidation bases, it will also issue consolidated financial statements together with the separate financial statements.
Audit Committee	Specialised committee within the board of directors of a listed entity made up mostly of independent directors and chaired by one of them. The committee's mission is to oversee the effectiveness of the company's internal control, internal audit function and risk control; to supervise the preparation of statutory financial information; and to propose the appointment of auditors to the managing body for submission to the annual general meeting or equivalent body.
Auditors' report	A document which explains the activity performed by the auditors in relation to the financial statements, including their opinion, which may be unqualified, qualified or adverse or contain a disclaimer of opinion. The auditors include in the report a paragraph in which they comment on the consistency of the figures in the management report with those contained in the accounting records.
Average balance sheet*	Balance sheet reflecting the average positions of the asset, liability and equity items. Banks habitually use balance sheets of this nature to show the return on assets and cost of liabilities in the period.
Basel Committee on Banking Supervision (BCBS)	The Basel Committee on Banking Supervision is the principal regulatory body for the prudential regulation of banks. It also provides a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide in order to enhance financial stability. The BCBS does not possess any formal supranational authority. Its decisions do not have legal force. Rather, the BCBS relies on its members' commitments to achieve its mandate.
Board of directors	The highest decision-making body of an entity, responsible for establishing operating policies and for implementing strategies or measures aimed at achieving the objectives that have been defined. The Spanish Limited Liability Companies Law (Ley de Sociedades de Capital) confers upon it powers to manage and represent the company on the terms established therein. In particular, the company's directors are obliged to formally prepare the financial statements and the management report, which is sometimes referred as directors' report.

Term	Content/Definition/Explanation
Business model	Set of strategies chosen or designed by the entity for the purpose of carrying on its business activities and generating income and profits.
Capital resources	An analysis included in the management report that makes reference to the obtainment of funds (equity or borrowings) to cater for the entity's development or expansion plans. This analysis is usually supplemented by a description of the costs of the various alternative sources of funding.
Charged assets*	An asset is considered to have been charged if it has been pledged or is subject to some kind of agreement that secures, guarantees or enhances the creditworthiness of any transaction in which the asset has been provided as security.
CNMV	*Comisión Nacional del Mercado de Valores*, the Spanish National Securities Market Commission.
Com. Code	The 1885 Spanish Commercial Code, including the subsequent amendments thereto.
Comparability	The qualitative characteristic of financial reporting that enables users to identify and understand similarities in, and differences between, figures measuring the same attribute at different entities or at different points in time at one entity.
Contingency plans	Procedures designed by management of the entity to attempt to ensure the continuity of normal operations in the event of highly adverse scenarios (liquidity shortfalls, suspension of operations, ban on operating in certain sectors or segments, etc.).
Contractual obligations	Set of obligations giving rise to an outflow of economic benefits for the entity, due either to commercial or financial agreements or to the maturity of contingent liabilities or other types of firm commitments.
Country risk	Risk to which debtors or borrowers resident in a given country are exposed due to circumstances other than normal commercial risk. Sovereign risk (where loans have been made to the State), transfer risk (where currency exchange restrictions affect debtors' ability to pay) and international financial activity risk (war, catastrophes, expropriation, etc.) are components of country risk.
Credit concentration risk*	A risk to which banks are exposed as a result of having a significant proportion of their lending concentrated at multiple borrowers in a given location, sector of activity or with similar socio-economic characteristics.
Credit concentration*	See Credit risk concentration.
Credit rating*	An evaluation of the degree of solvency of the entity made by a specialised agency. This constitutes useful information for the users of the financial information, particularly for the entity's commercial or financial creditors.
Credit risk	The risk that the payment obligations existing between the entity and its counterparties in financial or operating transactions (customers, banks, shareholders, borrowers, etc.) may not be met.
Directors	Persons forming part of the board of directors or equivalent body of the entity. They can act individually (sole director) or collectively (board of directors).
Directors' report	See Management report
Doubtful receivables	The total amount of debt instruments, regardless of the holder thereof or of the associated guarantee, with respect to which any amount of the principal, interest or expenses contractually agreed upon is more than three months past due, except where these instruments have to be classified as bad debts; and contingent liabilities in which the principal has defaulted.
Duplication of information	Generic reference to mandatory information that might have to be included in more than one corporate document.
EBA*	European Banking Authority, which was created by Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 and officially established on 1 January 2011. The purpose of the European Banking Authority is to contribute towards safeguarding certain public values such as the stability of the financial system, the transparency of markets and financial products and the protection of depositors and investors.
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation. An alternative performance measure used by entities to approximate the funds that they would be able to obtain from operating assets.

Term	Content/Definition/Explanation
Enhanced Disclosure Task Force (EDTF)	The Enhanced Disclosure Task Force (EDTF) was created by the Financial Stability Board (FSB) in December 2011 in order to develop a set of principles for the improvement of reporting by banks, based on current market conditions and risks, so as to facilitate the improvement of disclosure comparability.
Environmental indicators	Indicators relating to the impact that the activities of the entity have had on living and inert natural systems, including in particular ecosystems, soil, air and water.
Equity	The equity (assets less liabilities) of an entity.
ESMA	European Securities and Markets Authority. This European Union authority was created in 2010 to contribute to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as enhancing investor protection. In particular, ESMA fosters supervisory convergence both amongst domestic securities regulators and across financial sectors by working closely with the other European supervisory authorities.
Events after the reporting period	Those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.
Financial information	A set of documents that listed entities generally make available to investors and other users which contain a summary of the entity's activities and the evolution of its situation. The annual package of financial information is made up of at least the following documents: financial statements, management report and auditors' report.
Financial risk	The risk arising from transactions involving the use of collection rights and payment obligations, and from operating in financial markets, including operations in currencies other than the functional currency. Financial risks include market risk, credit risk and liquidity risk.
Financial statements	These constitute a structured representation of the financial position and financial performance of an entity. A complete set of financial statements is made up of a balance sheet, an income statement, a statement reflecting the changes in equity, a statement of cash flows and notes to the financial statements, which describe the activities of the company and its situation at the end of the reporting period. Financial statements issued on an annual basis are usually called annual financial statements.
Foreclosed assets*	Assets that banks receive from their borrowers or other debtors in full or partial settlement of financial assets representing accounts receivable from the latter.
Global systemically important banks (G-SIBs)	A G-SIB is defined as a financial institution whose distress or disorderly failure, because of its size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity.
IASB	The International Accounting Standards Board, which was created in 2001 and issues International Financial Reporting Standards.
IASC	International Accounting Standards Committee, which issued International Accounting Standards and approved the related interpretations in the period from 1973 to 2000. In April 2001 it was replaced by the IASB.
IASs	International Accounting Standards, originally issued by the IASC between 1973 and 2000. They remain in force to the extent that they have not been amended or withdrawn by the IASB.
IFRSs	International Financial Reporting Standards, issued by the IASB. They include both IFRSs in the true sense and IASs issued by the IASC, together with the interpretations relating to the two sets of standards.
IOSCO	International Organization of Securities Commissions (IOSCO). A body that brings together the world's securities regulators.
Key indicators	Financial or non-financial variables used by management to measure the entity's development, evolution, trends, performance or market positioning. The use of these indicators in the management report helps entities to communicate their operating objectives and simplifies the analysis made by the users of the information of the degree to which these objectives have been met. Key indicators are also used to make comparisons with the related industry or significant companies taken as a benchmark.

Term	Content/Definition/Explanation
Liquidity	An analysis included in the management report that makes reference to the internal and external generation, and to the use, of liquid resources, as part of the entity's financial and investment strategy. Information of this nature is important for enabling users to assess the company's prospects and even the probability of its continuation as a going concern.
Liquidity risk	The risk that the entity will be unable to meet its payment obligations. See Liquidity.
Listed company	See Listed Entity.
Listed entity	An entity whose securities are officially traded on a regulated market. Sometimes reference is made to "(listed) company" to express this same idea.
Loan-to-deposit (LTD) ratio*	A ratio which compares, at a given point in time, the total loans made by an entity with the total deposits it has received. The ratio is used for analysing the liquidity policy of banks.
LSMEs	Listed small or medium-sized enterprises.
Main risks and uncertainties	Set of circumstances that might give rise to doubts as to the favourable evolution of the performance of the reporting entity and, therefore, both their nature and their treatment are addressed in detail in the management report.
Management	A term which refers, in general, to the team responsible for the planning, management and control of an entity. It is made up of the board of directors and the executives who report directly to the entity's board of directors or chief executive officer.
Management commentary	See Management report.
Management objectives	General targets or results that the entity wishes to achieve, for the purpose of which policies are established and strategies are implemented by the board of directors.
Management policies	See Management Strategies.
Management report	A document which forms part of the financial information of listed entities and other companies, in which the directors provide a fair explanation of the evolution of the business and the situation of the company, together with a description of the main risks facing the entity and the main business activities carried on. In practice, entities may also use names for this document which are equivalent to "management report", such as "directors' report", "management commentary", "management discussion and analysis" (MD&A) or "operating and financial review" (OFR).
Management strategies	Set of coordinated actions or procedures through which it is aimed to achieve the entity's management objectives.
MRWG	CNMV Management Report Working Group, whose mission is to draw up a document to serve as the basis for this guide. The composition of this Group is shown in Appendix F.
Market risk	The risk of changes in price conditions in the markets in which the entity operates, which can take the form of changes in interest rates, in exchange rates, in the price of financial instruments and in the price of raw materials.
Market yield	Return on a security or on a stock market index for an investor.
Materiality	Information is material if its omission or misstatement could influence the economic decisions taken by users on the basis of the financial information reported by the entity.
Maturity profile	The distribution over time of the maturities of the loans received by the entity (and of those granted in the case of banks). 12-month maturity buckets are generally used for its calculation, or other representative periods of time (e.g. within 1 year, 1 to 3 years, 3 to 5 years and within more than 5 years).
MD&A	Management Discussion and Analysis. See Management report.
Moving annual total (MAT)	A concept that is expressed by the sum of the values of the data points of a time series for the last twelve months. It represents the monthly average of a variable that factors out the effect of seasonality.
Net return on interest-earning assets*	Result of dividing the net interest income by the total interest-earning assets.
Non-GAAP measures	See Alternative Performance Measures.

Term	Content/Definition/Explanation
Off balance sheet transactions	Obligations acquired by the entity which, because they do not meet the requirements for recognition as liabilities, are not included in the company's debts even though there is a definitive or binding agreement in relation to them. Examples of off balance sheet transactions are irrevocable future payments under operating leases or non-current or current asset purchase commitments. However, contingent liabilities arising from litigation, arbitration proceedings or other regulatory measures do not constitute off balance sheet transactions.
Operational risk	Risk of a slowdown in or the suspension of the activities carried on by the entity that might give rise to losses, arising, among other things, from accidents, control failures, barriers or obstacles hindering competition, fraud, concentration of purchases or sales, the evolution of the countries in which operations are carried on, a deterioration of the entity's image or a worsening of its reputation.
Outlook	Set of projections or estimates regarding the future evolution of the entity, based on current conditions and reasonable assumptions regarding the entity's future performance.
Personnel indicators	Indicators relating to personnel management issues, referring in general to employment, the relationship between the company and its employees, occupational health and safety, training and education, as well as the treatment of diversity and equal opportunities.
Prospective information	Information that relates to future events, actions or periods, which may take the form of quantitative estimates, based on assumptions used in economic models, or merely qualitative estimates. The supply of prospective information must be understood and assumed in a context of risk and uncertainty, and it must be disclosed and explained as such.
R&D&I activities	Research, development and innovation activities.
Rating	See Credit Rating.
Regulation S-K	Generic name for the set of accounting and non-accounting documents that issuers of listed securities in the US must make public through the Securities and Exchange Commission (SEC). Item 303 contains the disclosure requirements in relation to Management's discussion and analysis (MD&A) of financial condition and results of operations. Items 801 and 802 contain specific Industry Guides for companies operating in special industries, such as banks, insurance companies and real estate companies.
Regulatory capital*	The volume of capital that the regulator obliges a regulated entity (bank or insurance company) to have based on the risks that it assumes in its business activities. The equity must cover the regulatory capital requirements, and the capital adequacy may be demonstrated using a table reconciling the regulatory capital to equity.
Regulatory risk	Risk arising from an unforeseen change in the regulatory conditions in any of the sectors in which the entity operates.
Relevance	One of the qualitative characteristics of the information included in the management report. Information has the quality of relevance when it can influence the economic decisions of users.
Reliability	One of the qualitative characteristics of the information included in the management report. Information has the quality of reliability when it is complete, neutral and free from material error and bias.
Research and development	See R&D&I Activities.
Restructured loans*	Loans arising from the transformation or re-instrumentation of previously existing loans, for which payment rescheduling terms and conditions are agreed upon, which are normally accompanied by changes in interest rates, collateral, caveats or other variables provided for in the related loan agreement.
Risk management	The set of policies and actions that the entity implements in order to assume and address the risks to which it is exposed as a result of its business activities. The management report contains a description of the entity's risk management, as well as of the effectiveness achieved in this connection.
ROCE	Return on Capital Employed. An alternative measure of performance that is usually calculated by dividing net operating profit after tax by the sum of non-current assets and working capital.
ROE	Return on Equity. An alternative measure of performance that is usually calculated by dividing the profit or loss for the period by the equity used by the entity.
SEC	Securities and Exchange Commission. Securities market regulator and supervisor in the US.

Term	Content/Definition/Explanation
Segment (operating/ business)	Each of the components of the entity that carries on business activities, giving rise to income and expenses, whose operating results are reviewed regularly by the board of directors, based on specific financial information, in order to assess their performance and make decisions about resources to be allocated to the segment.
Sensitivity	See Sensitivity analysis.
Sensitivity analysis	An analysis that shows the effect, on the profit or loss for the period or on equity, of reasonably possible changes in a relevant market risk variable to which the entity is exposed (e.g. interest rates, exchange rates, etc.).
SGAP	Spanish General Accounting Plan
SLLCL	Spanish Limited Liability Companies Law (Ley de Sociedades de Capital). The SLLCL represents a consolidation of the previously existing legislation on public and private limited liability companies, the wording of which was approved by Spanish Legislative Royal Decree 1/2010, of 2 July.
SNCA	The Spanish National Chart of Accounts (see Spanish General Accounting Plan).
Stress test*	Simulations of the performance or needs (for liquidity or capital) of an entity in situations that are highly detrimental to its business activity, such as a significant increase in customer default or the suspension of operations. It is an extreme example of the sensitivity analysis that can be made of certain risks in the management report.
Transparency Directive	Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004, requiring the disclosure of accurate and timely information by security issuers in order to guarantee a high level of investor protection and the efficiency of regulated securities markets in the European Union.
Treasury shares	Generic name for securities issued by the entity and later acquired from third parties. Both the definition and the treatment also encompass the shares of the parent of the group.
Users of financial information	Persons or groups interested in the activities carried on by an entity, who use the financial information as the basis for taking decisions vis-à-vis their interests.

* Article 3 of the Spanish Audit Law addresses this in detail.

Appendix F: Composition of the Working Group

Chairman

José Antonio Gonzalo Angulo (Full Professor at the Universidad de Alcalá)

Members

ACERINOX, S.A.	Juan Carlos Carrascosa Ozortes Juan García de la Fuente
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Ricardo Gómez Barredo Soledad Duro
BANCO SANTANDER, S.A.	Juan Encinas Arcones José Galiana Guiu
CAIXABANK, S.A.	Francesc Xavier Gómez Ernesto Gil
DELOITTE, S.L.	Fernando Ros Redondo Tadea Zayas Ángel Campuzano
ERNST & YOUNG, S.L.	Ana María Prieto González José Carlos Hernández Barrasus
FLUIDRA, S.A.	Xabier Tintoré Antonio de Luna
FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S.A.	Antonio Gómez Ciria Juan José Drago
FUNDACIÓN DE ESTUDIOS FINANCIEROS, S.A.	Alfredo Jiménez
IBERDROLA, S.A.	Juan Carlos Rebollo Javier Pastor
INDITEX, S.A.	Javier Losada Belén Varela
INSTITUTO ESPAÑOL DE ANALISTAS FINANCIEROS	Javier Méndez Llera Ignacio Gómez Montejo
KPMG AUDITORES, S.L.	Jorge Herreros Cindy Javoroski Analia Álvarez Goya
MAPFRE, S.A.	Mª Luisa Gordillo Gutiérrez Jaime de Gregorio Basagoiti
PRICEWATERHOUSECOOPERS AUDITORES, S.L.	Stefan Mundorf María Dolores González Ledro
REPSOL, S.A.	Luis López-Tello Díaz-Aguado Arantxa Calvo Guerrero
TELEFÓNICA, S.A.	Juan Francisco Gallego Arrechea Marta Soto Bodí

Banking Guide Members

BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	Gregorio P. Gil Ortiz
BANCO DE ESPAÑA	Pablo Pérez Rodríguez
BANCO POPULAR, S.A.	Daniel Hernández Arroyo
BANCO SABADELL, S.A.	Teresa Guasch
BANCO SANTANDER, S.A.	Juan Encina Arcones, José Galiana Guiu
CAIXABANK, S.A.	Olga Albarracín Jiménez
DELOITTE, S.L.	Iván López
ERNST & YOUNG, S.L.	José Carlos Hernández Barrasus
KPMG AUDITORES, S.L.	Javier Calvo
PRICEWATERHOUSECOOPERS AUDITORES, S.L.	José Ángel Díez Ruiz de Azúa

CNMV Collaborators

Paulino García Suárez
Antonio Cano Muñoz
Eduardo Manso Ponte
Belén de Anta Montero
Gema Gullón Pérez
Mercedes Fournier de Hoces