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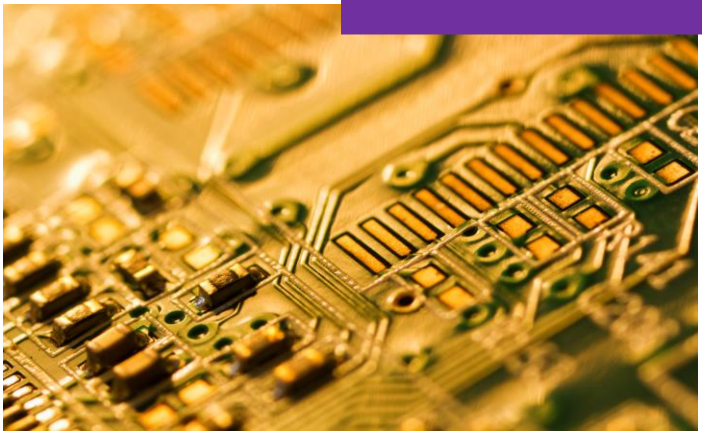

The new ANC Regulation No. 2020-01 on consolidated accounts

ANC (1) regulation No. 2020-01 on consolidated financial statements will apply to financial years beginning on or after January 1, 2021. This new regulation removes the reference to the principle of substance over form and makes certain accounting policies mandatory in the consolidated financial statements. (1): ANC: French accounting standards authority (Autorité des normes comptables)

The main new features of this regulation are the following:

- Unification of the three regulations on consolidated accounts (CRC 99-02, CRC 99-07 and CRC 2000- 05);
- Definition of the entry value in the scope of consolidation;
- Definition of the Group's accounting policies;
- Removal of the reference to the principle of substance over form;
- Removal of preferred methods and introduction of the new list of mandatory methods;
- Elimination of the option of immediately recognizing in income the translation differences at the closing rate of foreign currency receivables and payables;
- Clarification of the rules to be followed when preparing consolidated accounts for the first time;

•In addition to merging the three existing regulations, the new text aligns the accounting methods applicable to the consolidated financial statements with those in force for the individual financial statements. Under French accounting standards, the consolidated financial statements include summary statements and notes, which form an indivisible whole.
For industrial and commercial groups, the consolidated summary statements include a balance sheet and an income statement. Unlike IFRS, the cash flow statement and the statement of changes in equity continue to be considered as information to be included in the notes, and not as a primary financial statement.

Group accounting policies

The introduction of the definition of group accounting methods is one of the innovative points of the ANC regulation.

It establishes the principle that the accounting methods used in the consolidated financial statements are the same as those used to prepare the individual financial statements, subject to the following conditions:

i. The choice made by the group of alternative accounting methods when a choice of accounting method is provided for the individual accounts,

ii. Accounting methods that are mandatory in the consolidated financial statements, although optional in the individual financial statements,

iii. Optional accounting policies for the consolidated financial statements.

The reference methods provided for in the individual financial statements are therefore the reference methods for the preparation of the consolidated financial statements, unless the regulation provides otherwise (ANC regulation no. 2020-01, article 271-3)

Accounting methods required in the consolidated financial statements The new ANC regulation requires the application in the consolidated financial statements of certain reference methods provided for in the individual financial statements, such as the capitalization of eligible development costs, the spreading of borrowing costs over the term of the loan and the expensing of formation expenses.
These accounting methods are qualified as preferential under the former CRC regulation 99-02. The accounting policies required in the consolidated financial statements are as follows:

- Capitalization of leases and similar contracts;
- Spreading of issue costs, issue premiums and redemption premiums over the term of the loans;
- Recognition of start-up costs as expenses;
- Recognition as assets of development costs, website creation costs, transfer taxes, fees or commissions and deed costs related to the acquisition of an asset;
- Accounting for deferred taxes;
- Elimination of the impact of entries made for the sole purpose of applying tax legislation.

Exceptions

Nevertheless, the mandatory accounting policies are not imposed in the consolidated financial statements for the recognition of pension obligations and long term contracts. The provisioning of pension obligations is the standard method in both the individual and consolidated financial statements. Groups therefore continue to have the choice between recognition or disclosure in the notes.

For long-term contracts, the groups have the choice between the completion method and the percentage of completion method. Neither of these two methods is qualified as a reference method. The appendix 1 summarizes the main changes introduced by the new ANC regulation, as well as the main differences between the individual financial statements and the consolidated financial statements under French GAAP.

Removal of the principle of the predominance of substance over form

The reference to the principle of substance over form has now been removed from the new ANC regulation on consolidated accounts. This deletion raises a number of questions. On the one hand, is this principle redundant with the objective of fair presentation and with the general principles of financial reporting? On the other hand, what would be the potential consequences of this deletion on the accounting treatment of certain transactions in order to achieve the objective of reliable financial information? For example, would there be any impact on the accounting for leases, loans and long-term contracts, as well as on the determination of the scope of consolidation?

Elimination of the possibility of recording translation differences on monetary assets and liabilities in the income statement

CRC regulation 99-02 offered the possibility of recording translation differences on monetary items in the income statement for the year in which they relate. This preferential method has been eliminated in the new ANC regulation.

Translation differences on receivables and payables denominated in foreign currencies must now be recognized as assets and liabilities in the consolidated financial statements, in accordance with the accounting rules set out in the French General Accounting Principles (PCG).

Optional accounting methods in the consolidated financial statements The optional accounting policies in the consolidated financial statements are as follows:

- Recording of non-repayable loans in equity;
- Revaluation of assets of all consolidated entities.

In addition, entities other than insurance and banking companies have the option of using the LIFO method (first out is last in) to value fungible current assets.

Duration of the financial year of the consolidated accounts

The regulation establishes the principle that the consolidated financial statements cover a twelvemonth period and are prepared as of a date that is generally the closing date of the financial statements of the consolidating entity (ANC regulation 2020-01, article 111-6).

This provision, which did not exist in the previous regulation, could cause difficulties in application, particularly in the event that a group decides to change the closing date of its consolidated accounts to reflect the seasonality of its operations.

Preparation of the first consolidated accounts

The provisions of the ANC regulation are applied retrospectively when the consolidated financial statements are first prepared.

When a group, which previously presented consolidated financial statements under IFRS, prepares consolidated financial statements under French GAAP for the first time, its consolidated balance sheet and income statement prepared for the year N of the change must include a comparative column for the year N-1 restated retrospectively (1).

Where the formats of the consolidated balance sheet and income statement are sufficiently comparable, the Group adds an additional column for comparative information corresponding to the data published for the year N-1.

If such a presentation is not possible, the consolidated balance sheet and income statement for N-1 prepared and published in accordance with IFRS must be presented separately in the notes to the financial statements, in the section relating to the impact of restatements.

Clarification of the presentation of the consolidated financial statements

The ANC regulation proposes a number of changes in the presentation of consolidated financial statements.

Goodwill is now reported as an asset in the consolidated balance sheet as part of intangible assets (2). In addition, deferred tax assets and liabilities are not presented on separate lines in the balance sheet but are included in the following items "Other receivables and prepayments" and "Other liabilities and accruals".

The consolidated income statement now shows two operating results, one before amortization and impairment of goodwill and one after these charges.

It should be noted that the consolidated balance sheet and income statement models proposed by the ANC rule remain synthetic and that groups may have to make decisions regarding the presentation of certain items not mentioned in the proposed models.

The ANC regulation introduces a new principle of disclosure in the notes to the consolidated financial statements. **When an item in the balance sheet, income statement and commitments received and given is not covered by the disclosures required by the regulation on consolidated financial statements, the notes to the consolidated financial statements include the quantitative and qualitative disclosures required by the French GAAP, subject to the effect of restatements related to the application of the group's accounting policies (ANC regulation 2020-01, article 282-19).**

This new principle could lead groups to increase the volume of the notes to their consolidated financial statements, since they now include not only the explanatory information specific to the consolidated financial statements, but also that provided in the individual financial statements.

It should be noted that the new ANC regulation abolishes the model of the consolidated statement of changes in equity, while indicating that the analyses of the equity items and their changes are provided in tabular form (ANC regulation 2020-01, art. 282-26).

First application of the regulation

The first application of ANC No. 2020-01 is prospective as it applies to transactions and contracts occurring after the date of first application.

The absence of retroactivity means that transactions of the same nature occurring before and after January 11 are accounted 2021for in accordance with the accounting policies in effect before and after that date, respectively.
However, groups may elect to apply one or more of the following accounting policies retrospectively:

- Recognition in the lessee's balance sheet of leases and similar contracts;
- Spreading of issue costs, issue premiums and redemption premiums over the term of the loans;
- Recognition of formation expenses;
- Recognition as an asset of transfer taxes, fees or commissions and deed expenses related to the acquisition of an asset.

However, groups may choose to retrospectively apply one or more of the following accounting policies:

• Accounting in the lessee's balance sheet of leasing contracts and similar contracts
• Spread of issuance costs, issue premiums and redemption premiums over the term of the loans
• Recognition of establishment expenses as expenses
• Recognition of transfer duties, fees or commissions and deed costs related to the acquisition of an asset

(1): This provision stems from ANC regulation no. 2010-01 of June 3 relating 2010 to the conditions of first application of CRC regulation 99-02 by companies whose financial instruments are transferred from a regulated market to a multilateral trading facility.

2): In the balance sheet model proposed by CRC regulation 99-02, goodwill is presented as an asset item before intangible assets. CRC 99-02, goodwill is presented as an asset item before intangible assets.

Appendix: 1 / Summary of changes introduced by ANC regulation 2020-01 on consolidated financial statements

Accounting policies	Consolidated financial statements		Individual accounts
	CRC 99-02	ANC 2020-01	PCG
Capitalization of leasing and similar contracts	Preferential	Mandatory	No capitalization of leasing contracts
Activation of development costs eligible for capitalization	Preferential	Mandatory	Reference method
Activation of website creation fees	Not mentioned	Mandatory	Reference method
Inclusion in the cost of assets of transfer taxes, fees or commissions and deed expenses	Not mentioned	Mandatory	Reference method
Immediate expensing of formation expenses	Not mentioned	Mandatory	Reference method
Spreading of issue costs, issue premiums and redemption premiums over the term of the loans	Preferential	Mandatory	**Issuance costs:** recognized as an expense for the year or spread over the term of the loan (no reference method) **Issue and redemption premiums:** spread over the term of the loan (mandatory method)
Recognition of translation differences on monetary assets and liabilities in the income statement	Preferential	Forbidden	Forbidden
Accounting for long-term contracts	Preferential: progress method	**No reference method** Progress method or completion method	**No reference method** Progress method or completion method
Funding of pension obligations	Preferential	Reference method	Reference method
Accounting for deferred taxes	Mandatory	Mandatory	Not provided for Disclosure in the notes
Elimination of the impact of entries made for the sole purpose of applying tax laws	Mandatory	Mandatory	NA
Accounting for investment grants	Reversals of grants in the income statement considered as entries recorded for the sole purpose of applying tax legislation	In the absence of specific mention in ANC 2020-01, the principles of the PCG should be maintained in the consolidated accounts.	Recognition as income for the period or in equity and reversal in income

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