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Amended proposal for a fourth Council Directive for coordination of national legislation regarding the annual accounts of limited liability companies

(presented by the Commission to the Council on 26 February 1974 pursuant to the second paragraph of Article 149 of the EEC-Treaty)

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EUROPEAN COMMUNITIES
Commission

Explanatory memorandum

2-4

Both the European Parliament and the Economic and Social Committee have delivered their Opinions[1] on the Proposal for a Fourth Council Directive[2] on the basis of Article 54(3)(g).

The Commission considered that, in order to take account of these Opinions, its proposal should be amended pursuant to the second paragraph of Article 149 of the EEC Treaty.

The opportunity has been taken also to make certain further amendments to the original proposal to take into account the laws of the new Member States.

The EEC Accountants Study Group, in which the professional organizations of the new Member States are also represented, has submitted two memoranda to the Commission on the proposal for a fourth Directive, dated 26 June 1972 and 21 February 1973 respectively. The Commission has also made certain amendments to its proposal on the basis of suggestions contained in these memoranda.

Article 1

The scope of the Directive has been extended to cover those forms of company under United Kingdom, Danish and Irish law which correspond to the forms of company which were taken into account in the original Member States. For this purpose the same distinctions have been made as in Directive 68/151/EEC of 9 March 1968 and more particularly in Article 2(1)(f) thereof, as amended by the Act of Accession.[3] As regards Ireland, 'private companies', and as regards the United Kingdom, 'private companies' in Northern Ireland, are treated as 'sociétés à responsabilité limitée'. For a definition of such 'private companies' reference is made to Article 6(II)(1) of Directive ... of ...[4]

Article 2

The new wording has been drafted in response to the wishes of both the European Parliament and the Economic and Social Committee. It brings out more clearly the essential principle that the annual accounts should be drawn up in such a way as to give a true and fair view of the position of the company. This principle implies that should the specific provisions of the Directives be of themselves insufficient to ensure that this objective is attained, the company will be legally obliged to provide further information.

It has been possible to delete the reference to the principles of regular and proper accounting since the requirement of a true and fair view necessarily implies that such principles must be observed.

Article 4

Paragraph 2 is a slightly amended version of a suggestion made by the Parliament. The words 'In exceptional cases' have been deleted, since, where the special nature of an undertaking requires a different lay-out for the accounts, the lay-out must be chosen so as to give a true and fair view of the position of the company.

Under Paragraph 3, in the circumstances mentioned in sub-paragraphs (a) and (b), companies may regroup various items without prior authorization from the Member State concerned; this was to take account of comments from the Economic and Social Committee. Regrouping under sub-paragraph (b), which does not entail any less information being provided and merely enables some items to be dealt with either in the accounts or in the notes, was made possible so as to allow greater flexibility in the lay-out of accounts.

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[1] OJ C 129 of 11.12.1972 and OJ C 39 of 7.6.1973.
[2] The original proposal with the explanatory memorandum has been published as Supplement 7/71 to the Bulletin of the European Communities.
[3] Act concerning the Conditions of Accession and the Adjustments to the Treaties, Annex I, III (h): OJ L 73 of 27.3.1972.
[4] Amendment to the proposal for a Second Council Directive, presented by the Commission to the Council pursuant to the second paragraph of Article 149.

Articles 8 and 9

So as to permit what is a fairly common practice in certain of the new Member States, authorization is given for losses to appear on the liabilities side of the balance sheet as a deduction from the total of capital subscribed plus reserves.

The possibility of showing value adjustments as a separate balance sheet item (Art. 8, Liabilities C; Art. 9, J) has been excluded. Firstly, it is in the interests of clarity that the assets side should show the net value of the various assets. Secondly, the inclusion of value adjustments as a separate item on the liabilities side increases the balance sheet total artificially.

Value adjustments must appear either in the balance sheet, as clear deductions from the items concerned, or in the notes on the accounts (see amended version of Article 12).

Article 12

See commentary on Articles 8 and 9.

Articles 15 and 18

The improper inclusion under the items 'Prepayments' and 'Accruals' of anticipatory items, that is to say, of earnings not yet received an payments not yet made, is to be avoided. For this reason, in accordance with a suggestion from the Parliament, it is provided that such items must be explained in the notes on the accounts where the amount involved is considerable.

Articles 20 to 22

As suggested by the Parliament and the Economic and Social Committee, the item 'Staff costs' has been subdivided, particularly to show the amount of wages and salaries as opposed to social security costs.

The numbering of Articles 20 (III 19) and 22 (III 17) has been changed because, as the Economic and Social Committee rightly pointed out, the item 'Sub-total' is not a part of the item 'Exceptional Result', but the total of results under I, II and III.

Article 24

This amendment was necessary because value adjustments may no longer appear on the liabilities side of the balance sheet. Articles 49(2) and 50(2)(a) have been similarly amended.

Article 28

Additions must be made to the general principles of valuation enumerated in Article 28, so as to take account of certain principles which are more particularly observed in professional practice in certain of the new Member States. The principle of conservative valuation, already referred to by implication in paragraph 1(b), (c) and (d) in the original version, is now stated expressly in paragraph 1(c) and two further principles have been added. The first is the general rule that the valuations in the annual accounts must be made on the basis that the company will not be wound up but will continue to carry on business (paragraph 1(a)). Paragraph 1(d) sets forth the principle whereby earnings and charges arising during the course of a particular year must be taken in relation to each other.

The wording of paragraph 1(f) has been improved also on a suggestion by the Economic and Social Committee.

Article 30

The choice open to Member States under this Article of introducing or maintaining methods of valuation which depart from the classic method laid down by Article 29 is considerably widened in the amended version. Economic developments have shown the desirability of having the greatest possible flexibility in this respect. New methods of valuation have recently been developed which allow for the effects of inflation on the accounts unlike those based on replacement value. What the final outcome of such developments will be cannot as yet be foreseen. From the point of view of harmonization, however, there is nothing against such new valuation methods being allowed provided that they can be compared with existing methods. Paragraph 1 (b) therefore authorizes the Member States to introduce other valuation methods, based on current values, whilst Articles 30(2), 12(3)(c) and 4(b) provide for the comparison of such methods with existing methods.

The valuation methods envisaged by paragraph 1(b) are those whereby the trend in current value from one accounting period to another is regularly followed by and reflected in the annual accounts, as opposed to revaluation, as authorized by Article 31, which will take place only once in a while.

Paragraphs 2, 4 and 6 have been amended to take account of the new provisions of paragraph 1(b).

The amendment to the last subparagraph of the first paragraph was made in the interests of clarity.

Where necessary, future taxation must be shown as a clear deduction from items carried to the revaluation reserve (paragraph 2). This provision is designed to prevent the reader of the balance sheet from being misled as to the amount of the company's own capital.

Article 31

The text of the second subparagraph of paragraph 1 has been amended in the same way as the last subparagraph of Article 30(1).

Article 33

Value adjustments may no longer be made in respect of fixed assets to take account of depreciations in value which may not be permanent (paragraph 1(c)(aa). With the exception of participating interests and other financial assets, it is not advisable to take account of fluctuations in the values of items of fixed assets which may turn out to be only temporary.

The wording of paragraph 1(d) has been improved. Furthermore, a provision has been introduced which requires future taxation in respect of which value adjustments are made to be indicated in the notes on the accounts, to avoid misunderstanding as to the effect of the amount of such adjustments on the trading profit.

In paragraph 3(b) it has been made mandatory, as opposed to permissible, to add to the production cost a reasonable proportion of the manufacturing costs which are only indirectly attributable to the products in question. The compulsory addition of indirect manufacturing costs to the production cost is coming to be considered more and more in business practice as being in accordance with basic accounting principles.

Paragraph 4 has been amended in accordance with the wishes of the Economic and Social Committee. Companies are given the choice of including interest on borrowed capital in the production cost. The possibility of including interest on the company's own capital in the production cost has been excluded, since the economic justification for such a measure is a matter of some controversy.

Article 36

The text of paragraph 1(e) has been amended in the same way as Article 33(1)(d), and for the same reasons.

Article 37

The amount at which stocks are valued in the balance sheet may vary considerably depending on the method used for calculating the purchase price or production cost. Article 37 gives companies a wide discretion as to the method to be used. It is therefore provided that where the value of stocks in the balance sheet as calculated by a given method differ by a considerable amount from the value on the basis of the actual purchase price, an indication of the difference must be included in the notes on the accounts.

Article 40

The text of this Article has been amended to accord with the amended text of Article 2(2).

Article 41

In view of the increasing volume of international business transacted between companies and the continued fluctuations in currency values, the method used by the company for calculating its rate of exchange for creditors and debtors in foreign currency should, for completeness of information, be indicated in the notes on the accounts (1).

The recording of the amount of turnover as a separate item is of great importance for an appraisal of the company's position, and particularly of its profitability. Since most undertakings have diversified activities, this information will be all the more valuable if an indication is given of the respective contributions of the various commercial and industrial activities of the company to the turnover and to the year's results. A break-down of the turnover figure by geographical markets is also of interest, particularly to show to what extent the company is dependent on exports and to which country. These items of information are moreover already required of companies in one of the new Member States. In the interests of providing adequate information for shareholders and third parties this practice should be extended throughout the Community.

Article 41(6) obviously cannot apply to any companies which have been exempted under Article 24 from showing their net amounts of turnover. This is provided for by Article 42(2). However, this provision may be applied independently of Article 24. Thus, Member States who do not exercise the option given them by Article 24 and therefore require companies to which that Article applies to publish their net amounts of turnover, may nevertheless exempt them from giving the information required by Article 41 (6).

The requirement of additional information concerning the number of persons employed, and staff costs, was included in response to a proposal by the Parliament and the Economic and Social Committee (7).

The requirement of information concerning retirement pensions for ex-managers of the company (10) was also included at the request of the Parliament.

Article 42

See the commentary on Article 41(6).

Article 43

The activities of the company in the field of research and development are important elements for the appreciation of the company's future evolution. This information must therefore be given in the annual report, as has been suggested by the Parliament.

Article 44

The auditor's report which Article 44 requires to be published is not the report submitted by the auditor to the management organ of the company. As the Parliament and the Economic and Social Committee rightly pointed out, publication of the latter would not be advisable, firstly because it would be too detailed, and secondly because it often contains confidential information. The report to which Article 44 refers is an extract from that report. To avoid any misunderstanding, it is specified that the content of the report to be published is defined in Article 60 of Directive No ... of ...[1]

[1] Proposal for a fifth Directive, on the basis of Article 54(3)(g), submitted by the Commission to the Council on 9 October 1972: OJ C 131 of 13.12.1972 and Supplement 10/72 - Bull. EC.

Article 49

The annual report, as referred to in Article 43, will necessarily contain statements of opinion by the managers of the company on present and future developments. Obviously the auditor cannot in his certificate give any guarantee as to the outcome of such forecasts.

He can on the other hand verify and certify that there is no inconsistency between the information given in the annual report and the view given by the annual accounts of the company's position (paragraph 1(b)).

As regards the amendment to paragraph 2, see the commentary on Article 24.

Article 50

As regards the amendments to paragraph 2(a), see the commentary on Article 24.

In paragraph 2(b), it is provided that in the abridged balance sheet, as defined by that paragraph, debtors and creditors must be broken down by reference to the time when such items become due and payable, as required by Articles 8 and 9. This is to ensure that, in abridged balance sheets also, the lay-outs required under Articles 8 and 9, and more particularly under liabilities item E in Article 8 and items F and I in Article 9, are the same.

Proposal for a Directive

Amended proposal[1] for a fourth Council Directive for coordination of national legislation regarding the annual accounts of limited liability companies (presented by the Commission to the Council on 26 February 1974)

The Council of the European Communities,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 54(3)(g) thereof;

Having regard to the proposal from the Commission;

Having regard to the Opinion of the European Parliament;

Having regard to the Opinion of the Economic and Social Committee;

Whereas coordination of the national provisions concerning the presentation and contents of the annual accounts and report, methods of valuation and publication of those documents in respect of the société anonyme, the Aktiengesellschaft, the società per azioni and the naamloze vennootschap and in respect of the société à responsabilité limitée, the Gesellschaft mit beschränkter Haftung, the società à responsabilità limitata and the vennootschap met beperkte aansprakelijkheid is of special importance for the protection of members and third parties;

Whereas simultaneous coordination is requisite in these fields for these forms of company because, on the one hand, the activities of those companies frequently extend beyond the frontiers of their national territory and, on the other hand, they offer no safeguards to third parties beyond the amount of their net assets; whereas moreover the necessity and urgency of such coordination have been recognized and confirmed in Article 2 (1)(f) of Directive No 68/151/EEC of 9 March 1968;

Whereas it is also necessary to establish in the Community equivalent legal requirements as regards the extent of the financial information that should be made available to the public by companies that are in competition with one another and have the same legal form;

Whereas the annual accounts must *give a true and fair view* of the company's assets and liabilities, financial position and results; whereas to this end a lay-out comprising items that in principle are obligatory must be prescribed for drawing up the balance sheet and profit and loss account; and whereas on the other hand the different methods permitted in the Member States for valuation of assets and liabilities must be coordinated to ensure that annual accounts present equivalent information;

Whereas the annual accounts of sociétés anonymes, Aktiengesellschaften, società per azioni and naamloze vennootschappen must be available in the fullest possible measure to shareholders and third parties; and whereas to that end it is essential that they be published in full in a national gazette;

Whereas so far as regards sociétés à responsabilité limitée, Gesellschaften mit beschränkter Haftung, società à responsabilità limitata and vennootschappen met beperkte aansprakelijkheid a distinction may be made between the information to be given to the members and that to be given to third parties; whereas the members thereof should be given the same information as the shareholders in a société anonyme, Aktiengesellschaft, società per azioni and naamloze vennootschap; whereas for the information of third parties the same particulars should as a general rule be disclosed as in the case of these latter types of company by reason of the fact that the liability of the members is limited, but some relief can nevertheless be allowed in the case of the smaller companies;

Whereas when a company belongs to a group, only the presentation of consolidated accounts of the group can give a true and fair, as well as a complete view of the situation of the companies concerned; whereas in anticipation of the coordination of national rules in this field and in view of the fact that the Commission has committed itself to submit a proposal as soon as possible,

[1] The amendments have been printed in italics.

Member States will take care that consolidated accounts provided for by the legislation are established in conformity with the principles of this directive;

Has adopted this Directive:

Article 1

1. (a) The coordination measures prescribed by Articles 2 to 47 of this Directive apply to the laws, regulations and administrative provisions of the Member States relating to the following types of company:

— in Germany:

die Aktiengesellschaft, die Kommanditgesellschaft auf Aktien;

— in Belgium:

la société anonyme, de naamloze vennootschap, la société en commandite par actions, de commanditaire vennootschap op aandelen;

— *in Denmark:*

Aktieselskab, Kommandit-Aktieselskab;

— in France:

la société anonyme, la société en commandite par actions;

— *in Ireland:*

companies incorporated with limited liability, with the exception of those referred to in Article 6 (II)(1) of Directive No ... *of* ...;[1]

— in Italy:

la società per azioni, la società in accomandita per azioni;

— in Luxembourg:

la société anonyme, la société en commandite par actions;

— in the Netherlands:

de naamloze vennootschap, de commanditaire vennootschap op aandelen;

— *in the United Kingdom:*

companies incorporated with limited liability, with the exception as regards Northern Ireland, of these referred to in Article 6 (II)(1) of Directive No ... *of* ...[1]

(b) The coordination measures prescribed by Articles 48 to 50 of this Directive apply to the laws, regulations and administrative provisions of the Member States relating to the following types of company:

— in Germany:

die Gesellschaft mit beschränkter Haftung;

— in Belgium:

la société de personnes à responsabilité limitée, de personenvennootschap met beperkte aansprakelijkheid;

— *in Denmark:*

anpartsselskaber;

— in France:

la société à responsabilité limitée;

— *in Ireland:*

companies incorporated with limited liability, as referred to in Article 6 (II)(1) of Directive No ... *of* ...;[1]

— in Italy:

la società a responsabilità limitata;

— in Luxembourg:

la société à responsabilité limitée;

— in the Netherlands:

de besloten vennootschap met beperkte aansprakelijkheid;

— *in the United Kingdom:*

as regards Northern Ireland, companies incorporated with limited liability, as referred to in Article 6 (II)(1) of Directive No ... *of* ...[1]

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[1] *Amendment to the Proposal for a Second Council Directive, submitted to the Council by the Commission pursuant to the second paragraph of Article 149.*

2. Until the safeguards required of credit institutions and insurance companies are in due course coordinated, it shall be permissible for the Member States not to apply the provisions of this Directive to those undertakings.

SECTION 1

General requirements

Article 2

1. The annual accounts shall comprise the balance sheet, the profit and loss account and the notes on the accounts. These documents shall constitute a composite whole.

2. *The annual accounts shall give a true and fair view of the company's assets, liabilities, financial position and results.*

3. They shall be drawn up clearly *and in conformity with the provisions of this Directive.*

SECTION 2

Lay-out of the annual accounts

Article 3

The lay-out of the balance sheet and of the profit and loss account, particularly as regards the form adopted for their presentation, may not be changed from one year to the next. Departures from this principle shall be permitted in exceptional cases. Where it is departed from, an indication thereof shall be given in the notes on the accounts together with an explanation of the reasons therefore.

Article 4

1. In the balance sheet, and also in the profit and loss account, the items referred to in Articles 8, 9 and 20 to 23 of this Directive shall be shown separately. A more detailed sub-division of the items that are preceded by Arabic numerals is authorized.

2. No *different lay-out shall be permitted for the balance sheet and profit and loss account items that are preceded by Arabic numerals unless the special nature of the undertaking so requires.* Any such different lay-out shall, however, present an equivalent view and be explained in the notes on the accounts.

3. *The balance sheet and profit and loss account items that are preceded by Arabic numerals may be regrouped where:*

(*a*) they are of secondary interest only in relation to the object of Article 2(2) of this Directive; or

(*b*) *such regrouping makes for greater clarity, provided that the regrouped items are dealt with separately in the notes to the accounts.*

4. In respect of each balance sheet and profit and loss account item the figures for the preceding financial year shall be shown.

Article 5

The Member States may authorize adaptation of the lay-out of the balance sheet and profit and loss account in order to bring out the allocation of the results.

Article 6

Any set-off between assets and liabilities, or between expenditure and income, is prohibited.

SECTION 3

Balance sheet lay-out

Article 7

For the presentation of the balance sheet, the Member States shall introduce into their legislation the lay-outs prescribed by Articles 8 and 9 of this Directive, and shall leave the companies to choose between them.

Article 8

Assets

A—Subscribed capital unpaid

— of which there has been called.

B—Formation expenses in so far as the national law permits them to be recorded as assets.

C—Fixed assets:

I. Intangible assets:

1. Cost of research and development in so far as the national law permits them to be recorded as assets,

2. Concessions, patents, licences, trade marks, and similar rights and values, if they were:

(a) acquired for valuable consideration and are not to be shown under C I.(3),

(b) created by the undertaking itself, in so far as the national law permits them to be recorded as assets,

3. Goodwill, to the extent that it was acquired for valuable consideration,

4. Payments on account.

II. Tangible assets:

1. Land and buildings,

2. Plant and machinery,

3. Other fixtures, tools and equipment,

4. Payments on account and tangible assets in process of construction.

III. Participating interests and other financial assets:

1. Holdings in associated undertakings,

2. Claims on associated undertakings,

3. Participating interests,

4. Claims on undertakings with which the company is associated by virtue of a participating interest,

5. Securities ranking as fixed assets,

6. Other claims,

7. Own shares (indicating their nominal value or proportionate value) to the extent that the national law permits them to be included in the balance sheet.

D—Current assets:

I. Stocks:

1. Raw and auxiliary materials,

2. Goods in course of production and waste products,

3. Finished products and stock in hand,

4. Payments on account.

II. Debtors (amounts becoming due and payable within one year shall be shown separately for each item):

1. Claims in respect of sales and services rendered,

2. Claims on associated undertakings,

3. Claims on undertakings in which the company has a participating interest,

4. Other claims.

III. Securities forming part of the current assets, and liquid assets:

1. Holdings in associated undertakings,

2. Bills of exchange,

3. Bank balances, postal cheque account balances, cheques and cash in hand,

4. Own shares (indicating their nominal value or proportionate value) to the extent that the national law permits them to be included in the balance sheet,

5. Other securities.

E—Pre-payments.

F—Loss *(in so far as the losses are not shown under liabilities):*

I. For the year,

II. Brought forward.

Liabilities

A—Subscribed capital (the shares must be shown by classes, indicating their nominal value or proportionate value).

B—Reserves:

1. Legal reserve,

2. Share premium account,

3. Revaluation reserve,

4. Reserve for own shares,

5. Statutory reserves,

6. Optional reserves.

C—*Total of subscribed capital and reserves, less losses, in so far as these are not shown under assets (the result for the year and results brought forward must be shown as separate items).*

D—Provisions for contingencies and charges:

1. Provisions for pensions and similar obligations,

2. Provisions for taxation including future taxation,

3. Other provisions.

E—Creditors (amounts becoming due and payable within one year, amounts becoming due and payable after more than five years, and amounts covered by valuable security furnished by the company, must be shown separately for each item):

1. Debenture loans, showing convertible loans separately,

2. Debts to credit institutions,

3. Payments received on account of orders,

4. Debts in respect of purchases and services received,

5. Debts represented by bills of exchange,

6. Debts to associated undertakings,

7. Debts to undertakings with which the company is associated by virtue of a participating interest,

8. Other creditors.

F—Accruals.

G—Profit:

I. For the year.

II. Brought forward.

Article 9

A—Subscribed capital Unpaid

— of which there has been called.

B—Formation expenses in so far as the national law permits them to be recorded as assets.

C—Fixed assets:

I. Intangible assets:

1. Cost of research and development, in so far as the national law permits them to be recorded as assets,

2. Concessions, patents, licences, trade marks, and similar rights and values, if they were:

(a) acquired for valuable consideration and are not to be shown under C I. (3),

(b) created by the undertaking itself, in so far as the national law permits them to be recorded as assets,

3. Goodwill, to the extent that it was acquired for valuable consideration,

4. Payments on account.

II. Tangible assets:

1. Land and buildings,

2. Plant and machinery,

3. Other fixtures, tools and equipment,

4. Payments on account and tangible assets in process of construction.

III. Participating interests and other financial assets:

1. Holdings in associated undertakings,

2. Claims on associated undertakings,

3. Participating interests,

4. Claims on undertakings with which the company is associated by virtue of a participating interest,

5. Securities ranking as fixed assets,

6. Other claims,

7. Own shares (indicating their nominal value or proportionate value) to the extent that the national law permits them to be included in the balance sheet.

D—Current assets:

I. Stocks:

1. Raw and auxiliary materials,

2. Goods in course of production and waste products,

3. Finished products and stock in hand,

4. Payments on account.

II. Debtors (amounts becoming due and payable within one year must be shown separately in each case):

1. Claims in respect of sales and services rendered,

2. Claims on associated undertakings,

3. Claims on undertakings with which the company is associated by virtue of a participating interest,

4. Other claims.

III. Securities forming part of the current assets, and liquid assets:

1. Holdings in associated undertakings,

2. Bills of exchange,

3. Bank balances, postal cheque account balances, cheques and cash in hand,

4. Own shares (indicating their nominal value or proportionate value) to the extent that the national law permits them to be included in the balance sheet,

5. Other securities.

E—Pre-payments.

F—Debts becoming due and payable within one year (amounts covered by valuable security furnished by the company must be shown separately for each item):

1. Debenture loans, showingconvertible loans separately,

2. Debts to credit institutions,

3. Payments received on account of orders,

4. Debts in respect of purchases and services received,

5. Debts represented by bills of exchange,

6. Debts to associated undertakings,

7. Debts to undertakings with which the company is associated by virtue of a participating interest,

8. Other debts.

G—Current assets in excess of the debts becoming due and payable within one year.

H—Total amount of asset items after deduction of the debts becoming due and payable within one year.

I—Creditors for amounts becoming due and payable after more than one year (amounts becoming due and payable after more than five years and amounts covered by valuable security furnished by the company must be shown separately for each item):

1. Debenture loans, showing convertible loans separately,

2. Debts to credit institutions,

3. Payments received on account of orders,

4. Debts in respect of purchases and services received,

5. Debts represented by bills of exchange,

6. Debts to associated undertakings,

7. Debts to undertakings with which the company is associated by virtue of a participating interest,

8. Other creditors.

J—Provisions for contingencies and charges:

1. Provisions for pensions and similar obligations,

2. Provisions for taxation, including future taxation,

3. Other provisions.

K—Accruals.

L—Subscribed capital (The shares must be shown by classes, indicating their nominal value or proportionate value).

M—Reserves:

1. Legal reserve,

2. Share premium account,

3. Revaluation reserve,

4. Reserve for own shares,

5. Statutory reserves,

6. Optional reserves.

N—Result for the year.

O—Results brought forward.

Article 10

1. Where a component of the assets or liabilities pertains to several items in the balance sheet, its relationship to other items shall be indicated either under the item where it appears or in the notes on the accounts, unless such indication is not essential to the comprehension of the annual accounts.

2. Own shares and holdings in associated undertakings shall be shown only under the item respectively that relates thereto.

Article 11

All commitments by way of guarantee of any kind entered into for account of third parties shall, if there is no obligation to show them under liabilities, be clearly set out below the balance sheet or in the notes on the accounts, distinguishing between the various types of guarantee which the national law recognizes, and specifying what valuable security, if any, has been provided. Commitments of this kind existing in respect of associated undertakings shall be shown separately.

SECTION 4

Special provisions relating to certain items in the balance sheet

Article 12

1. Whether particular assets are to be classified as fixed assets or current assets shall depend upon the purpose for which they are intended.

2. Fixed assets shall comprise those elements which are intended to be used on a continuing basis to enable the undertaking to operate.

3. (a) Movements in the various items of fixed assets shall be shown in the balance sheet or in the notes on the accounts. To this end there shall be shown, starting with the purchase price or production cost, separately for each of the items of fixed assets, on the one hand the additions, disposals, transfers and upward corrections during the year, and on the other hand the cumulative value adjustments as at the date of the balance sheet. *Value adjustments shall be*

shown either in the balance sheet, as a clear deduction from the relevant item, or in the notes on the accounts.

(b) Where at the time the first annual accounts are drawn up in accordance with this Directive, the purchase price or production cost of an element of fixed assets cannot be determined without untoward expense or delay, the residual value at the beginning of the year may be treated as the purchase price or production cost. Any use made of this provision must be mentioned in the notes on the accounts.

(c) In the case of application of Articles 30 and 31 of this Directive, the presentation of the movements in the various items of fixed assests referred to under (a) shall be supplemented by separate mention, for each of the various items, of the cumulative amounts at the date of the balance sheet, on the one hand of the differences referred to in Article 30 (2) and in Article 31(2), and on the other hand of the additional value adjustments.

4. (a) Movements in the various items of current assets shall be presented in the balance sheet or the notes on the accounts. To this end there shall be shown, separately for each of the items of current assets, on the one hand the purchase price or production cost of the elements shown in the balance sheet, and on the other hand the value adjustments. *Value adjustments shall be shown either in the balance sheet, as a clear deduction from the relevant item, or in the notes on the accounts.*

(b) The provisions of paragraph 3(c) shall apply to the presentation of the item relating to stocks.

5. The provisions of paragraph 3(a) and (b) shall apply to the presentation of the item 'formation expenses'.

Article 13

Under the item 'land and buildings' shall be show land not built on as well as the land built on and the buildings thereon, together with fixtures and fittings.

Where national law authorizes the inclusion under assets of rights in real estate which are of like nature to rights of ownership, they shall be included under the item 'land and buildings'.

Article 14

The term 'participating interests' is used in this Directive to mean rights in the capital of other undertakings, whether or not represented by certificates which by creating a durable link with them, are intended to contribute to the activities of the company. A holding of 10% of the subscribed capital of another undertaking shall be presumed to constitute a participating interest.

Article 15

Under 'Pre-payments' on the assets side shall be shown expenditure incurred during the year but relating to a subsequent year, together with the earnings relating to the year to the extent that they will not be received until after the close of the year. The latter, however, may also be shown under debtors. *Where the amount involved is considerable, an explanation must be given in the notes on the accounts.*

Article 16

The value adjustments are adjustment items relating to elements of assets and are intended to take account of depreciation established in respect of these elements at the date of the balance sheet, whether that depreciation is definitive or not.

Article 17

The provisions for contingencies and charges are intended to cover either the certain cost of major maintenance work or of major repairs which will be incurred in the course of subsequent years, or losses or charges the nature of which is clearly defined but which at the date of the balance sheet are either likely to be incurred, or are certain to be incurred but are indeterminate as to amount or as to the date on which they will arise.

The provisions for contingencies and charges shall not be used to adjust the value of elements of assets.

Article 18

Under 'Accruals' on the liabilities side shall be shown income received before the date of the balance sheet but attributable to a subsequent year, together with charges which, though relating to the year in question, will only be paid in the course of a subsequent year. The latter, however, may also be shown under creditors. *Where the amount involved is considerable, an explanation must be given in the notes on the accounts.*

SECTION 5

Lay-out of the profit and loss account

Article 19

For the presentation of the profit and loss account, the Member States shall adopt into their laws the lay-outs appearing in Articles 20 to 23 of this Directive, and shall leave the companies to choose between them.

Article 20

I. Operating result (excluding any earnings and charges shown under II):

1. Net turnover,

2. Changes in stocks of finished and semi-finished products,

3. Work effected by the undertaking for its own account and shown under assets,

4. Other operating receipts,

5. Cost of raw and auxiliary materials,

6. Staff costs:

(a) Wages and salaries,

(b) Compulsory social security costs,

(c) Other social security costs, showing as a separate item those relating to old age pensions.

7. (a) Value adjustments in respect of formation expenses and of tangible and intangible fixed assets,

(b) Value adjustments in respect of elements of current assets,

8. Other operating expenses,

9. Operating result.

II. Financial result:

10. Earnings from participating interests, showing separately those derived from associated undertakings,

11. Earnings from other securities and from claims forming part of the fixed assets, showing separately those derived from associated undertakings,

12. Other interest and similar earnings, showing separately those derived from associated undertakings,

13. Value adjustments in respect of participating interests and other financial assets and of securities forming part of the current assets,

14. Interest and similar charges, showing separately those concerning associated undertakings,

15. Financial result.

III. Exceptional result:

16. Exceptional earnings,

17. Exceptional charges,

18. Exceptional result.

IV. Sub-total.

V. Taxes:

19. Taxes on the result:

— actual,

— future,

20. Other taxes not shown under I, II or III above.

VI. Result for the year.

Article 21

A—Charges:

I. Operating expenses (excluding any shown under II):

1. Reduction in the stock of finished and semi-finished products,

2. Cost of raw and auxiliary materials,

3. Staff costs:

(a) Wages and salaries,

(b) Compulsory social security costs,

(c) Other social security costs, showing as a separate item those relating to old age pensions,

4. (a) Value adjustments in respect of formation expenses and of tangible and intangible fixed assets,

(b) Value adjustments in respect of elements of current assets,

5. Other operating expenses.

II. Financial charges:

1. Value adjustments in respect of participating interests and other financial assets and of securities forming part of the current assets,

2. Interest and similar charges, showing separately those concerning associated undertakings.

III. Exceptional charges.

IV. Taxes:

1. Taxes on the result:

— actual,

— future,

2. Other taxes not shown under I, II and III above.

V. Result for the year.

B—Receipts

I. Operating receipts (excluding any shown under II):

1. Net turnover,

2. Increase in stocks of finished and semi-finished products,

3. Work effected by the undertaking for its own account and shown under assets,

4. Other operating receipts.

II. Financial earnings:

1. Earnings from participating interests, showing separately those derived from associated undertakings,

2. Earnings from other securities and from claims forming part of the fixed assets, showing separately those derived from associated undertakings,

3. Other interest and similar earnings, showing separately those derived from associated undertakings.

III. Exceptional earnings.

IV. Result for the year.

Article 22

I. Operating result (excluding any earnings and charges shown under II):

1. Net turnover,

2. Production costs of output supplied and making-up the turnover (including value adjustments),

3. Gross result achieved from turnover,

4. Distribution expenses (including value adjustments),

5. Administrative expenses (including value adjustments),

6. Other operating receipts,

7. Operating result.

II. Financial result:

8. Earnings from participating interests, showing separately those derived from associated undertakings,

9. Earnings from other securities and from claims forming part of the fixed assets, showing separately those derived from associated undertakings,

10. Other interest and similar earnings, showing separately those derived from associated undertakings,

11. Value adjustments in respect of participating interests and other financial fixed assets and of securities forming part of the current assets,

12. Interest and similar charges, showing separately those concerning associated undertakings,

13. Financial result.

III. Exceptional result:

14. Exceptional earnings,

15. Exceptional charges,

16. Exceptional result.

IV. Sub-total.

V. Taxes:

17. Taxes on the result:

— actual,

— future,

18. Other taxes not shown under I, II or III above.

VI. Result for the year.

Article 23

A—Charges:

I. Operating expenses (excluding any shown under II):

1. Production costs of output supplied and making-up the turnover (including value adjustments),

2. Distribution expenses (including value adjustments),

3. Administrative expenses (including value adjustments).

II. Financial charges:

1. Value adjustments in respect of participating interests and other financial fixed assets and of securities forming part of the current assets,

2. Interest and similar charges, showing separately those concerning associated undertakings.

III. Exceptional charges.

IV. Taxes:

1. Taxes on the result:

— actual,

— future,

2. Other taxes not shown under I, II or III above.

V. Result for the year.

B—Receipts:

I. Operating receipts (excluding any shown under II):

1. Net turnover,

2. Other operating receipts.

II. Financial earnings:

1. Earnings from participating interests, showing separately those derived from ssociated undertakings,

2. Earnings from other securities and from claims forming part of the fixed assets, showing separately those dèrived from associated undertakings,

3. Other interest and similar earnings, showing separately those derived from associated undertakings.

III. Exceptional earnings.

IV. Result for the year.

Article 24

The Member States may authorize companies for which at the date of the balance sheet:

— *the balance sheet total does not exceed one million units of account,*

— the net turnover does not exceed two million units of account,

— the average number of employees during the year did not exceed one hundred,

to adopt lay-outs different from those appearing in Articles 20 to 23 of this Directive within the following limits:

(a) in Article 20, under I, items 1 to 5 inclusive may be grouped together under one item called Gross result;

(b) in Article 21, items A I, 1 and 2, and B I, 1 to 4 inclusive may be grouped together under one item called Gross earnings or Gross charges as the case may be;

(c) in Article 22, under I, items 1, 2, 3 and 6 may be grouped together under one item called Gross result;

(d) in Article 23, items A I, 1 and B I, 1 and 2, may be grouped together under one item called Gross earnings or Gross charges as the case may be.

If subsequently any of the numerical limits set out above is exceeded, the exemptions provided for in this provision may again be applied only if all the conditions specified above are satisfied for two consecutive years.

The amounts in units of account specified in this provision may vary by not more than 10% up or down for purposes of conversion into national currencies.

SECTION 6

Special provisions relating to certain items in the profit and loss account

Article 25

The net amount of turnover includes receipts from sales of products, goods and services falling within the usual operations of the company, after allowing for any price-reduction in respect of those sales, and for value added tax and other taxes directly tied to the turnover.

Article 26

1. Under the items Exceptional earnings and Exceptional charges, shall be shown earnings and charges that are attributable to another year, together with any earnings and charges that do not arise out of the usual operations of the undertaking.

2. Unless such earnings and charges are of no importance in the assessment of the results, explanations of their amount and nature shall be given in the notes on the accounts.

Article 27

Under the item Taxes on the Result shall be shown the actual amount of taxes payable for the year, and separately, the amount of the future liability to tax.

SECTION 7

Valuation rules

Article 28

1. The Member States shall ensure that the valuation of the items shown in the annual accounts is made in accordance with the following general principles:

(a) *The company shall be presumed to continue its business as a going concern.*

(b) The methods of valuation may not be changed from one year to another.

(c) *Valuation must be made on a conservative basis, and in particular:*

(aa) Only the profits earned at the date of the balance sheet may be included in it; account shall nevertheless be taken of all contingencies foreseeable at that date.

(bb) Account shall be taken of any deficiencies that do not become apparent until after the date of the balance sheet, but which do become apparent before it is drawn up, if they arise in the course of the year to which the annual accounts relate.

(cc) Account shall be taken of any depreciation, whether the year closes with a loss or with a profit.

(d) *Account shall be taken of earnings and charges arising during the year to which the accounts relate, irrespective of the date of or receipt of payment of such earnings or changes.*

(e) The components of the asset and liability items shall be valued separately.

(f) The *opening* balance sheet for each year shall correspond to the *closing* balance sheet for the *preceding* year.

2. Departures from these general principles shall be permitted in exceptional cases. Where they are departed from, an indication thereof shall be given in the notes on the accounts together with an explanation of the reasons and an assessment of the effect on the assets, liabilities, financial position and result.

Article 29

The valuation of the items shown in the annual accounts shall be made in accordance with Artcles 32 to 39 of this Directive, based on purchase price or production cost.

Article 30

1. Notwithstanding the provisions of Article 29 of this Directive, the Member States may authorize:

(a) for tangible fixed assets with a limited useful life and for stocks, valuation by the replacement value method; and

(b) for tangible fixed assets, for participating interests and other financial assets and for stocks, valuation by methods other than that mentioned in paragraph (a) and which take into account current values.

Where such authorization is given and is implemented, an indication thereof shall be given in the notes on the accounts, specifying the balance sheet or profit and loss account items concerned, and the method by which the value shown is calculated.

2. Where paragraph 1 is applied, the amount of the difference *between valuation by* the replacement value method *or other method as aforesaid* and valuation in accordance with the general rule contained in Article 29 shall be shown under liabilities in the item Revaluation Reserve, *with any future taxation being shown clearly as a deduction.* This item shall be sub-divided into:

— Reserve for tangible fixed assets,

— *Reserve for participating interests and other financial assets,*

— Reserve for stocks.

3. The Revaluation reserve may be capitalized at any time.

4. The Revaluation reserve shall be reduced to the extent that the amounts transferred thereto are no longer *necessary to maintain the potential of the undertaking.* The amounts in question shall be added to the result for the year. They shall be shown separately in the profit and loss account.

5. Save as provided in paragraphs 3 and 4 the Revaluation reserve shall not be reduced.

6. Value adjustments shall be calculated each year on the basis of the *value* shown for the year in question.

Article 31

1. Notwithstanding *the provisions of* Article 29 of this Directive, the Member States may authorize revaluation of the tangible fixed assets, participating interests and other financial assets.

Where such authorization is given and is implemented, an indication thereof shall be given in the notes on the accounts specifying the balance sheet or profit and loss account items concerned, and the method by which the value shown is calculated.

2. In the event of paragraph 1 being applied, the amount of the difference in valuation made in accordance with paragraph 1 above and the valuation made in accordance with the general rule contained in Article 29 shall be shown under liabilities in the Revaluation Reserve. This item shall be sub-divided into:

— Reserve for tangible fixed assets,

— Reserve for participating interests and other financial assets.

3. The Revaluation reserve may be capitalized at any time.

4. The Revaluation reserve shall be reduced to the extent that the increases in value concerned have been actually realized. The amounts in question shall be added to the result for the year. They shall be shown separately in the profit and loss account.

5. Save as provided in paragraphs 3 and 4 the Revaluation reserve shall not be reduced.

Article 32

1. (a) Where the national law authorizes the inclusion of formation expenses under assets, they shall be written off over a maximum period of five years.

(b) In so far as the formation expenses have not been completely written off, no distribution of profits shall take place unless the amount of the optional reserves is at least equal to the amount of the expenses not written off.

2. The amounts entered under this item shall be explained in the notes on the accounts.

Article 33

1. (a) The items of fixed assets shall, without prejudice to the provisions of (b) and (c) below, be valued at purchase price or production cost.

(b) The purchase price or production cost of the items of fixed assets which have a limited useful life shall be reduced by value adjustments calculated according to a method that satisfies the requirements of good management.

(c) (aa) Value adjustments may be made in respect of the *participating interests and other financial interests,* so that they are valued at the lowest figure to be attributed to them at the date of the balance sheet.

(bb) *Value adjustments shall be made in respect of the items of fixed assets, whether or not their useful life is limited, so that they are valued at the lowest figure to be attributed to them at the* *date of the balance sheet, if it is expected that the depreciation in value will be permanent.*

(cc) The value adjustments referred to in (aa) and (bb) shall be shown separately in the profit and loss account or in the notes on the accounts.

(dd) Valuation at the lowest value provided for in (aa) and (bb) shall be discontinued if the reasons for which the value adjustments were made have ceased to apply.

(d) If the items of fixed assets are the subject of exceptional value adjustments *solely for the purpose of* fiscal law, the amount of the adjustments *and the reasons for making them, together with the relevant future taxation,* shall be indicated in the notes on the accounts.

2. The purchase price shall be calculated by adding to the price paid the expenses incidental thereto.

3. (a) The production cost shall be calculated by adding to the purchase price of the raw and auxiliary materials the manufacturing costs directly attributable to the product in question.

(b) A reasonable proportion of the manufacturing costs which are only indirectly attributable to the product in question *shall* be added to the production costs to the extent that they relate to the period of manufacture.

(c) Costs of distribution shall not be included in production cost.

4. *Interest on capital borrowed to finance the manufacture* of fixed assets may be included in production cost to the extent that it relates to the period of manufacture. In that event, *an indication shall be given* in the notes on the accounts that such interest is included under assets.

Article 34

1. Article 32 of this directive shall apply to the item 'Cost of research and development'.

2. Article 32(1) (a) shall apply to item C I 3 under Articles 8 and 9.

Article 35

Tangible fixed assets, raw and auxiliary materials, which are constantly being replaced and of which the overall value is of secondary importance to the undertaking may be shown under assets at a fixed quantity and value, if the quantity, value and composition thereof do not vary appreciably.

Article 36

1. (a) The items of current assets shall be valued at purchase price or production cost, without prejudice to the provisions of (b) and (c) below.

(b) Value adjustments shall be made in respect of the items of current assets so that they are valued at the lowest figure attributable to them at the date of the balance sheet.

(c) The Member States may authorize exceptional value adjustments if, on the basis of a reasonable commercial assessment, these are necessary so that the valuation of these items does not have to be modified in the near future because of fluctuations in value. The amount of these value adjustments shall be shown separately in the profit and loss account or in the notes on the accounts.

(d) Valuation at the lowest value provided for in (b) and (c) shall be discontinued if the reasons for which the value adjustments were made have ceased to apply.

(e) If the items of current assets are the subject of exceptional value adjustments *solely for the purpose of* fiscal law, the amount of the adjustments *and the reasons for making them, together with the relevant future taxation,* shall be indicated in the notes on the accounts.

2. The definitions of purchase price and of production cost contained in Article 33(2) to (4) shall apply.

Article 37

1. The purchase price or production cost of stocks of goods in the same category may also be

calculated either on the basis of weighted average prices or by the 'First in - First out' (Fifo) method or 'Last in - First out' (Lifo) method, or some similar method.

2. *Where the value shown in the balance sheet as a result of the method used differs considerably from the value on the basis of the actual purchase price, the difference shall be indicated in the notes on the accounts.*

Article 38

1. Where the amount of any debt repayable is greater than the amount received, the difference may be shown as an asset. It shall be shown separately in the balance sheet or in the notes on the accounts.

2. The amount of such difference shall be written off not later than the time when repayment of the debt is made.

Article 39

Provisions for contingencies and charges shall not exceed in amount the sums which a reasonable businessman would consider necessary.

The provisions shown in the balance sheet under the item 'Other provisions' shall be specified in the notes on the accounts if they are at all substantial.

SECTION 8

Contents of the notes on the accounts

Article 40

The notes on the accounts shall contain commentary on the balance sheet and profit and loss account in such manner as to give a true and fair view of the company's assets, liabilities, financial position and results.

Article 41

In addition to the information required under other provisions of this Directive, the notes on the accounts shall set out information in respect of the following matters in any event:

1. The valuation methods applied to the various items in the annual accounts, and the methods employed in calculating the value adjustments. *For foreign currency debtors and creditors, the method used for calculating the rate of exchange must be shown;*

2. The name and head office address of each of the undertakings in which the company holds at least 10% of the capital, showing the proportion of the capital held and the amount of the subscribed capital, the amount of the reserves and the results for the latest business year of the undertaking concerned;

3. The way in which the authorized capital has been employed, if any such capital has been created;

4. Whether there are any entitlements carrying the right to a share of profits, and whether there are any convertible debentures or similar securities or rights, specifying the number thereof and what rights they confer;

5. The overall amount of the financial commitments that are not shown in the balance sheet, in so far as this information is of assistance in assessing the financial position. Commitments existing with regard to associated undertakings shall be shown separately;

6. *The net amount of turnover within the meaning of Article 25 of this Directive, broken down by categories of products and activities and by geographical markets. The amount contributed by each category and market to the result for the year must be indicated;*

7. *The number of persons employed during the year, broken down by categories and, if they are*

not shown separately in the profit and loss account, the whole of the personnel costs relating to the accounting period, broken down as provided by Article 20.I.6;

8. The taxes included in the operating result, the financial result or exceptional result;

9. The amount of the changes in the result for the year due to the application of fiscal laws;

10. The amount of the emoluments granted during the year to the members of the administrative, managerial and supervisory bodies by reason of their responsibilities, *and any commitments arising or entered into in respect of retirement pensions for ex-members of those bodies,* showing the total for each category;

11. The amount of advances and credits granted to the members of administrative, managerial and supervisory bodies, and commitments entered into on their account by way of guarantees of any kind, showing the total for each category.

Article 42

1. The Member States may allow the particulars prescribed by Article 41(2):

(a) to take the form of a statement deposited in accordance with Article 3, paragraphs 1 and 2 of Directive 68/151/EEC of 9 March 1968. This shall be mentioned in the notes on the accounts;

(b) to be omitted when their nature is such that, in the view of a reasonable business man, they would be seriously prejudicial to any of the undertakings to which this provision relates. The omission of the particulars shall be mentioned in the notes on the accounts.

2. *Subject to the provisions of the second paragraph of Article 24 of this Directive, the Member States may authorize the omission by companies to which that Article applies of the information required under Article 41(6).*

SECTION 9

Contents of the annual report

Article 43

1. The annual report shall contain a detailed review of the development of the company's business and of its position.

2. The report shall also give particulars of:

(a) any important events that have occurred since the close of the business year;

(b) the company's likely future development;

(c) the activities in the field of research and development and the costs thereof.

SECTION 10

Publication

Article 44

1. The annual accounts duly approved and the annual report, together with the report submitted by the person responsible for auditing the accounts, *as referred to in Article 60 of Directive No ... of ...,*[1] shall be deposited without delay in accordance with Article 3(1) and (2) of Directive 68/151/EEC of 9 March 1968.

2. In derogation from Article 3(4) of that Directive, the annual accounts shall be published in full in a national gazette designated by the Member State. The report submitted by the person responsible for auditing the accounts, *as referred to in paragraph 1,* shall be published therein at the same time.

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[1] *Proposal for a fifth Directive under Article 54(3)(g), submitted to the Council by the Commission on 9 October 1972: OJ C131 of 13.12.1972 and Supplement 10/72 - Bull. EC.*

3. The annual report shall be published in accordance with the requirements of Article 3(4) of the Directive referred to in paragraph 1.

Article 45

On any other occasion when publication is made in full, the annual accounts and report shall be reproduced in the form and text on the basis of which the person responsible for auditing the accounts drew up his report. They shall be accompanied by the full text of the certificate. If the person responsible for auditing the accounts made any qualifications or refused to certify the accounts, the fact shall be stated and the reasons given.

Article 46

If the annual accounts are not published in full, it shall be pointed out that the version published is abridged, and reference shall be made to the national gazette in which they were published. The certificate of the person responsible for auditing the accounts shall not accompany this publication, but it shall be stated whether the certificate was made with or without qualification, or was refused.

Article 47

There shall be published along with the annual accounts, and in like manner:

— the proposed allocation of the result,

— the allocation of the results in cases where these items do not appear in the annual accounts.

SECTION 11

Special provisions relating to the société à responsabilité limitée, the Gesellschaft mit beschränkter Haftung, the società a responsabilità limitata and the vennootschap met beperkte aansprakelijkheid

Article 48

The companies referred to in Article 1(1) (b) shall draw up their annual accounts and report for the information of their members in accordance with the requirements of Articles 2 to 23 and 25 to 43 of this Directive, subject to the following qualifications:

(a) In Article 8 a separate item, 'Claims on members', shall be included under assets at C III and D II and a further separate item, 'Debts to memders', under liabilities at E;

(b) In Article 9 a separate item, 'Claims on members', shall be included at C III and D II and a further separate item, 'Debts to members' at F and I.

Article 49

1. *(a)* The companies referred to in Article 1, (1) (b) shall cause their annual accounts to be audited by one or more persons authorized by the national law to audit accounts.

(b) The person or persons responsible for auditing the accounts shall also verify that the annual report is consistent with the annual accounts of the year to which it refers.

2. The Member States may exempt from the obligation imposed under paragraph 1 companies of which at the date of their balance sheet:

— *the balance sheet total does not exceed one hundred thousand units of account,*

— the net turnover as defined in Article 25 of this Directive does not exceed two hundred thousand units of account,

— the average number of employees during the year did not exceed twenty.

In that case they shall introduce appropriate sanctions into their law for cases in which the annual accounts and reports of such companies are not drawn up in accordance with the requirements of this Directive.

If subsequently any of the numerical limits set out above is exceeded, the exemption provided for in this provision may again be applied only if all the conditions specified above are satisfied for two consecutive years.

The amounts in units of account specified in this provision may vary by not more than 10% up or down for purposes of conversion into national currencies.

Article 50

1. (a) The companies referred to in Article 1(1) (b) shall publish their annual accounts and report, and the report drawn up by the person responsible for auditing the accounts, in accordance with Article 44 of this Directive.

(b) Articles 45 to 47 of this Directive shall equally apply to the companies referred to in paragraph 1(a).

2. Notwithstanding paragraph 1(a), the Member States may permit:

(a) companies other than those referred to in Article 49(2), in the case of which at the date of their balance sheet:

— *the balance sheet total does not exceed one million units of account;*

— the net turnover as defined in Article 25 of this Directive does not exceed two million units of account;

— the average number of employees during the year did not exceed one hundred;

to publish their profit and loss account in the abridged form provided for in Article 24 of this Directive. If subsequently any one of the numerical limits set out above is exceeded, the exemption provided for in this provision may again be applied only if all the conditions specified above are satisfied for two consecutive years.

The amounts in units of account specified in this provision may vary by not more than 10% up or down for purposes of conversion into national currencies.

(b) the companies referred to in Article 49(2) of this Directive to publish merely an abridged balance sheet showing only the items preceded by letters and Roman numerals set out in Articles 8 and 9 with separate particulars of:

— *the information required by the provisions in brackets under items D II of the assets and E of the liabilities in Article 8 and under items D II, F and I in Article 9, but showing the total for the items concerned;*

— claims on and debts to members, and notes on the accounts but not necessarily including the explanations required under Article 41(4) to *(11)*;

(c) the publication requirements laid down for the companies referred to in (a) and (b) to be effected in manner prescribed by Article 3 of Directive 68/151/EEC of 9 March 1968.

SECTION 12

Final provisions

Article 51

1. (a) The Member States shall, within eighteen months of notification of this Directive, make all the necessary amendments to their laws, regulations and administrative provisions so as to comply with the provisions of this Directive, and shall inform the Commission thereof immediately. They shall bring the amendments into force within thirty months of notification of this Directive.

(b) The Governments of the Member States shall communicate to the Commission for information the draft texts of the laws and regulations together with the statements of grounds, relating to the matters covered by this Directive. These shall be communicated at least six months before the date envisaged for final adoption of the texts.

2. The obligation to show in the annual accounts the items prescribed by Articles 8, 9 and 20 to 23 which relate to associated undertakings, and the obligation to provide information concerning these undertakings in accordance with Articles 10(2), 11 or 41(5) of this Directive shall enter into force simultaneously with a Council Directive relating to consolidated accounts.

Article 52

This Directive is addressed to the Member States.