Disclosing Interests in Other Entities in 2013 Annual Financial Statements
Applying IFRS 12

October, 2013

This newsletter is one of a series to illustrate and explain significant new IFRS disclosure requirements applicable for 2013 annual financial statements.

Other newsletters in the series include:

Disclosing Fair Values in Annual Financial Statements—Applying IFRS 13

Disclosing Fair Values in Annual Financial Statements—Applying IFRS 13 to Investment Properties (A supplement)

Disclosing Employee Benefits in 2013 Annual Financial Statements

Offsetting of Financial Instruments—Disclosure in 2013 Annual Financial Statements

IFRS 12, Disclosure of Interests in Other Entities, is effective for most reporting entities for years beginning on or after January 1, 2013. IFRS 12 introduces significant changes to a reporting entity’s disclosures about its interests in other entities, including:

• A requirement to “stand back” and assess whether compliance with the minimum disclosure requirements is sufficient to meet specified disclosure objectives and if not to furnish additional information.

• Significant expansion of the minimum disclosure requirements for interests in subsidiaries, joint ventures and associates.

• Special disclosures for interests in a new class of entities called “structured entities”.

IFRS 12 could have a significant impact on the nature and extent of a reporting entity’s disclosures in its annual financial statements. Modifications may be necessary to information gathering systems and related internal controls, and management and audit committees may have to spend more time assessing whether the disclosures are in accordance with IFRS.

We have prepared this publication to help you understand and apply the standard. Some of the new requirements are straightforward, others are not. We have provided examples of illustrative disclosures for those latter situations where the type and scope of information that a company may provide is not necessarily obvious. Our global publication Practical Guide – Application of IFRS 12 provides further comprehensive illustrations.

We hope you will find this publication helpful. If you have any questions, please do not hesitate to contact your nearest PwC office or representative.
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IFRS 12 – Disclosure of Interests in Other Entities

This publication has been prepared primarily for the benefit of reporting entities other than financial institutions and investment entities. It therefore does not address the amendments to IFRS 12 for investment entities made as the result of changes to IFRS 10, Consolidated Financial Statements, and that are effective for years beginning on or after January 1, 2014.

Purpose

IFRS 12, Disclosure of Interests in Other Entities, establishes new disclosure requirements for interests in subsidiaries (including consolidated structured entities), joint arrangements, associates and unconsolidated structured entities. The purpose of IFRS 12 is to:

- Integrate and make more consistent the disclosure requirements for these interests.
- Improve the disclosure of a reporting entity’s interests in other entities to help users to evaluate the effect of these interests on the financial position, financial performance and cash flows available to the reporting entity and to determine the value of a current or future investment in the reporting entity.
- Increase transparency about the risks to which a reporting entity is exposed from its involvement with structured entities, including those which it had sponsored.

PwC observation. IFRS 12 is part of the IASB’s response to the financial crisis. The standard complements new or revised standards issued for consolidation, joint arrangements and associates (IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, and IAS 28, Investments in Associates and Joint Ventures, respectively). While much of the financial crisis centred on the practices of financial institutions, IFRS 12 applies to non-financial institutions as well.

Effective date and transition

IFRS 12.C1 and .C2B

IFRS 12 is effective for entities that are the focus of this publication for annual periods beginning on or after January 1, 2013. In the year of adoption, the disclosure requirements apply to comparative information for the immediately preceding year except for disclosures for unconsolidated structured entities, which need not be provided for the comparative period.

IFRS12.C2A

If a reporting enterprise provides comparatives for more than the immediately preceding year, it is not required to provide IFRS 12 disclosures for these periods.

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**Entities within the scope**

IFRS 12 applies to all entities that hold interests in subsidiaries (including consolidated structured entities), joint arrangements, associates and unconsolidated structured entities, except for post-employment or other long-term employee benefit plans to which IAS 19, *Employee Benefits*, applies.

The standard also does not apply to entities that prepare separate financial statements in accordance with IAS 27, (e.g., unconsolidated statements when the reporting entity also prepares consolidated financial statements) except that if IAS 27 financial statements are the entity’s only statements, it must apply the requirements in IFRS 12 applicable to interests in unconsolidated structured entities.

**PwC observation.** While IFRS 12 is titled “Interests in Other Entities”, it also applies to any joint operations not held in a separate entity, such as undivided interests in assets and liabilities.

**Definitions of subsidiaries, joint arrangements, associates and structured entities**

In IFRS 12, the terms “subsidiaries”, “joint arrangements”, “associates” have the meaning attributed to them in IFRS 10, IFRS 11 and IAS 28, respectively. “Structured entities” is a new term. It describes an entity that has been designed so that voting or other similar rights are not the dominant factor in deciding who controls the entity. We discuss the key features and attributes of structured entities later (see “Structured entities”).

IFRS 12 distinguishes “consolidated structured entities” from “unconsolidated structured entities” and establishes separate disclosure requirements for each. Unconsolidated structured entities are those that are not controlled by the reporting enterprise and include some joint ventures and associates as well as some entities over which the reporting enterprise has no significant influence.

**PwC observation.** Identifying structured entities is important because, as we shall see, disclosures for these entities are both broader and deeper than for interests in non-structured entities. In the Basis for Conclusions’ paragraph BC77, the IASB observes that if a joint venture or an associate is a structured entity then the reporting enterprise should provide information that meets the separate disclosure requirements for joint ventures and associates and for unconsolidated structured entities.

**Interests**

**Definition and scope exclusions**

IFRS 12 defines “interests” broadly to include any contractual or non-contractual involvement that exposes the reporting entity to variability in returns from the performance of the entity. Examples of such interests include the holding of equity interests, loans (whether fixed or floating), and other forms of involvement such as the provision of funding, liquidity support, credit enhancements, commitments and guarantees to the other entity. IFRS 12 states that a reporting entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.

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1 The Basis for Conclusions accompanies, but is not part of, IFRS 12 and, therefore, is not part of the CICA Handbook-Accounting.
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Some forms of contractual involvement a reporting enterprise has with another entity create exposure for the other entity but not for the reporting enterprise and thus do not fall within the scope of IFRS 12. For example, if a reporting enterprise borrows money from another entity, the borrowing creates exposure to credit risk for that entity but not for the reporting enterprise. Whether derivatives such as interest rate swaps, currency swaps, commodity swaps and forward contracts qualify as interests will depend on the design and purpose of the entity and whether the terms result in risk exposure to the reporting entity. Paragraphs B7 to B9 of IFRS 12 provide additional guidance on determining whether these arrangements qualify as interests.

The definition of interests in IFRS 12 includes reference to “non-contractual involvement” that exposes the reporting entity to variability in returns from the performance of the entity. An example of such involvement would be current intentions to provide funding to an entity for reputational or other reasons.

IFRS 12 does not apply to interests that are accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, or its replacement, IFRS 9, unless these interests are in an unconsolidated structured entity or in an associate or joint venture that, in accordance with IAS 28, is being measured at fair value through profit and loss. This means, for example, that if a reporting entity has an equity interest in an associate that is not a structured entity, and also has a loan to the associate, the equity interest falls within the scope of IFRS 12 (even if the reporting entity is accounting for the interest at fair value in accordance with IAS 39) but the loan does not.

**PwC observation.** The definition and scope provisions of IFRS 12 act to limit the nature and volume of the disclosures that a reporting entity will have to make under the standard. For example, excluding typical customer supplier relationships from the definition of an interest means that a reporting entity does not have to consider the applicability of IFRS 12 to its interests in entities in which its only involvement is as a customer or supplier (absent special circumstances). Also, excluding interests in non-structured entities accounted for in accordance with IAS 39 or IFRS 9 from the scope of IFRS 12 will avoid potential duplication in disclosures between IFRS 12 and IFRS 7.

IFRS 12 also does not apply to an interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.

**PwC observation.** This scope exception has the effect of excluding these participating interests even if they are excluded from the scope of IAS 39 or IFRS 9, such as loan commitments and royalties not accounted for as financial instruments.

**Overall disclosure objective**

The overall objective of IFRS 12 is to require a reporting entity to disclose information that enables users of its financial statements to evaluate:

- The nature of, and risks associated with, its interests in other entities; and
- The effects of those interests on its financial position, financial performance and cash flows.
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IFRS 12.2 A reporting entity meets this objective by providing information about:

- The significant judgments and assumptions it has made in determining the nature of its interests in another entity or arrangement, including whether an interest qualifies as a subsidiary, joint arrangement or associate and whether a joint arrangement is a joint venture or a joint operation.

- Its interests in subsidiaries, joint arrangements and associates, and unconsolidated structured entities by providing the minimum required disclosures, each of which is discussed below.

PwC observation. A reporting entity should not presume that meeting the minimum disclosure requirements of IFRS 12 means that its disclosure is appropriate. It must also stand back and assess whether this information, together with disclosures required by other IFRS, is sufficient to satisfy the disclosure objectives of IFRS 12. If not, it must provide the additional information necessary to remedy the deficiency. This holistic approach to disclosure is an essential part of IFRS 12 and we expect that regulators will be considering an entity’s compliance with this aspect of the requirements in their financial statement reviews. Entities also may be facing further risk of being challenged about their disclosures in any litigation against them on the basis that it failed to appropriately apply the stand back requirement. Best practice would be for reporting entities to document and share with audit committees the basis of their judgments about whether and to what extent disclosures are needed beyond the minimum.

In general, a reporting entity should present information in a tabular format unless another form of disclosure is more appropriate.

PwC observation. IFRS 12 does not establish requirements for where and how disclosures should be provided. Entities should provide information in the way that is most useful to financial statement users and integrates IFRS 12 disclosures with its other disclosures in a meaningful way. For example, an entity may provide IFRS 12 information about subsidiaries, joint ventures and associates in separate notes it has established for each type of these entities. Similarly, it could include disclosures about interests in structured entities that qualify as financial instruments as part of its IFRS 7 financial instrument disclosures.

Aggregation and disaggregation of disclosures

IFRS 12.4 and .B2 Meeting the overall disclosure objective of IFRS 12 also involves considering the way the necessary information is communicated. IFRS 12 requires reporting entities to consider, in light of their own circumstances, the level of detail that is necessary, how much emphasis to place on each of the requirements, and how much aggregation or disaggregation to undertake. The goal is to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation or aggregating items that have different characteristics.

PwC observation. The IASB has been urging reporting entities to cast a critical eye on disclosures and prune those that are not meaningful in their own circumstances, emphasizing that individual disclosures are required only if they are material and that overwhelming the financial statements with irrelevant disclosures is just as much a sin as providing too little.
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IFRS 12.B4 IFRS 12 requires that disclosures are provided separately for interests in:
- subsidiaries;
- joint ventures;
- joint operations;
- associates; and
- unconsolidated structured entities.

IFRS 12.B5-.B6 Making determinations about the basis for aggregating information of individual entities within these classes will involve considering quantitative and qualitative information about the different risks and return characteristics of each entity that is being considered for aggregation, and the significance of each entity to the reporting entity. If an entity aggregates information, it must disclose how it has done this. Examples of aggregation levels within the classes of entities that might be appropriate are:
- The nature of activities (e.g., research and development entities and revolving credit card securitization entities).
- Industry classification.
- Geography (e.g., country or region).

IFRS 12.B3 IFRS 12 limits the aggregation of disclosures to “similar entities” if aggregation is consistent with the overall disclosure objective and does not obscure the information provided. Disclosure of the basis for aggregation is necessary.

PwC observation. IFRS 12 does not define the meaning of “similar” but we do not believe that entities necessarily have to be of a similar size, or even have similar activities, to be considered similar. It all depends on the nature and risks of the interests for which disclosure is being made.

Significant judgments

IFRS 12.7 A reporting entity must disclose information about the significant judgments and assumptions it has made in determining whether it has control, joint control, or significant influence over an entity, and whether a joint arrangement is a joint venture or a joint operation.

IFRS 12.9 Examples of when this disclosure might be necessary include an entity’s judgment that it:
- Does not control another entity even though it holds more than half of the voting rights of the other entity.
- Controls another entity even though it holds less than half of the voting rights of the other entity.
- Is an agent or a principal (see paragraphs B58–B72 of IFRS 10).
- Does not have significant influence even though it holds 20 percent or more of the voting rights of another entity.
- Has significant influence even though it holds less than 20 percent of the voting rights of another entity.
• Has a joint venture rather than a joint operation, or vice versa.

**PwC observation.** It is not sufficient to disclose only that a significant judgment or assumption was made. Rather, the reporting entity also must provide sufficient information that users of financial statements can understand the basis of the judgment. Reporting entities should not presume that all significant judgments for which IFRS 12 requires disclosure necessarily represent the entity’s “most significant” judgments which are required to be separately disclosed pursuant to paragraph 122 of IAS 1, *Presentation of Financial Statements.* Whether this is the case is a matter of judgment based on the entity’s individual facts and circumstances.

### Example – Significant judgments

**Note X Subsidiaries and transactions with non-controlling interests** (extract)

**Significant judgments**

The Company has determined that it controls E Ltd. notwithstanding that it owns less than 50% of the voting interests. The factors the Company considered in making this determination include the size of its block of voting shares, the relative size and dispersion of holdings by other shareholders, the Company’s right to a majority of board members on the board nomination committee and the sharing of key management positions between the Company and E Ltd.

**Note X2 Joint arrangements** (extract)

**Significant judgments**

The Company has classified its 33.3% interest in Digital Design LP as a joint operation. In doing so, the Company considered the terms and conditions of the partnership agreements and the purpose and design of the joint arrangement. The purpose of the arrangement is to develop technology solutions required by the parties for their own, individual, manufacturing processes. In addition, the partners are required to take all of the output from Digital Design using a pricing structure designed to cover all of the joint operation’s costs. As a result, the Company concluded that the arrangement is a joint operation.

**Note X3 Structured entities** (extract)

**Significant judgments**

Lease Co. is a structured entity with nominal equity carrying no substantive voting rights. The Company has concluded that it controls Lease Co. because its lease agreement gives the Company the power to direct the activities that most significantly affect Lease Co.’s returns.

(The following example illustrates the disclosure requirements that would apply if, in the example provided above, Lease Co. was not controlled by the Company.)

Lease Co. is a structured entity with nominal equity carrying no substantive voting rights. The Company has concluded that it does not control or jointly control Lease Co. because the design of the arrangement is such that other parties have the power to direct the activities that most significantly affect Lease Co.’s returns.
Subsidiaries

IFRS 12.10 Disclosure objective
A reporting entity must disclose information that enables users of its consolidated financial statements to understand or evaluate, as applicable:

- The composition of the group (i.e., the parent and its subsidiaries).
- The interest that non-controlling interests have in the group’s activities and cash flows.
- The nature and extent of significant restrictions on its ability to access or use assets or settle liabilities of the group.
- The nature of, and changes in, the risks associated with its interests in consolidated structured entities – see “Structured entities”.
- The consequences of changes in its ownership interest in a subsidiary that do and do not result in a loss of control of a subsidiary during a reporting period.

Composition of the group

IFRS 12 does not establish any minimum requirements for this objective.

PwC observation. In the Basis for Conclusions paragraph BC21, the IASB observes that consolidated financial statements ignore the legal boundaries of the parent and its subsidiaries and that these boundaries could affect the parent’s access to and use of assets and other resources of its subsidiaries and therefore affect the cash flows that can be distributed to shareholders of the parent. As we understand it, therefore, disclosing information about the composition of the group is intended to provide users with a broad understanding of the legal basis on which the reporting entity has organized its operations and activities. The Basis for Conclusions makes it clear that the IASB does not intend that reporting entities provide financial information to satisfy this objective. However, as discussed further below, financial information is required for subsidiaries that have material non-controlling interests.

Example – Disclosure of the composition of the group

Note X Subsidiaries and transactions with non-controlling interests (extract)

Principal subsidiaries

The consolidated financial statements include the accounts of the Company and all of its subsidiaries at December 31, 2013. The principal operating subsidiaries and their activities are:

Canadian operations
A Corporation (development and manufacturing of optical technology for industrial applications)
B Ltd. (IT consulting services)
Lease Co. (owning a manufacturing facility and leasing it to the Company)
**US operations**
C Group Inc. (digital imaging equipment manufacturing)
D Corp. (provider of integrated technology solutions)

**International operations**
E Ltd. (logistics and distribution, United Kingdom)

The above subsidiaries were wholly-owned during 2013 and 2012, except for D Corp. with ownership interest of 85% (December 31, 2012 – 80%), E Ltd. in which the Company’s owns 40% of voting common shares (December 31, 2012 – 40%), and Lease Co., a structured entity with nominal equity owned by other parties. The list does not include four wholly-owned subsidiaries domiciled in Canada that are immediate holding companies of the operating subsidiaries.

### Interests of non-controlling interests

**IFRS 12.12** Reporting entities are already required by IAS 1 to present certain information, in the aggregate, about its non-controlling interests. IFRS 12 now requires entities to disclose additional information about individual subsidiaries with non-controlling interests that are material, as follows:

- The name of the subsidiary.
- The principal place of business and country of incorporation, if different.
- The proportion of ownership interests (and voting rights if different) held by non-controlling interests.
- The profit or loss allocated to non-controlling interests during the reporting period.
- The accumulated non-controlling interests at the end of the reporting period.
- Dividends paid by the subsidiary to the non-controlling interests.
- Summarized financial information (see below).

**PwC observation.** The IASB established this requirement in response to requests from analysts and other users for information that will enable them to make better estimates of future profit and loss and cash flows attributable to the shareholders of the parent.

### Summarized financial information requirements for subsidiaries with material non-controlling interests

**IFRS 12.B10** IFRS 12 requires disclosures about the assets, liabilities, profit or loss and cash flows of the subsidiary that enables users to understand the interest that non-controlling interests have in the group’s activities and cash flows. That information might include but is not limited to:

- Current assets.
- Non-current assets.
- Current liabilities.
- Non-current liabilities.
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- Revenue.
- Profit or loss.
- Total comprehensive income.

IFRS 12.B11 Information presented should be before inter-company eliminations.

**PwC observation.** IFRS 12 requires disclosure of “summarized financial information” for subsidiaries with material non-controlling interests but does not specify how this information is to be prepared, other than to say that it should be the amounts before inter-company eliminations. However, the disclosure objective is to enable users to understand the interests that non-controlling interests have in the group’s activities and cash flows. The Basis for Conclusions further states that providing summarized financial information helps users understand the profit or loss and cash flows attributable to the shareholders of the parent and the amount attributable to the non-controlling interests. In our view, these objectives can be accomplished only by determining the summarized financial information based on the amounts reflected in the consolidated financial statements for the subsidiary rather than the standalone financial statements of the subsidiary; i.e., by “pushing down” individual consolidation adjustments, including the effects of any adjustments to carrying amounts arising from the acquisition of the subsidiary. Companies will therefore need to review and apply any consolidation journal entries relating to the subsidiary in preparing this information. The requirement to present information “before inter-company eliminations” means that the summarized financial statements should include inter-company transactions and balances that would be eliminated in consolidation pursuant to IFRS 10.B86(c) (e.g., a significant inter-company receivable or payable).

**Example – Disclosure of summarized financial information on subsidiaries with material non-controlling interests**

*Note X Subsidiaries and transactions with non-controlling interests (extract)*

*Set out below is summarized financial information for each subsidiary that has non-controlling interests that are material to the group. The amounts disclosed for each subsidiary are based on those included in the consolidated financial statements before inter-company eliminations.*

**Summarized statement of financial position**

<table>
<thead>
<tr>
<th></th>
<th>D Corp.</th>
<th></th>
<th>E Ltd.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31</td>
<td>2013</td>
<td>2012</td>
<td>December 31</td>
</tr>
<tr>
<td>NCI percentage</td>
<td>15%</td>
<td>20%</td>
<td></td>
<td>60%</td>
</tr>
<tr>
<td>Current assets</td>
<td>298</td>
<td>370</td>
<td></td>
<td>1,245</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>283</td>
<td>208</td>
<td></td>
<td>882</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>162</td>
<td></td>
<td>363</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>4,583</td>
<td>4,327</td>
<td></td>
<td>654</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>2,051</td>
<td>2,132</td>
<td></td>
<td>547</td>
</tr>
<tr>
<td></td>
<td>2,532</td>
<td>2,195</td>
<td></td>
<td>107</td>
</tr>
<tr>
<td>Net assets</td>
<td>2,547</td>
<td>2,357</td>
<td></td>
<td>470</td>
</tr>
<tr>
<td>Accumulated non-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>controlling interests</td>
<td>382</td>
<td>471</td>
<td></td>
<td>282</td>
</tr>
</tbody>
</table>
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### Summarized Income Statement

<table>
<thead>
<tr>
<th></th>
<th>D Corp. December 31</th>
<th>E Ltd. December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td>284</td>
<td>278</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>119</td>
<td>143</td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td>15</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total comprehensive income</strong></td>
<td>134</td>
<td>164</td>
</tr>
<tr>
<td><strong>Profit/(loss) allocated to NCI</strong></td>
<td>71</td>
<td>86</td>
</tr>
<tr>
<td><strong>Dividends paid to NCI</strong></td>
<td>65</td>
<td>81</td>
</tr>
</tbody>
</table>

### Summarized Cash Flows

<table>
<thead>
<tr>
<th></th>
<th>D Corp. December 31</th>
<th>E Ltd. December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td>42</td>
<td>70</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td>85</td>
<td>(15)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td>52</td>
<td>(63)</td>
</tr>
</tbody>
</table>

### Significant restrictions

**IFRS 12.13** A reporting entity must now disclose, at a minimum:

- The nature and extent of significant restrictions (e.g., statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group, such as (i) those that restrict its ability or the ability of subsidiaries to transfer cash or other assets to (or from) entities with the group; and (ii) guarantees or other requirements that may restrict dividends or other capital distributions being paid, or loans and advances being made or repaid to (or from) other entities within the group.

**PwC observation.** IAS 27 required that a reporting enterprise disclose the nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances. Aside from providing more examples of these situations, IFRS 12 also expands the requirement by mandating disclosure of significant restrictions on the ability of the parent or its other subsidiaries to transfer funds to the subsidiary as well; i.e., the requirement now cuts in several directions.

- The nature and extent to which protective rights of non-controlling interests can significantly restrict the reporting entity’s ability to access or use the assets and settle the liabilities of the group (such as when a parent is obliged to settle liabilities of a subsidiary before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a subsidiary).
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**PwC observation.** The IFRS 12 disclosure requirements apply to protective rights held by the non-controlling interest in another entity that are important enough to constitute “significant restrictions” on the reporting entity’s ability to access or use the assets of the other entity but not so important as to preclude the reporting entity from controlling, and thus consolidating, the other entity. An entity should not presume that all protective rights of non-controlling interests of a subsidiary are significant and thus require disclosure. The Basis for Conclusions paragraph BC32 observes, for example, that it does not intend for a reporting entity to provide a list of all the protective rights held by non-controlling interests that are embedded in law and regulation.

**Example – Disclosure of significant restrictions**

*Note X Subsidiaries and transactions with non-controlling interests (extract)*

**Significant restrictions**

- The Company cannot purchase or otherwise acquire any assets of E Ltd. or cause the subsidiary to repurchase or issue additional debt or equity without the consent of the non-controlling interests. The total assets of E Ltd. are subject to the restriction. (This example assumes that the total assets of E Ltd. are disclosed within the summarized financial information disclosure discussed above.)

- The Senior Notes agreement described in Note Y includes restrictions on certain activities of the parent company including restrictions on permitted acquisitions or investments. The Company cannot, without the prior consent of the lenders, make any payments in excess of $100, including payments to the existing or future investees related to these restricted activities. Total assets of the Company subject to restrictions are $820 (December 31, 2012 – $940).

- The carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

**PwC observation.** IAS 27 did not specifically require a reporting entity to provide information about the carrying amount of assets and liabilities subject to significant restrictions. Note that the new IFRS 12 requirement is to disclose carrying amounts “in the consolidated financial statements”, which means that disclosure must give effect to inter-company eliminations. As a result, the carrying amounts of assets and liabilities reported should include, when applicable, consolidation adjustments arising on the acquisition of the subsidiary but exclude inter-company receivables and payables and reflect inter-company profit eliminations. This will add to the challenge in gathering and reporting this information.

The IFRS 12 requirements are not intended to replicate requirements in other IFRS relating to restrictions (e.g., IAS 16 or IAS 40).

**The consequence of changes in the ownership interest**

A reporting entity is required to disclose:
Disclosing Interests in Other Entities in 2013 Annual Financial Statements
Applying IFRS 12

IFRS 12.18 • For a change in a parent’s ownership interest in a subsidiary that does not result in a loss of control, a schedule showing the effects on the controlling interest’s equity.

IFRS 12.19 • For a change in a parent’s ownership interest in a subsidiary that results in a loss of control, the gain or loss, if any, calculated in accordance with paragraph 25 of IFRS 10, and (a) the portion of that gain or loss attributable to measuring any investment retained in the former subsidiary at its fair value at the date when control is lost; and (b) the line item(s) in profit or loss in which the gain or loss is recognized (if not presented separately).

PwC observation. IFRS 12 carries forward the requirements of IAS 27 without modification. For changes in ownership interest that do not result in a loss of control, the IASB requires a separate schedule notwithstanding that this information would be included in the statement of changes in equity, in response to the requests from users for a more prominent disclosure of financial statement effects of these transactions.

Joint arrangements and associates

Disclosure objective

IFRS 12.20 A reporting enterprise must disclose information that enables users of its financial statements to evaluate:

• The nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationships with other investors with joint control of, or significant influence over, joint arrangements and associates.

• The nature, and changes, in the risks associated with its interests in joint ventures.

Nature, extent and financial effects of its interests in joint arrangements and associates

At a minimum, a reporting entity must disclose the following for each joint venture, joint operation or associate that is material to the reporting entity’s consolidated financial statements:

<table>
<thead>
<tr>
<th>Name of the entity</th>
<th>Joint ventures</th>
<th>Joint operations</th>
<th>Associates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of relationship (e.g., by describing the nature of the activities and whether they are strategic to the reporting entity’s activities)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>The principal place of business (and country of incorporation if applicable and different)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>The proportion of ownership interest or participating share held by the reporting entity and, if different, the proportion of voting rights held</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
### Disclosing Interests in Other Entities in 2013 Annual Financial Statements
Applying IFRS 12

<table>
<thead>
<tr>
<th></th>
<th>Joint ventures</th>
<th>Joint operations</th>
<th>Associates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whether the investment in the joint venture or associate is measured at fair value or using the equity method</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Summarized financial information – see below, other than for interests classified as held for sale in accordance with IFRS 5</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>The fair value if accounted for by the equity method and there is a quoted market price for the investment</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Dividends received from the joint venture or associate</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Current assets</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Current financial liabilities (except for trade and other payables and provisions)</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current financial liabilities (except for trade and other payables and provisions)</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Revenue</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Profit or loss from continuing operations</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Post-tax profit or loss from discontinued operations</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Total comprehensive income</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Unrecognized share of losses, both for the reporting period and cumulatively</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Disclosing Interests in Other Entities in 2013 Annual Financial Statements**

Applying IFRS 12

<table>
<thead>
<tr>
<th></th>
<th>Joint ventures</th>
<th>Joint operations</th>
<th>Associates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax expense or income</td>
<td>√</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The reporting entity must also disclose the nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of or significant influence over a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the reporting entity in the form of cash dividends, or to repay loans or advances made by the reporting entity.

**PwC observation.** This is a new requirement for joint ventures but not for associates. We believe this disclosure should include a discussion of any significant protective rights that other investors have that would limit the investee’s ability to pay cash dividends or repay loans. Refer to the discussion of the protective rights disclosures for subsidiaries above.

**Basis of preparing summarized financial information and reconciliation requirement**

Summarised financial information should be the amounts included in the IFRS financial statements of the joint venture or associate (and not the reporting entity’s share of those amounts). If the reporting entity accounts for its interest in the joint venture or associate using the equity method, the amounts should be adjusted to reflect adjustments made by the reporting entity when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies. Further, the entity should provide a reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture or associate.

**Interests accounted for at fair value**

If an entity accounts for an interest in a joint venture or associate at fair value under IAS 28, and the joint venture or associate does not prepare IFRS financial statements and preparation would be impracticable or cause undue cost, the entity should describe the basis on which the financial information has been prepared.

**Summarized financial information for individually immaterial joint ventures or associates**

For interests in all individually immaterial joint ventures or associates that are accounted for using the equity method, the entity should disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates. In addition, the entity should disclose, separately for joint ventures and associates, the aggregate amount of its share of those joint ventures or associates:

- Profit or loss from continuing operations.
- Post-tax profit or loss from discontinued operations.
Disclosing Interests in Other Entities in 2013 Annual Financial Statements
Applying IFRS 12

- Other comprehensive income.
- Total comprehensive income.

**Example – Disclosure of interests in individually immaterial associates**

*Note X1 Interest in associates*

The Company has interests in a number of individually immaterial associates that are accounted for using the equity method. The aggregated financial information on these associates are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate carrying amount of individually immaterial associates</td>
<td>220</td>
<td>214</td>
</tr>
<tr>
<td>Aggregate amounts of the Company's share of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income from continuing operations</td>
<td>32</td>
<td>28</td>
</tr>
<tr>
<td>Post-tax loss from discontinued operations</td>
<td>(7)</td>
<td>–</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Total comprehensive income</td>
<td>27</td>
<td>29</td>
</tr>
</tbody>
</table>

**Nature of, and changes in, the risks associated with interests in joint ventures and associates**

*IFRS 12.23* IFRS 12 requires an entity to disclose:

- Commitments that it has relating to joint ventures separately from its other commitments disclosure – see the following section.

- Unless the probability of loss is remote, contingent liabilities relating to its interests in joint ventures and associates (including its share of contingent liabilities incurred jointly with other investors with joint control or significant influence over the joint venture or associates) separately from the amount of other contingent liabilities.

**Commitments for joint ventures**

*IFRS 12.B18 - .B19* IFRS 12 defines commitments as those that may give rise to a future outflow of cash or other resources.

Examples of unrecognized commitments requiring disclosure include:

- Commitments to acquire another party's ownership interest (or a portion of that ownership interest) in a joint venture if a particular event occurs or does not occur in the future; and

- Commitments to contribute funding or resources as a result of, for example:
  - The constitution or acquisition agreements of a joint venture (that, for example, require an entity to contribute funds over a specific period).
  - Capital-intensive projects undertaken by a joint venture.
  - Unconditional purchase obligations, comprising procurement of equipment, inventory or services that an entity is committed to purchasing from, or on behalf of, a joint venture.
• Unrecognised commitments to provide loans or other financial support to a joint venture.

• Unrecognised commitments to contribute resources to a joint venture, such as assets or services.

• Other non-cancellable unrecognised commitments relating to a joint venture.

**PwC observation.** IAS 31 required disclosure of “capital” commitments. The IASB removed the qualifier “capital” on the basis that the disclosure objective should be to provide information about all unrecognized commitments that could result in future operating, investing and financing cash outflows or any other type of outflow of resources from the entity. Current disclosure practices are mixed in this area and the level of incremental disclosures to meet the new requirements may vary depending on the existing practices.

**Contingent liabilities**

A reporting entity must disclose contingent liabilities incurred relating to interests in joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates), separately from the amount of other contingent liabilities.

**PwC observation.** The IASB carried forward disclosure requirements in IAS 31 for contingent liabilities except that, as with commitments, disclosure is not required for contingent liabilities for joint operations on the presumption that these are disclosed already.

**Structured entities**

**Identifying structured entities**

As explained earlier, a structured entity is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. IFRS 12 observes that a structured entity often has some or all of the following features or attributes:

• Restricted activities.

• A narrow and well-defined objective, such as to effect a tax-efficient lease, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.

• Insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

• Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).
The presence of any of these features or attributes does not mean that an entity automatically qualifies as a structured entity but concluding that it is not may be challenging. The identification of structured entities is a matter of judgment that should be made considering all relevant facts and circumstances.

**PwC observation.** A structured entity is similar in concept to that of a “special purpose entity” in SIC 12, however it is not necessarily the case that all structured entities are special purpose entities or vice versa. The following are examples of entities that are likely to qualify as structured entities:

- Asset-based financings.
- Tax-driven structures.
- Securitization vehicles.
- Certain investment funds.

In searching for structured entities a reporting entity should consider whether the only relationship the reporting entity has with an entity is a typical customer supplier relationship. If so, there generally will be no need to assess whether that entity is a structured entity. This is because, absent unusual circumstances, the reporting entity will not have an “interest” in that entity and IFRS 12 will not apply. For other entities, the reporting enterprise should consider the assessments it made in determining the basis of accounting for these interests (e.g., evaluations under IFRS 10, IFRS 11 and IAS 28), and whether the reporting enterprise was involved in the design of any entities. Unlike for unstructured entities, IFRS 12 does not exclude from its scope interests in structured entities that are accounted for in accordance with IAS 39 or IFRS 9. Interests in structured entities thus can include such items as loans to structured entities and derivatives such as interest rate swaps, currency swaps, commodity swaps and forward contracts. Whether these instruments qualify as “interests” will depend on the particular facts and circumstances, including the design of the entity. See our earlier discussion about the definition of “interests”.

**Consolidated structured entities**

**Disclosure objective**

IFRS 12 does not set additional disclosure objectives for subsidiaries that also qualify as structured entities, with one exception – the reporting entity must disclose the nature of, and changes in, the risks associated with consolidate structured entities.

**PwC observation.** This disclosure typically would not have been provided in prior years because such arrangements eliminate in the preparation of the consolidated financial statements. In effect, to comply with this requirement a reporting entity must consider its consolidated financial statements on a disaggregated basis, with the basis of the split being consolidated unstructured entities on one side and consolidated structured entities on the other.

**Nature of, and changes in, risks**

The minimum disclosure requirements for this disclosure objective are:

**IFRS 12.14**

- A reporting entity must disclose the terms of any contractual arrangements that could require the parent or its subsidiaries to provide “financial support” to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets
of the structured entity or provide financial support).

**IFRS 12.15 - 16**

- If during the reporting period a parent or any of its subsidiaries has provided financial or other support to a consolidated structured entity without having a contractual obligation to do so, the reporting entity must disclose: (a) the type and amount of support provided including situations in which the parent or its subsidiaries assisted the structured entity in obtaining additional financial support; and (b) the reasons for providing that support. If this provision of support resulted in the consolidation of a previously unconsolidated structured entity, the reporting entity should disclose an explanation of the relevant factors in reaching this decision.

**IFRS 12.17**

- Any current intentions to provide financial or other support to a structured entity, including any intentions to assist the entity in obtaining financial support.

**PwC observation.** IFRS 12 does not define the term “financial support” but the Basis for Conclusions paragraph BC105 observes that financial support is widely understood as a provision of resources to another entity, either directly or indirectly. Disclosures regarding the provision of support when the reporting entity was not obligated to provide it were included in IFRS 12 primarily as the result of the financial crisis, when financial institutions often provided financial support to special purpose vehicles they sponsored for reputational and other reasons. However, the requirements apply to all reporting entities, not just financial institutions.

**Example – Disclosure of interests in consolidated structured entities**

*Note X3 Interest in structured entities (extract)*

**Interests in consolidated structured entities**

As discussed in Note X, the Company entered into a lease of a manufacturing facility with Lease Co., a structured entity.

As part of its leasing arrangement with Lease Co., if the Company elects not to exercise its option to purchase the leased property, the Company is required to pay Lease Co. to the extent that the fair value of the leased property at the end of the lease term, net of specified costs, is less than a stipulated amount, subject to a maximum of $30 million. The Company is also required to remarket or re-lease the leased property on behalf of Lease Co. for a nominal consideration.

During the lease term, the Company is required to provide certain administrative services for a nominal consideration as well as to indemnify Lease Co. for additional costs arising from changes in tax laws, reassessments and other similar matters.

**Unconsolidated structured entities**

**Disclosure objectives**

**IFRS 12.24** If a reporting entity holds interest in an unconsolidated structured entity, IFRS 12 requires disclosure of qualitative and quantitative information to enable users of financial statements to:

- Understand the nature and extent of this interest.
- Evaluate the nature of, or changes in, the risks associated with this interest.
Disclosing Interests in Other Entities in 2013 Annual Financial Statements
Applying IFRS 12

IFRS 12.25 The information required by IFRS 12 includes information about an entity’s exposure to risks from involvement that it had with unconsolidated structured entities in previous periods (e.g., sponsoring the structured entity), even if the entity no longer has any contractual involvement with the structured entity at the reporting date.

Nature and extent of interests

IFRS 12.26 The minimum disclosure requirements for this objective are as follows:

- Qualitative and quantitative information about interests in the structured entity, including but not limited to, the nature, purpose, size and activities of the entity, and how the entity is financed.

- If a company has sponsored an unconsolidated structured entity for which it does not need to provide information at the reporting date (e.g., because it does not have an interest in the entity at the reporting date): (a) how it has determined which structured entities it has sponsored; (b) income from those structured entities during the reporting period, including a description of the types of income presented; and (c) the carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.

PwC observation. IFRS 12 does not define the term “sponsor” but SIC 12 defined it as the entity on whose behalf the entity has been created. If a financial institution has been involved in the design of an entity, the reporting enterprise should not presume that the financial institution is the entity’s sponsor.

Nature of risks

IFRS 12.29 The minimum disclosure requirements for this objective in a tabular format unless another presentation is more appropriate are as follows:

- The carrying amounts of assets and liabilities recognised in the financial statements relating to interests in unconsolidated structured entities.

- The line items in the statement of financial position in which those assets and liabilities are recognised.

- The amount that best represents the reporting entity’s maximum exposure to loss from its interests in unconsolidated structured entities, including how the maximum amount is determined. If a reporting entity cannot quantify its maximum exposure to loss from its interests in unconsolidated structured entities it should disclose that fact and the reasons.

- A comparison of the amounts above.

- If a reporting entity has provided financial or other support to an unconsolidated structured entity (without having a contractual obligation to do so) in which it previously had or currently has an interest, an explanation of the type and amount of support provided and the reasons for providing the support.

- Any current intentions to provide financial or other support to an unconsolidated structured entity, including intentions to assist the entity in obtaining financial support.
Disclosing Interests in Other Entities in 2013 Annual Financial Statements
Applying IFRS 12

IFRS 12 emphasizes that a reporting entity must disclose any additional information necessary to evaluate the nature of and changes in the risks associated with an interest in an unconsolidated structured entity. It provides the following examples of such information:

- The terms of an arrangement that could require the entity to provide financial support to an unconsolidated structured entity (e.g., liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support), including: a description of events or circumstances that could expose the reporting entity to a loss; whether there are any terms that would limit the obligation; and whether there are any other parties that provide financial support and, if so, how the reporting entity’s obligation ranks with those of other parties.

- Losses incurred by the reporting entity during the reporting period relating to its interests in unconsolidated structured entities.

- The types of income the reporting entity received during the reporting period from its interests in unconsolidated structured entities.

- Whether the reporting entity is required to absorb losses of an unconsolidated structured entity before other parties, the maximum limit of such losses for the reporting entity, and (if relevant) the ranking and amounts of potential losses borne by parties whose interests rank lower than the company's interest in the unconsolidated structured entity.

- Information about any liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the reporting entity's interests in unconsolidated structured entities.

- Any difficulties an unconsolidated structured entity has experienced in financing its activities during the reporting period.

- In relation to the funding of an unconsolidated structured entity, the forms of funding (e.g., commercial paper or medium-term notes) and their weighted-average life. That information might include maturity analyses of the assets and funding of an unconsolidated structured entity if the structured entity has longer-term assets funded by shorter-term funding.

Disclosure when a reporting entity provides financial support without being obligated to do so

These requirements are the same as those described for consolidated structured entities above.

Example – Disclosure of interests in unconsolidated structured entity

[The purpose of the example is to illustrate the disclosure requirements that would apply if, in the example provided above, Lease Co. were not controlled by the group.]

Note X3 Interest in structured entities (extract)

Interests in unconsolidated structured entities

The Company is involved with an unconsolidated structured entity through a lease with Lease Co., a company established for the sole purpose of owning and leasing a manufacturing facility to the Company on a tax effective basis. Lease Co. has financed these activities primarily through...
the issue of long-term debt which matures on the expiry of the lease in 2019. As part of the lease arrangement, if the Company elects not to exercise its option to purchase the leased property, the Company is required to pay Lease Co. to the extent that the fair value of the leased property at the end of the lease term, net of specified costs, is less than a stipulated amount, subject to a maximum of $30 million. The Company is also required to remarket or release the leased property on behalf of Lease Co., for a nominal consideration. During the lease term, the Company is required to provide certain administrative services for a nominal consideration as well as to indemnify Lease Co. for additional costs arising from changes in tax laws, reassessments and other similar matters.

The Company estimates the fair value of the leased property annually in assessing whether a payment under the guarantee is probable and recognizes any such payment as an additional rent expense ratably over the remaining term of the lease. The following table provides information relating to the assets of Lease Co. and the guarantee:

<table>
<thead>
<tr>
<th>December 31, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets of Lease Co.</td>
</tr>
<tr>
<td>Maximum exposure under residual value guarantee</td>
</tr>
<tr>
<td>Estimated probable payment under the guarantee based on the fair value of the leased property</td>
</tr>
<tr>
<td>Liability recognized in respect of the guarantee in other long-term liabilities</td>
</tr>
</tbody>
</table>

Under the Company’s assessment of the existing tax laws and other factors, its maximum exposure under the indemnification and other agreements with Lease Co. is $1.3.

Non-coterminous year ends

IFRS 12.11 and .22(b)

If the financial statements of a subsidiary, joint venture or associate used in the preparation of the consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements, the reporting entity should disclose:

- The date of the end of the reporting period of the financial statements of the subsidiary, joint venture or associate.

- The reason for using a different date or period.

PwC observation. This carries forward the disclosures required by IAS 27.