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1 Objective

This document defines the principles for determining the consolidation scope of the Solvay Group, in accordance with the Standards issued in 2011 by the International Accounting Standards Board (IASB) and endorsed by the European Union, and applied by SOLVAY as from January 1, 2014.

2 Overview

The following Standards are covered in this accounting policy:

- IAS 27 *Separate Financial Statements*
- IAS 28 *Investments in Associates and Joint Ventures*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*

Degree of control	Investee	Consolidation method
Full control	Subsidiary	Full consolidation
Joint control	Joint operation	'Proportionate' consolidation
Joint control	Joint venture	Equity method
Significant influence	Associate	Equity method
Less than significant influence	Financial asset	Not consolidated, recognized as financial asset

3 Alert to be sent to GAR

According to the complex contract procedure, GAR should be alerted for projects with partners when Solvay's equity injection in the partnership exceeds the threshold of 5 M€.

Please refer to the complex contract procedure for more information: [Link to the IFRS News, Guidance and Training](#)

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4 BFC accounts

In Solvay's IFRS financial statements, investments in consolidated entities and associated goodwill are recognized in the following BFC accounts:

BFC accounts	Description
A20400	Goodwill on associates and joint ventures
A24000	Investments in associates and joint ventures
A29940	Goodwill on associates and joint ventures - Impairment
A25100	Investments in conso subsidiaries and in non-conso companies
A29510	Investments in conso subsidiaries and in non-conso companies - Write-down
R48721	Dividends received from equity instruments measured at fair value through OCI and from consolidated companies
R53920	Write-down on consolidated companies

5 Scope

This document applies to all Group investees. It lays out the principles based on which we assess how the investee should be included in Solvay's consolidated financial statements.

This document does not address how to initially account for a business of which Solvay obtained control, in other words, so called business combinations.

It applies to all types of investees, regardless as to whether they have been incorporated, and, if so, regardless of the legal form of their incorporation.

6 Glossary

Associate

An associate is an entity over which the investor has significant influence.

Consolidated financial statements

The financial statements of a group (i.e. a parent and its subsidiaries) in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

Control of an investee

An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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Joint arrangement

An arrangement of which two or more parties have joint control.

Joint control

The contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Joint operation

A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A party to a joint operation that has joint control of that joint operation is called a joint operator.

Joint venture

A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A party to a joint venture that has joint control of that joint venture is called a joint venturer.

Non-controlling interest (NCI)

Equity in a subsidiary not attributable, directly or indirectly, to a parent.

Parent

An entity that controls one or more entities.

Party to a joint arrangement

An entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.

Power

An investor has power over an investee when it has existing rights that give the current ability to direct the relevant activities.

Relevant activities

Relevant activities are activities of the investee that significantly affect the investee's returns.

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Separate vehicle

A separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

Significant influence

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of these policies.

Structured entity

An entity that has been designed so that voting rights 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.

Subsidiary

A subsidiary is an entity that is controlled by another entity.

7 Solvay Group

The Solvay Group includes:

- The company Solvay SA;
- Its wholly and non-wholly owned subsidiaries;
- Its joint operations;
- Its joint ventures;
- Its associates.

In accordance with the principle of materiality, certain companies which are not of significant size have not been included in the consolidation scope. Companies are deemed not to be significant when, during two consecutive years, they do not exceed any of the three following thresholds in terms of their contribution to the Group's accounts:

- sales of € 30 million;
- total assets of € 15 million;
- headcount of 150 persons.

Companies that do not meet these criteria are, nevertheless, consolidated where the Group believes that they have a potential for rapid development, or where they hold shares in other companies that are consolidated under the above criteria.

In the aggregate, the non-consolidated companies have an immaterial impact on the consolidated data of the Group.

Notes:

- In case of subsidiaries, this materiality assessment is made based on a pro rata of contributions, taking into account Solvay's equity interest held in the subsidiary;

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- An investee that exceeds thresholds, and hence would qualify for a first consolidation in some cases is nevertheless not consolidated in case (a) it will stop its activities in the near future, or (b) budgeting process reveals it will fall back below materiality thresholds in the near future.

A non-consolidated company that, for any reason, becomes consolidated has to prepare an opening balance sheet under IFRS.

8 Applying the single control model

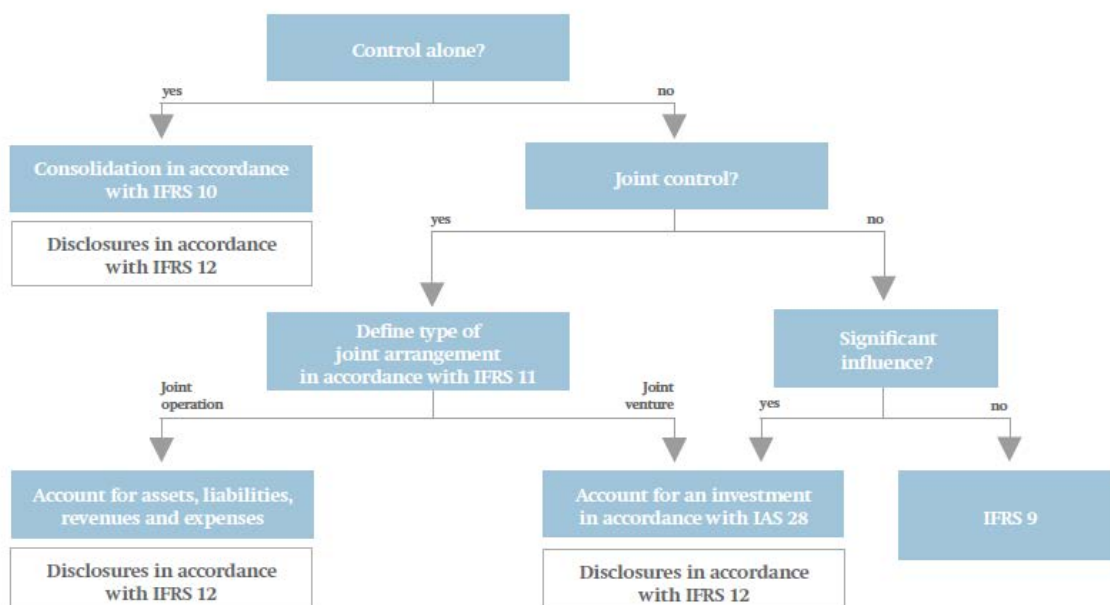
8.1. Introduction

An investor, regardless of the nature of its involvement with the investee, shall determine whether it is a parent by assessing whether it controls the investee.

Solvay controls an investee if and only if it has all the following:

- power over the investee;
- exposure or rights to variable returns from its involvement with the investee;
- ability to use its power to affect the amount of the investor's returns.

Interactions between IFRSs 10, 11, 12 and IAS 28¹



¹ Extract from "IFRS 11 Joint Arrangements – Project Summary and Feedback Statement" issued by the IFRS Foundation in May 2011

8.2. Control

8.2.1. Assessment

The assessment of control is continuous.

It should be reassessed if facts and circumstances indicate a change in one of the above criteria (e.g. changes in equity structure, composition of the Board of Directors, changes to a shareholders' agreement,...). If there is a change in how power over an investee can be exercised, that change must be reflected in how an investor assesses its power over an investee. An event can cause an investor to gain/lose power over an investee without the investor being involved in that event (e.g. a capital increase of a subsidiary which is fully subscribed by a third party and which results in loss of control).

8.2.2. Purpose and design

When assessing control of an investee, the purpose and design of the investee should be considered. Such assists in identifying the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities, and who receives returns from those activities.

The consideration of the purpose and design of the entity may make it clear that the entity is controlled by equity instruments that give the holder proportionate voting rights. In this case, the assessment of control focuses on which party is able to exercise voting rights sufficient to determine the investee's operating and financing policies.

Alternatively, the investee may be designed so that voting rights are not the dominant factor in deciding who controls the investee, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. In latter case, an in-depth analysis of the sources of power is required.

The investor considers its involvement and decisions made at the investee's inception as part of its design and evaluates whether such provided the investor with rights that are sufficient to give it power. Involvement in the design of an investee is indicative, but not conclusive, of the investor's control.

8.3. Power

To have power over an investee, the investor must have existing rights that give it the current ability to direct the relevant activities.

Power arises from rights. Sometimes assessing power is straightforward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. In other cases, the assessment will be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements.

An investor with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the investor has been directing relevant activities can help determine whether the investor has power, but such evidence is not, in itself, conclusive in determining whether the investor has power over an investee.

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If two or more investors each have existing rights that give them the unilateral ability to direct different relevant activities, the investor that has the current ability to direct the activities that most significantly affect the returns of the investee has power over the investee.

An investor can have power over an investee even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities, for example when another entity has significant influence. However, an investor that holds only protective rights does not have power over an investee, and consequently does not control the investee.

8.3.1.Relevant activities

Relevant activities are those activities that significantly affect the investee's returns. They can include, but are not limited to:

- Sales strategy in a merchant market;
- Construction, expansion, and disposals of key assets;
- Operation and maintenance of key assets;
- Research and development of new products/process;
- Determining the funding structure;
- Risk management (interest rate risks, commodity risks, foreign currency risks, etc.).

Examples of decisions about relevant activities include but are not limited to :

- Establishing, operating and capital decisions of the investee ;
- Appointing and remunerating an investee's key management personnel or service providers and terminating their services or employment.

Next, it shall be determined how those relevant activities are directed.

8.3.2.Power through existing rights

Power is exercised through existing rights that give the investor the current ability to direct the relevant activities. In this respect, the following potential sources of power are analysed:

- voting or potential voting rights, e.g. in the investee's shareholders' or board of directors' meetings;
- rights to appoint, re-assign or remove members of an investee's key management personnel, or members of executive committees, who have the ability to direct relevant activities;
- rights to appoint or remove another entity that directs the relevant activities;
- rights to direct the investee to enter into, or veto any changes to, transactions for the benefit of the investor;
- other rights, e.g. stemming from contractual arrangements, that give the holder the ability to direct relevant activities.

When the investee has a range of relevant activities that require continuous substantive decisions, power will generally be given through voting or similar rights, either individually, or in combination with other arrangements.

When voting rights cannot have a significant effect on an investee's return (e.g. when voting rights relate to administrative tasks only), the investor needs to assess other facts and circumstances in order to determine whether it has rights sufficient to give it power over the investee. The investor shall consider evidence of whether it has the practical ability to direct the relevant activities unilaterally.

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Key indicators relating to the practical ability to direct the investee are:

- Non contractual ability to appoint investee's key management;
- Non contractual ability to direct investee to enter into significant transactions or veto such transactions for the benefit of the investor;
- Ability to dominate the nomination process for electing members to the investee's governing body or obtain proxies from other holders of voting rights;
- Investee's key management personnel, or majority of the members of its governing body are related parties of the investor (for example, the investee and the investor have the same CEO);

Secondary indicators are:

- Special relationship between the investor and the investee that suggests that the investor has more than a passive interest in the investee :
 - o The investee's key management personnel who have the ability to direct the relevant activities are current or previous employees of the investor;
 - o The investee's operations are dependent on the investor (e.g.: funding of the investee's operations by the investor, critical services provided by the investor...);
 - o The investor's exposure, or rights, to returns from its involvement is disproportionately greater than its voting (or similar) rights.

Further, the greater an investor's exposure, or rights, to variability of returns from its involvement with an investee, the greater the incentive for the investor to obtain rights sufficient to give it power. Therefore, having a large exposure to variability of returns is an indicator that the investor may have power. However, the extent of the investor's exposure does not, in itself, determine whether an investor has power over the investee.

8.3.2.1. Evaluating whether existing rights are substantive

Only substantive rights should be considered in the assessment of power. For a right to be substantive, the holder must have the practical ability to exercise the right. Factors to consider in assessing whether a right is substantive include:

- The existence of barriers (economic, operational or otherwise) that would prevent the holders from exercising the rights. Example are financial penalties, high exercise prices to exercise the rights, terms and conditions limiting the timing of the exercise of the rights, legal or regulatory requirements, ...
- The existence of a mechanism that provides the parties with the practical ability to exercise their rights collectively. The more parties that are required to agree to exercise the rights, the less likely it is that those rights are substantive.
- Whether the investor that holds the right would benefit from their exercise (e.g. through realization of synergies).

Substantive rights also need to be exercisable when decisions about the direction of relevant activities need to be made. Generally this means that the rights need to be currently exercisable, however such is not always the case.

Example:

Context

The investee has annual shareholder meetings at which decisions to direct the relevant activities are made. The next scheduled shareholders' meeting is in 8 months. However, shareholders that individually or collectively hold at least 5% of the voting rights can call a special meeting to change the existing policies over the relevant activities, but a requirement to give notice to the other shareholders means that such a meeting cannot be held for at least 30 days. Policies over the relevant activities can be changed only at special or

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scheduled shareholders' meeting. This includes the approval of material sales of assets as well as the making or disposing of significant investments.

Application examples

- a) *An investor holds a majority of the voting rights in the investee. The investors' voting rights are substantive because the investor is able to make decisions about the direction of the relevant activities when they need to be made. The fact that it takes 30 days before the investor can exercise its voting rights does not stop the investor from having the current ability to direct the relevant activities from the moment the investor acquires the shareholding.*
- b) *An investor is party to a forward contract to acquire the majority of shares in the investee. The forward contract's settlement date is in 25 days. The existing shareholders are unable to change the existing policies over the relevant activities because a special meeting cannot be held for at least 30 days, at which point the forward contract will have been settled. Thus, the investor has rights that are essentially equivalent to the majority shareholder in example a). The investor's forward contract is a substantive right that gives the investor the current ability to direct the relevant activities even before the forward contract is settled.*
- c) *An investor holds a substantive option to acquire the majority of shares in the investee that is exercisable in 25 days and is deeply in the money → substantive right*
- d) *An investor is party to a forward contract to acquire the majority of shares in the investee, with no other related rights over the investee. The forward contract's settlement date is in six months. In contrast to the examples above, the investor does not have the current ability to direct the relevant activities. The existing shareholders have the current ability to direct the relevant activities because they can change the existing policies over the relevant activities before the forward contract is settled.*

8.3.2.2. Evaluating whether existing rights are protective

Protective rights are designed to protect the interest of their holders without giving that party power over the entity to which those rights relate.

As such, protective rights cannot prevent another investor from having power over an investee; they are typically held to prohibit fundamental changes in the activity of the investee or apply in exceptional circumstances.

Examples of protective rights include, but are not limited to, the approval of the following:

- Related party transactions;
- Liquidation of the investee or a decision to cause the investee to enter bankruptcy or other receivership;
- Issuance or repurchase of equity instruments;
- Changes to the investee's bylaws, including the composition of its board members, the voting procedures, etc.;
- The right of a party holding a non-controlling interest in an investee to approve capital expenditure, or issue debt instruments, greater than that required in the ordinary course of business;
- A lender's right to restrict the investee from undertaking activities that could significantly change the credit risk of the investee, to the detriment of the lender;
- Right of the lenders to seize assets if an investee fails to meet specified loan repayment conditions.

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Other veto rights that are commonly held by non-controlling interests and which do not convey any power include:

- Location of the headquarters;
- Name of the investee;
- Auditors and accounting policies for separate reporting of the investee's operations.

8.3.3. Power through voting rights

Often an investor has the current ability, through voting or similar rights, to direct the relevant activities. An investor considers the following requirements to determine if the relevant activities of an investee are directed through voting rights.

8.3.3.1. Power with majority of voting rights

An investor that holds more than half of the voting rights of an investee has power in the following situations:

- the relevant activities are directed by a vote of the holder of the majority of the voting rights, or
- a majority of the members of the governing body that directs the relevant activities are appointed by a vote of the holder of the majority of the voting rights.

Such implies that the voting rights are substantive, and provide the investor with the current ability to direct the relevant activities.

8.3.3.2. Majority of voting rights without power

An investor does not have power over an investee, even though the investor holds the majority of the voting rights in the investee, when those voting rights are not substantive. For example, an investor that has more than half of the voting rights in an investee cannot have power if the relevant activities are subject to direction by a government, court, administrator, receiver, liquidator or regulator.

8.3.3.3. Power without a majority of voting rights (de facto control)

An investor holding less than a majority of voting rights can have power through:

- Contractual arrangements with the other vote holders ; a contractual arrangement might ensure that the investor can direct enough other vote holders on how to vote to enable the investor to make decisions about the relevant activities;
- Rights arising from other contractual arrangements, which may be sufficient to give an investor the current ability to direct the manufacturing process or to direct operating or financing activities that significantly affect the investee's returns;
- Ownership of the largest block of voting rights in a situation where the remaining rights are widely dispersed ("de facto control") (see below);
- Potential voting rights (see below);
- A combination of the above.

Contractual arrangements with other holders

A contractual arrangement with other vote holders can give the investor the right to exercise voting rights which, when aggregated with its own, are sufficient to give the investor power.

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Additional rights from contractual arrangements

Other decision-making rights, in combination with voting rights, can give the investor the current ability to direct the relevant activities. For example, the rights specified in a contractual arrangement in combination with voting rights may be sufficient to give an investor the current ability to direct the operating or financing activities of an investee that significantly affect the investee's returns. However, in the absence of any other rights, economic dependence of an investee on the investor does not lead to the investor having power over the investee.

De facto control

In case an investor with less than a majority of voting rights holds the largest block of voting rights, while the remaining voting rights are widely dispersed, the investor may have power to unilaterally direct the investee. The more parties that would need to act together to outvote the investor, the more likely the investor is to have existing rights that give it the current ability to direct relevant activities. Voting patterns at previous meetings may indicate that the investor has or does not have the current ability to direct relevant activities.

Example

Investor A holds 40 per cent of the voting rights of an investee and twelve other investors each hold 5 per cent of the voting rights of the investee. A shareholder agreement grants investor A the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. To change the agreement, a two-thirds majority vote of the shareholders is required. In this case, investor A concludes that the absolute size of the investor's holding and the relative size of the other shareholdings alone are not conclusive in determining whether the investor has rights sufficient to give it power. However, investor A determines that its contractual right to appoint, remove and set the remuneration of management is sufficient to conclude that it has power over the investee. The fact that investor A might not have exercised this right or the likelihood of investor A exercising its right to select, appoint or remove management shall not be considered when assessing whether investor A has power.

Potential voting rights

Potential voting rights are rights to obtain voting rights of an investee, such as those arising from options or convertible instruments. Potential voting rights are considered only if they are substantive.

Purpose and design of instrument, as well as any other involvement of the investor with the investee are to be considered, including terms and conditions of the instrument, and the investor's apparent expectations, motives and reasons for agreeing to those terms and conditions. Potential voting rights are considered together with other voting or otherwise decision making rights.

Examples

- Investor A and two other investors each hold a third of the voting rights of an investee. The investee's business activity is closely related to investor A. In addition to its equity instruments, investor A also holds debt instruments that are convertible into ordinary shares of the investee at any time for a fixed price that is out of the money (but not deeply out of the money). If the debt were converted, investor A would hold 60 per cent of the voting rights of the investee. Investor A would benefit from realising synergies if the debt instruments were converted into ordinary shares. Investor A has power over the investee because it holds voting rights of the investee together with substantive potential voting rights that give it the current ability to direct the relevant activities.*
- Entities A and B own 80% and 20% respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C. Entity A sells one-half of its interest to Entity D and buys call options from Entity D that are exercisable at any time at a premium to the market price when*

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issued, and if exercised would give Entity A its original 80% ownership interest and voting rights. Though the options are out of the money, they are currently exercisable and give Entity A the power to continue to set the operating and financial policies of Entity C, because Entity A could exercise its options now. The existence of the potential voting rights, as well as the other factors described in the preceding paragraphs above, are considered and it is determined that Entity A controls Entity C.

3. *Entities A, B and C own 40%, 30% and 30% respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entity A also owns call options that are exercisable at any time at the fair value of the underlying shares and if exercised would give it an additional 20% of the voting rights in Entity D and reduce Entity B's and Entity C's interests to 20% each. If the options are exercised, Entity A will have control over more than one-half of the voting power. The existence of the potential voting rights, as well as the other factors described in the preceding paragraphs above, are considered and it is determined that, absent a voting agreement amongst the partners, Entity A controls Entity D.*
4. *Entities A, B and C each own 33.33% of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entities A, B and C each have the right to appoint two directors to the board of Entity D. Entity A also owns call options that are exercisable at a fixed price at any time and if exercised would give it all the voting rights in Entity D. The management of Entity A does not intend to exercise the call options, even if Entities B and C do not vote in the same manner as Entity A. The existence of the potential voting rights, as well as the other factors described in the preceding paragraphs above, are considered and it is determined that Entity A controls Entity D. The intention of Entity A's management does not influence the assessment.*

8.3.3.4. Structured entities

The structured entity is “an entity 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 relevant activities are directed through contractual arrangements”.

Structured entities generally have:

- restricted activities
- a narrow and well defined objective
- insufficient equity 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.

8.3.3.5. Power when voting or similar rights do not have a significant effect on the investee's returns

The below indicators of power should always be considered, and are especially relevant when assessing whether one has control over a structured entity:

- Has the investor been involved in the design of the investee at inception? Do the terms of decisions made at the investee's inception provide the investor with rights that provide power?
- Do contractual arrangements established at inception (e.g. call, put and liquidation rights) provide investor with rights over closely related activities?

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- Does the investor hold rights over relevant activities that arise only upon the occurrence of contingent events? The investee may be designed so that the direction of its activities and its returns are predetermined unless and until those particular circumstances arise or event occur, which ends to be the only relevant activities. In this case, only the decisions about the investee's activities when those circumstances or events occur can significantly affect its returns and thus be relevant activities. The circumstances or events need not have occurred for an investor with the ability to make those decisions to have power. The fact that the right to make decisions is contingent on circumstances arising or an event occurring does not in itself make those rights protective.
- Does investor have a commitment to ensure that investee continues to operate as designed? Such a commitment may increase the investor's exposure to variability of returns and thus increase the incentive for the investor to obtain rights sufficient to give it power. Therefore a commitment to ensure that an investee operates as designed may be an indicator that the investor has power, but does not, by itself, give an investor power, nor does it prevent another party from having power.

8.4. Exposure, or rights, to variable returns from an investee

An investor is exposed, or has rights, to variable returns from its involvement with the investee. Variable returns are returns that are not fixed and have the potential to vary as a result of the performance of an investee. The investor's returns can be only positive, only negative or both positive and negative. Although one investor can control an investee, more than one party can share in the returns of an investee.

An investor assesses whether returns from an investee are variable and how variable those returns are on the basis of the substance of the arrangement and regardless of the legal form of the returns.

Examples:

- *An investor can hold a bond with fixed interest payments. The fixed interest payments are variable returns because they are subject to default risk and they expose the investor to the credit risk of the issuer of the bond. The amount of variability (ie how variable those returns are) depends on the credit risk of the bond.*
- *Fixed performance fees for managing an investee's assets are variable returns because they expose the investor to the performance risk of the investee. The amount of variability depends on the investee's ability to generate sufficient income to pay the fee.*

Examples of returns include:

- Dividends, other distributions of economic benefits from an investee, including interest from debt securities;
- Operations and maintenance fees;
- Arrangements whereby the investor buys (a portion of) the capacity of the investee's assets;
- Residual interests in the investee's assets and liabilities on liquidation of that investee,
- Tax benefits
- Change in fair value of an investment
- Exposure arising from credit or liquidity support
- Access to future liquidity
- Returns that are not available to other interest holders, such as
 - economies of scale,
 - cost savings,
 - gaining proprietary knowledge,
 - sourcing scarce products
 - limiting some operations or assets, to enhance the value of the investor's other assets.

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It is not required to quantify the investor's exposure, or rights, to variable returns, compared to that of the other investors. In the majority of cases, a qualitative analysis will suffice.

8.5. Link between power and returns

To have control, an investor must have power and exposure or rights to variable returns, and be able to use its power to affect its own returns from its involvement with the investee. In other words, the power and the returns to which an investor is exposed, or has rights, must be linked.

Many parties can have the right to receive variable returns from an investee (e.g. shareholders, debt providers and agents), but only one party could have control over an investee. (Note: joint control discussed in 6. *Joint arrangements*).

8.5.1. Delegated power

When a decision maker assesses whether it controls an investee, it shall determine whether it is a principal or an agent. An investor shall also determine whether another entity with decision-making rights is acting as an agent for the investor. An agent is a party primarily engaged to act on behalf and for the benefit of a principal, and therefore does not control the investee when it exercises its decision-making authority. Similarly, a decision maker is not an agent simply because other parties can benefit from the decisions that it makes.

An investor may delegate its decision-making authority to an agent on some specific issues or on all relevant activities. When assessing whether it controls an investee, the investor shall treat the decision-making rights delegated to its agent as held by the investor directly. In situations where there is more than one principal, each of the principals shall assess whether it has power.

Determining whether a decision maker is an agent requires an evaluation of all following factors unless a single party holds substantive rights to remove the decision maker and can remove the decision maker without cause.

8.5.1.1. Scope of decision-making

The scope of a decision maker's decision-making authority is evaluated by considering the activities that are permitted according to the decision-making agreement and specified by law and the discretion that the decision maker has when making decisions about those activities.

8.5.1.2. Rights held by other parties

Substantive rights held by other parties may affect the decision maker's ability to direct the relevant activities of an investee.

8.5.1.3. Remuneration

The greater the magnitude of, and variability associated with, the decision maker's remuneration relative to the returns expected from the activities of the investee, the more likely the decision maker is a principal. In determining whether it is a principal or an agent, the decision maker shall also consider whether the following conditions exist:

- the remuneration of the decision maker is commensurate with the services provided
- the remuneration agreement includes only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis.

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8.5.1.4. Exposure to variability of returns from other interests

The decision maker should evaluate its exposure relative to the total variability of returns of the investee. This evaluation is made primarily on the basis of returns expected from the activities of the investee but shall not ignore the decision maker's maximum exposure to variability of returns through other interests that the decision maker holds.

8.6. Control of specified assets

An investor shall consider whether it treats a portion of an investee as a deemed separate entity and, if so, whether it controls the deemed separate entity. This is the case when specified assets of the investee are the only source of payment for specified liabilities of, or specified other interests in, the investee. In substance, all the assets, liabilities and equity of that deemed separate entity are ring-fenced from the overall investee ("silo").

If the investor controls the "silo", the investor shall consolidate that portion of the investee.

8.7. Relationships with other parties

When assessing control, an investor shall consider the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf (ie they are 'de facto agents'). The determination of whether other parties are acting as de facto agents requires judgement, considering not only the nature of the relationship but also how those parties interact with each other and the investor. Indicators that other parties act as de facto agents for the investor are:

- the investor's related parties,
- a party that received its interest in the investee as a contribution or loan from the investor,
- a party that cannot finance its operations without subordinated financial support from the investor,
- a party that has agreed not to sell, transfer or encumber its interests in the investee without the investor's prior approval (except for situations in which the investor and the other party have the right of prior approval and the rights are based on mutually agreed terms by willing independent parties),
- an investee for which the majority of the members of its governing body or for which its key management personnel are the same as those of the investor,
- a party that has a close business relationship with the investor, such as the relationship between a professional service provider and one of its significant clients.

9 Joint arrangements

9.1. Overview

A joint arrangement is an arrangement of which two or more parties have joint control.

A joint arrangement has the following characteristics:

- (a) The parties are bound by a contractual arrangement.
- (b) The contractual arrangement gives two or more of those parties joint control of the arrangement.

An enforceable contractual arrangement is often, but not always, in writing (although we expect unwritten agreements to be rare in practice). Statutory mechanisms can create enforceable arrangements, either on their own or in conjunction with contracts among the parties. A contractual agreement may be incorporated in the articles of incorporation, charter or by-laws of the entity (or in a “separate vehicle”).

Contractual arrangements generally specify the following:

- Purpose, activity and duration of the joint arrangement;
- How the members of the board of directors (or equivalent relevant decision-making body) are appointed;
- Decision-making processes (matters requiring decisions from the parties, voting rights of the parties, ...)
- Capital or other contributions requirements;
- Sharing of assets, liabilities, revenues, expenses or profit or loss relating to the joint arrangement.

Understanding the terms of the contractual arrangement is imperative for evaluating whether joint control exists, and if so the type of joint arrangement.

It is also important to determine the relevant unit of account² for a joint arrangement, i.e.:

- the unit of account could be larger than an entity or a separate vehicle;
- there could be more than one unit of account within an entity or a separate vehicle;
- a master agreement could contain more than one unit of account.

9.2. Joint control

9.2.1. Introduction

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The key aspects of joint control are as follows:

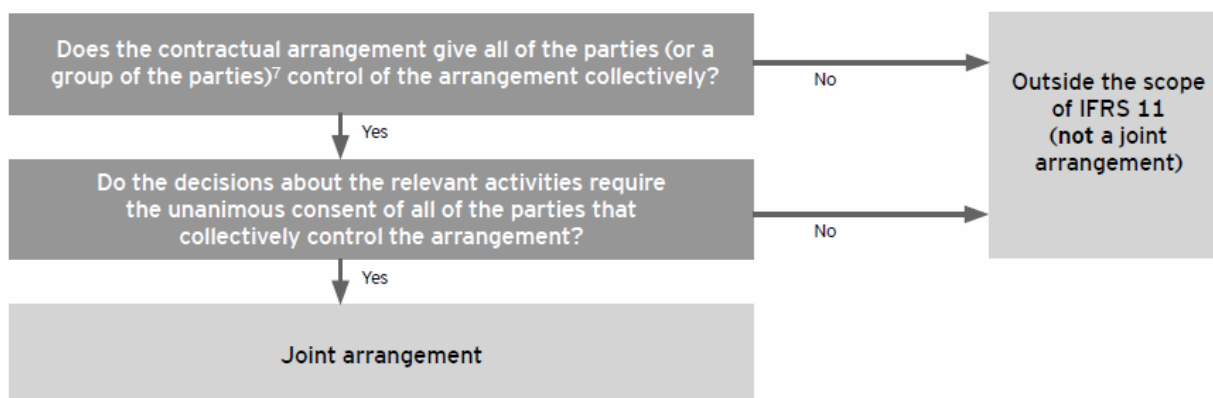
- **Contractually agreed** – as mentioned above, contractual arrangements are usually, but not always, written and set out the terms of the arrangements.

² Unit of account: the activity that two or more parties have agreed to control jointly

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- **Control and relevant activities** – IFRS 10 describes how to assess whether a party has control, including how to identify the relevant activities, which are described in more detail in chapter 5. When all the parties, or a group of the parties, considered collectively, are able to direct the activities that significantly affect the returns of the arrangement, the parties control the arrangement collectively.
- **Unanimous consent** – joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively. A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement.

The flowchart below illustrates how to evaluate if joint control exists³:



9.2.2. Assessing joint control via a 3-step approach

9.2.2.1. Step 1: Determine which are the relevant activities over which control is exercised

To determine whether a contractual arrangement gives the parties control of an arrangement collectively, it is necessary first to identify the relevant activities of that arrangement: what are the activities that significantly affect the returns of the arrangement?

When identifying the relevant activities, the purpose and design of the arrangement shall be considered. Such incorporates an analysis of the risks and rewards to which the joint arrangement was designed to be exposed, the risks and rewards the joint arrangement was designed to pass on to the parties involved with the joint arrangement, and whether the parties are exposed to some or all of those risks and rewards.

In many cases, directing the strategic operating and financial policies of the arrangement will be the activity that most significantly affects returns. Often, the arrangement requires the parties to agree on both of these policies. However, in some cases, unanimous consent may be required to direct the operating policies, but not the financial policies (or vice versa). In such cases, since the activities are directed by different parties, the parties would need to assess which of those two activities (operating or financing) most significantly affects returns, and whether there is joint control over that activity. This would be the case whenever there is more than one activity that significantly affects returns of the arrangements, and those activities are directed by different parties.

³ International GAAP 2014, The International Financial Reporting Group of EY, Volume 1, page 805

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9.2.2.2. Step 2: Determine whether there is collective control

To have joint control, the parties must collectively have power over the relevant activities. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (ie the relevant activities). It is therefore necessary to determine what rights give a party the ability to direct the relevant activities, and whether this results in collective control.

In many cases, the relevant activities are directed by voting rights that are held proportionate to ownership interests. However, this is not always the case, and attention should be paid to the facts and circumstances in each case.

Protective rights and joint control

A, B and C enter into a joint arrangement to conduct an activity in entity Z. The contractual agreement between A and B states that they must agree to direct all of the activities of Z. The agreement of C is not required, except that C has the right to veto the issuance of equity instruments by Z. Issuing equity is considered as a protective right (see also 5.3.2.2.).

In this fact pattern, A and B have joint control over Z, because they collectively have the ability to direct relevant activities of Z, and the contractual agreement requires their consent. Although C is a party to the joint arrangement, C does not have joint control, because C only holds a protective right with respect to Z.

Ultimate-voting authority

A party that could direct the relevant activities in case of a deadlock (e.g. by holding the casting vote) is considered to have control. In such situation, there is no joint control.

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9.2.2.3. Step 3: determine whether there is unanimous consent

In order for the “unanimous consent” criterion to be met, the consent of all parties sharing control should be required. In this case, no single party controls the arrangement. At the same time, there is no joint control if control can be achieved by more than one combination of the parties agreeing together.

	<i>Example 1</i>	<i>Example 2</i>	<i>Example 3</i>
Requirement	75% vote to direct the relevant activities	75% vote to direct the relevant activities	Majority vote to direct activities
Investor A	50%	50%	35%
Investor B	25%	30%	35%
Investor C	25%	20%	Widely dispersed
Analysis	<p>There is no joint control</p> <p>Even though Investor A can block any decision, it does not control the arrangement because it needs the agreement of either B or C. The three investors collectively control the arrangement.</p> <p>However, there is more than one combination of parties that can agree to reach 75 per cent of the voting rights (ie either A and B or A and C). In such a situation, to be a joint arrangement the contractual arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to decisions about the relevant activities of the arrangement.</p>	<p>There is joint control</p> <p>Even though A can block any decision, it does not control the arrangement because it needs the agreement of B. The terms of their contractual arrangement requiring at least 75 per cent of the voting rights to make decisions about the relevant activities imply that A and B have joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A and B agreeing.</p>	<p>There is joint control</p> <p>Investor A and Investor B have joint control of the arrangement only if the contractual arrangement specifies that decisions about the relevant activities require both A and B agreeing.</p>

9.3. Classifying joint arrangements: joint operations or joint ventures

9.3.1. Introduction

Once it has been established that we have joint control, the joint arrangement shall be classified:

- either as a joint operation; or
- as a joint venture.



Preliminary comment: the term of “joint venture” has no longer the broad meaning it used to have under IAS 31 “Interests in Joint Ventures” (which is the Standard superseded by IFRS 11) when many referred to joint ventures as any joint arrangement.

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Determining whether the joint arrangement is a joint operation or a joint venture **depends on the rights and obligations arising from the joint arrangement** in the normal course of business.

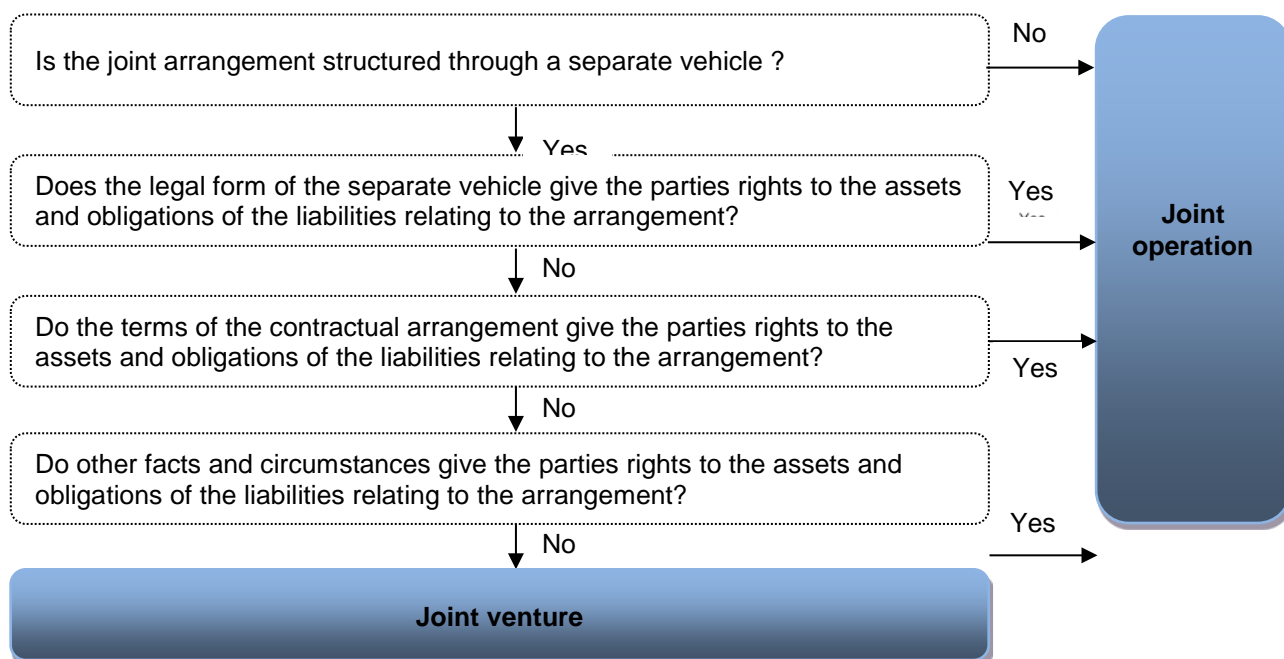
Indeed:

- In a **joint operation** ("JO"), the parties that have joint control of the arrangement (joint operators) have **rights to the assets**, and **obligations for the liabilities** relating to the arrangement;
- In a **joint venture** ("JV"), the parties that have joint control of the arrangement (joint venturers) have **rights to the net assets** of the arrangement, as evidenced by rights to dividends and liquidation bonuses.

Assessing the existence of these rights and obligations is carried out by considering the following:

- the structure of the joint arrangement (see 6.3.2.1);
- the legal form of the separate vehicle (see 6.3.2.2);
- the terms agreed by the parties in the contractual arrangement (see 6.3.2.3); and
- when relevant, other facts and circumstances (see 6.3.2.4).

This is illustrated in the following chart⁴:



The classification of a joint arrangement as a joint operation or a joint venture will require thorough analysis of the facts and circumstances and may involve significant judgment.

The assessment is continuous and any change in the joint arrangement should trigger a reassessment of the classification.

However, when an arrangement involves two distinct phases, for example a construction phase followed by an operating phase, the classification of the joint arrangement is based on the rights and obligations of the parties. The analysis is performed at the inception of the joint arrangement and considers the whole of its life.

⁴ International GAAP 2014, The International Financial Reporting Group of EY, Volume 1, page 818

9.3.2. Classifying joint arrangements via a 4-step approach

9.3.2.1. Step 1: structure of the joint arrangement

Joint arrangements that are **not** structured through a separate vehicle are joint operations.

This conclusion stems from the observation that, when the parties do not structure their joint arrangement through a separate vehicle, they determine in the contractual arrangement their rights to the assets, and their obligations for the liabilities, relating to the arrangement and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.

For joint arrangements that are structured through a separate vehicle, further analysis is required to classify the joint arrangement (go to step 2).

9.3.2.2. Step 2: assessing the legal form of the separate vehicle

The legal form of the separate vehicle must be assessed to determine whether it gives the parties rights to the assets and obligations for the liabilities of the arrangement (joint operation), or solely rights to the net assets of the arrangement (joint venture).

If the legal form is such that it does not confer separation between the parties and the separate vehicle (i.e. the assets and liabilities held in the separate vehicle are the assets and liabilities of the parties), the joint arrangement is a joint operation. Such might be the case in transparent partnerships.

Conversely, if the legal form causes the separate vehicle to be considered in its own right (i.e. the assets and liabilities held in the separate vehicle are assets and liabilities of the separate vehicle and not the assets and liabilities of the parties), further evaluation is required to classify the joint arrangement (go to step 3).

The existence of a separate vehicle (of which the legal form causes the vehicle to be considered in its own right) does not create a rebuttable presumption that the arrangement is a joint venture.

The impact of local laws should be carefully assessed when analyzing the form of the separate vehicle. For example, in many countries, a corporation usually (but not always) confers separation between the parties and the separate vehicle (which is indicative of a joint venture), i.e.:

- It ensures that the parties have rights to the net assets;
- Absent any contractual arrangements, the vehicle's creditors do not have recourse to its investors.

9.3.2.3. Step 3: assessing the terms of the contractual arrangement

In this step we examine the contractual terms of the arrangement and determine whether they provide the parties with rights to assets and obligations for the liabilities (a joint operation), or solely rights to the net assets of the arrangement (a joint venture).

The rights and obligations agreed to by the parties in their contractual terms are often consistent with those conferred on the parties by the legal form of the separate vehicle. However, the parties to the arrangement might choose a particular legal form that responds to, for instance, tax or regulatory requirements and subsequently enter into contractual arrangements that overrides the assessment of the rights and obligations conferred upon the parties by the legal form of the arrangement. If the contractual terms give the parties rights to assets and obligations for the liabilities, the arrangement is a joint operation.

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The assessment of rights and obligations should be carried out as they exist in the normal course of business. Rights and obligations arising in circumstances which are other than in the normal course of business such as liquidation and bankruptcy are much less relevant, assuming their probability of occurrence is remote.

Example

Companies A and B jointly establish an entity (company C) to build and operate a production plant. Companies A and B each have a 50% ownership interest in company C, which is structured as a corporation. The incorporation enables the separation of company C from companies A and B and, as a consequence, the assets and liabilities held in the joint arrangement are the assets and liabilities of company C. Absent any other facts and circumstances, the assessment of the rights and obligations conferred upon companies A and B by the legal form of the separate vehicle indicates that companies A and B have rights to the net assets of company C (i.e. a joint venture). Companies A and B would apply the equity method of accounting.

However, if a joint arrangement agreement governing the development and operations of the plant states that companies A and B have an interest in the assets of company C and an obligation for the liabilities of company C in a specified proportion, the contractual terms modify the effects of the legal form (corporation). Therefore, company C could be a joint operation and companies A and B would recognize their individual interests in company C's assets and liabilities.

The table below provides examples of common contractual terms found in joint arrangements and whether these terms are generally indicators of joint operations or joint ventures:

	Joint operation	Joint venture
Rights to assets	The parties share all interests (e.g., rights, title or ownership) in the assets relating to the arrangement in a specified proportion.	The assets brought into the arrangement or subsequently acquired by the joint arrangement are the arrangement's assets. The parties have no interests (e.g. no rights, title or ownership) in the assets of the arrangement.
Obligations for liabilities	The parties share all liabilities, obligations, costs and expenses in a specified proportion.	The joint arrangement is liable for the debts and obligations of the arrangement
	The parties are jointly and severally liable for the obligations of the arrangement.	The parties are liable under the arrangement only to the extent of their respective investments in the arrangement, or to their respective obligations to contribute any unpaid or additional capital to the arrangement, or both.
	The parties are liable for claims raised by third parties.	Creditors of the joint arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.
Revenues, expenses, profit or loss	Allocation of revenues and expenses on the basis of the relative performance of each party to the joint arrangement (e.g. capacity used by each party in a plant)	Each party's share in the profit or loss relating to the activities of the arrangement.

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Parties to joint arrangements may provide guarantees to third parties on behalf of the arrangement. The provision of guarantees or commitments is not conclusive for its classification as a joint operation, although it may be indicative of the parties' willingness to fund the obligations of the arrangement.

When the contractual arrangement specifies that the parties have rights to the net assets, further evaluation is required to classify the joint arrangement (go to step 4)

9.3.2.4. Step 4: assessing other facts and circumstances

Assessing "other facts and circumstances" includes considering the purpose and design of the arrangement, its relationship to the parties and its source of cash flows. An arrangement primarily designed for the provision of output to the parties indicates that the objective of the parties is to have direct access to substantially all the economic benefits of the assets of the arrangement. The parties may well be obligated to purchase or take all of the output of the joint arrangement. Purchase and sale agreements, off-take arrangements or cash calls may indicate that the parties are the sole source of cash flows for the joint arrangement.

The effect of an arrangement with such a design is that the liabilities incurred by the arrangement are in substance satisfied by the cash flows received from the parties and is indicative of a joint operation.

Factors to consider when assessing "other facts and circumstances"

Whilst a joint venture is self-supportive (it generally is a business), has its own existence (towards third parties), its own strategy and clients, the joint operation is rather the natural extension of its shareholders' activity. Some or all of the following characteristics indicate that the joint arrangement should be classified as a joint operation:

- The parties will have uninterrupted access to the output over the economic useful life of the asset;
- The parties (individually or collectively) are committed to purchase substantially all the output over the economic useful life of the asset;
- The joint arrangement is prohibited from selling any of its output to third parties over the economic useful life of the asset;
- The arrangement is exclusively dependent on the parties for the generation of cash flows and therefore the parties are economically settling the liabilities of the joint arrangement;
- The joint arrangement is designed to operate at break-even or to generate losses that will be funded by the parties;
- The demand, inventory, market, operations, credit, etc risks relating to the activities of the arrangement are passed on to the parties and do not rest with the arrangement;
- The arrangement is unlikely to have third-party borrowings without guarantees of or take-or-pay arrangements with the parties.

Joint operations and joint ventures can coexist when the parties undertake different activities that form part of the same framework agreement. Indeed, the unit of account of a joint arrangement is the activity that two or more parties have agreed to control jointly, and a party should assess its rights to the assets, and obligations for the liabilities, relating to that activity.

Example (see below for further details): a joint arrangement in which only one party purchases all the output of the joint arrangement.

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9.3.3.Examples of assessment

Scenarios	Classification	Analysis
<p>Companies A and B establish a separate entity (X) which will build and operate a production plant :</p> <ul style="list-style-type: none"> - A and B each have a 50% stake in X (which is a separate corporation); - X owns the plant and has the obligation to settle all liabilities; - A and B agree to purchase all the output generated by X in a 50:50 ratio, over the economic useful life of the asset. X cannot sell any of the output to third parties, unless approved by A and B (expected to be minimal); - The price of the output sold to A and B is designed to cover the production costs and administrative expenses of X (i.e., intended for X to operate at a break-even level). 	Joint operation	<ul style="list-style-type: none"> - Structure: it is a separate vehicle and the legal form confers separation between A and B and the power generation entity (X); - The design of the arrangement is to provide all its output to the parties over the economic useful life of the asset. In other words, the parties get substantially all of the economic benefits from the assets of the arrangement. It is dependent on the parties for its cash flows to ensure continuity of operations.
<p>Companies A and B establish a separate entity (X) which will build and operate a production plant :</p> <ul style="list-style-type: none"> - A and B have each a 50% stake in X (which is a separate corporation); - X owns the plant and has the obligation to settle all liabilities; - X has the right and ability to sell the output produced on the market if the parties decide not to purchase the output (i.e. the parties have a right of first refusal). It is expected that part of the output will be sold to third parties. 	Likely to be a joint venture	<p>The following factors indicate that the arrangement is most likely a joint venture:</p> <ul style="list-style-type: none"> - There is no obligation on the arrangement to sell its output to the parties; - The output is readily saleable and it is expected that it will be sold to third parties. <p>Therefore, the arrangement is not substantially dependent on the parties for its cash flows.</p>
<p>Companies A and B establish a separate entity (X) which sell output Q:</p> <ul style="list-style-type: none"> - A and B have each a 50% stake in X (which is a separate corporation); - Output Q will be sold to third parties; - As per the contractual terms, all the gross cash proceeds from revenue of the arrangement are transferred to the parties on a monthly basis in proportion of their equity stake; - As per the contractual terms, the parties agree to reimburse the arrangement for all its costs in proportion of their equity stake based on cash calls. 	Likely to be a joint venture	<p>The purpose and design of the arrangement is not to provide all of its output to the parties.</p> <p>The arrangement is selling output Q to third parties and generating its own cash flows.</p> <p>Transferring gross proceeds of revenues to the parties and making cash calls for incurring its costs does not indicate that the parties have rights to assets and obligations for liabilities of the arrangement. It is merely a funding mechanism and is no different from the parties having</p>

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Scenarios	Classification	Analysis
<p>Companies A and B establish a separate entity (X) which will build and operate a production plant :</p> <ul style="list-style-type: none"> - A and B have each a 50% stake in X (which is a separate corporation); - X owns the plant and has the obligation to settle all liabilities; - A enters into a tolling agreement with X to purchase <u>at a fixed price</u> all the output generated by X for a <u>13 years period</u> (useful life of the plant is 20 years); - X has a project financing (non-recourse debt); - There is no obligation from any of the parties to purchase the output beyond the tolling agreement term. 	<p>Judgment required but likely to be a joint venture</p>	<p>an interest in the net results of the arrangement.</p> <p>Assessment should first be made whether one of the parties actually controls the arrangement or if the PPA contains a lease.</p> <p>Considering that the arrangement does not sell substantially all of its output to one of the parties for a significant part of its useful life (i.e. the arrangement is not dependent on one of the parties for its continuous [on a long-term basis] cash flows), the arrangement is likely to be a joint venture.</p>
<p>Companies A and B establish a separate entity (X) which will build and operate a production plant:</p> <ul style="list-style-type: none"> - A and B have each a 50% stake in X (which is a separate corporation); - X owns the plant and has the obligation to settle all liabilities; - A enters into a tolling agreement with X to purchase <u>at a floating price</u> (all the output generated by X for the economic useful life of the asset; - The debt is guaranteed by each partner proportionate to its equity stake; - The other party only takes its share of the profit/loss made by X. 	<p>Judgment required</p>	<p>Assessment should first be made whether one of the parties actually controls the arrangement or if the PPA contains a lease.</p> <p>The arrangement has features of both a joint operation and a joint venture.</p> <p>The fact that the arrangement does not sell to third parties and is dependent on one of the parties for its continuous cash flows is a strong indicator a joint operation.</p> <p>At the same time the market price risk is not transferred to the off taker so that the latter could be considered as agent (it is acting as a window on the market for the joint arrangement). Such is an indicator of a joint venture.</p> <p>The liquidity risk (i.e. the risk that A will not find a buyer to resell the output to) will equally need to be assessed.</p>

10 Significant influence

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Significant influence is presumed in a case where the consolidating entity holds, directly or indirectly, at least 20% of the voting rights of another entity, unless it can be clearly demonstrated that this is not the case.

Conversely, if the investor holds, directly or indirectly, less than 20% of another entity, significant influence is presumed not to exist unless such existence can be clearly demonstrated (see below).

Significant influence is customarily demonstrated by one or more of the following situations:

- representation on management or equivalent governing bodies, e.g. to which the investor is entitled based on a shareholders' agreement,
- participation in policy-making processes, including participation in decisions relating to dividends and other distributions of funds, and strategic decisions,
- existence of material transactions between the investor and the investee,
- interchange of management personnel,
- provision of essential technical information.

The existence of another shareholder holding a substantial or majority share of the voting rights does not necessarily preclude the existence of significant influence.

The presumption that one has significant influence when holding between 20 and 50 percent of the voting power can be **rebutted** in a situation in which the investor does not actively have the power to participate in financial and operating decisions, for example, in the following situations:

- the investor has failed in its attempt to obtain representation on the Board,
- the investor does not succeed in obtaining financial information concerning the investee in due time,
- the investee itself, or other shareholders in the entity, has or have actively opposed attempts by the investor to exercise significant influence on the investee (shareholders' agreements concerning appointment of the Chairman of the Board, rights of veto for certain decisions, etc.).

These circumstances must be examined on a case by case basis.

11 Disclosures

The objective of IFRS 12 *Disclosures of Interests in Other Entities* is to require an entity to disclose information that enables users of its financial statements to evaluate:

- (a) the nature of, and risks associated with, its interests in other entities; and
- (b) the effects of those interests on its financial position, financial performance and cash flows.

To meet this objective, an entity shall disclose:

- (a) the significant judgements and assumptions it has made in determining:
 - (i) the nature of its interest in another entity or arrangement;
 - (ii) the type of joint arrangement in which it has an interest;
 - (iii) that it meets the definition of an investment entity, if applicable; and
- (b) information about its interests in:
 - (i) subsidiaries;
 - (ii) joint arrangements and associates ; and
 - (iii) structured entities that are not controlled by the entity (unconsolidated structured entities).

11.1. Significant judgments and assumptions

An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:

- (a) that it has control of another entity;
- (b) that it has joint control of an arrangement or significant influence over another entity; and
- (c) the type of joint arrangement (ie joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

An entity shall disclose, for example, significant judgements and assumptions made in determining that:

- it does not control another entity even though it holds more than half of the voting rights of the other entity.
- it controls another entity even though it holds less than half of the voting rights of the other entity.
- it is an agent or a principal.
- it does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity.
- it has significant influence even though it holds less than 20 per cent of the voting rights of another entity.

11.2. Interests in subsidiaries

An entity shall disclose information that enables users of its consolidated financial statements

- (a) to understand:
 - the composition of the group; and
 - the interest that non-controlling interests have in the group's activities and cash flows; and
 -
- (b) to evaluate:
 - the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group;
 - the nature of, and changes in, the risks associated with its interests in consolidated structured entities;

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- the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control; and
- the consequences of losing control of a subsidiary during the reporting period.

Refer to appendix 2 for detailed description of disclosures required under IFRS 12 regarding interests in subsidiaries.

11.3. Interests in joint arrangements and associates

An entity shall disclose information that enables users of its financial statements to evaluate:

- (a) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates; and
- (b) the nature of, and changes in, the risks associated with its interests in joint ventures and associates.

When an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the entity is not required to disclose summarised financial information for that subsidiary, joint venture or associate.

Refer to appendix 2 for detailed description of disclosures required under IFRS 12 regarding interests in joint arrangements and associates.

12 Consolidation

12.1. General principles

General

The parent company's consolidated financial statements (i.e. statement of financial position, income statement, statement of cash flows, rollforward of stockholders' equity, and notes) reflect

- the items recognized in the subsidiaries' financial statements, consolidated at 100%;
- the items recognized in the joint operations' financial statements, consolidated at Solvay's equity interest held in those joint operations;
- Solvay's share in the equity, profit or loss, and other comprehensive income of joint ventures and associates

after elimination of intragroup balances (e.g. equity investment and share capital, intercompany receivables and debt) and transactions (e.g. sales) as explained below.

Use of uniform accounting policies

Consolidated financial statements of the Group are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Reporting entities are in charge of identifying and measuring, on a timely basis, any differences between local accounting principles and Group accounting principles, so that the accounting policies applied when preparing consolidation packages fully comply with those adopted for the consolidated financial statements of the Group in this accounting manual.

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Single reporting date

The financial statements of consolidated entities used in the preparation of the consolidated financial statements should be prepared as of the same reporting date, i.e. December 31.

When the financial statements of an investee used in the preparation of consolidated financial statements are prepared as of a reporting date other than December 31, adjustments shall be made for the effects of significant transactions or events that may occur between the local closing date and December 31.

In any case, the difference between the reporting date of the investee and that of the parent shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.

Elimination of inter-company balances and transactions

Examples of intra-group balances and transactions (non exhaustive):

- Intercompany equity investments;
- Intercompany dividends;
- Intercompany loans;
- Intercompany billings of royalty fees, service fees;
- Intercompany sale of fixed assets or inventory items;
- Provisions recognized in a holding company with respect to risks within an investee.

Inter-company balances, and transactions are eliminated as follows:

Inter-company equity investments, and dividends within the group are eliminated, whatever the amount and the consolidation method used by the entity.

Other:

- Elimination between fully consolidated companies: the balances and transactions are eliminated in full;
- Elimination between companies proportionately consolidated: the elimination of balances and transactions is performed based on the smallest percentage consolidated;
- Elimination between a fully consolidated entity and an associate or a joint venture: the Group's share in the associate's or joint venture's profits and losses resulting from inter-company sale of assets is eliminated. Aside from equity investments, the intercompany balances (e.g. shareholder loans) are not eliminated.

The elimination of gains on assets sold between subsidiaries is reversed in the following cases:

- When the asset is sold to a third party;
- When the entity having acquired the transferred asset is disposed of.

Negative margins on internal transactions constitute an indicator of impairment which should lead to impairment test.

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12.2. Acquisitions

12.2.1. Purchase accounting / full consolidation method

Purchase accounting is the method used in order to account for a business combination, which is a transaction or other event in which an acquirer obtains control of one or more businesses. This method consists in recognition of identifiable assets and (contingent) liabilities, measured at fair value, non-controlling interests, and goodwill.

Non-controlling interests, that represent the equity in a subsidiary not attributable, directly or indirectly, to a parent, are identified separately from the Group's equity. The interest of non-controlling shareholders is initially measured, either (a) at the non-controlling interests' proportionate share of the fair value of the acquiree's *identifiable* net assets or (b) fair value. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

12.2.2. Effective acquisition date versus consolidation inclusion date

The effective date of acquisition on the one hand, and the date of inclusion in the consolidation - which for practical reasons can be later - on the other hand should be distinguished.

The effective date of acquisition is the date on which control is obtained (usually the date on which the shares are transferred). Completion financial statements are usually prepared at this date in order to determine a possible seller's guarantee. This closing is used for the first consolidation. In the absence of completion financial statements, the financial statements may be prepared as of the first day of the following month of the closing or as of the first day of the following quarter for smaller companies.

The effective date of inclusion of companies acquired or created requires a timeline to set up the reporting procedures of the Group in order for the entity to meet the Group criteria in terms of management process. At the end of this timeline, the inclusion within the consolidation scope is performed, with a retroactive effect at the effective acquisition date. Taking into account the Group's obligations with regards to external financial communication, this timeline may not exceed three months from the effective date.

The impossibility to submit the consolidation package to the Group within the deadline is not acceptable. Operations shall implement all procedures deemed necessary in order to ensure the submission of the consolidation packages within the deadlines set by the Group.

12.3. Disposals

12.3.1. General

The following factors could result in the (partial) disposal of an investee:

- Complete or partial sale of the equity investment;
- Loss of control / joint control / significant influence triggered by changes in a contractual agreement amongst shareholders;
- Contribution to third party or exchange of investments;
- Capital increase of the investee to which the investor does not participate.

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The event that triggers the accounting of a change in the consolidation method is the change in power to govern, which generally takes place at the moment of completion of the process of disposal, for example:

- The handing over of the forms of transfer of the investment securities and of the consideration (closing);
- The subscription to the capital increase;
- The contribution of the investments;
- The changed contractual arrangement becoming effective.

The signature of a letter of intent is not sufficient to exclude it from the consolidation scope, as it doesn't constitute a change in power to govern.

12.3.2. Disposal date

The investment is accounted for as a subsidiary (full consolidation), joint operation (proportionate consolidation), joint venture or associate (equity method of accounting) until the date on which the Group ceases to exercise control / joint control / significant influence over the investee ('deconsolidation date'). The income and expenses of a subsidiary / joint operation or joint venture / associate are included in the consolidated financial statements until such date.

In practice, completion financial statements are prepared at the disposal date. If for some reasons, the buyer does not request such completion financial statements, the deconsolidation is performed based on the latest quarterly consolidation submitted in consolidation tool. In this case, the date of exclusion from the consolidation scope is prior to the effective disposal date.

The exclusion from the consolidation scope cannot have a retroactive effect within the consolidated financial statements, even if from a legal standpoint, the agreement includes such a clause.

12.3.1. Partial disposal without loss of control

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.

12.3.2. Treatment of goodwill

If goodwill has been allocated to a cash-generating unit and the Group disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:

- included in the carrying amount of the operation when determining the gain or loss on disposal; and
- measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.

12.3.3. Consideration receivable

The consideration receivable on disposal is recognized initially at its nominal amount, but if payment term is deferred beyond normal credit terms, the consideration received is recognized at the cash price equivalent and the difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest income over the period of credit reflecting the effective yield on the receivable.

Contingent considerations not contingent on fulfillment of future obligations of the Group are measured at fair value at the date of disposal. Contingent considerations that are contingent on fulfillment of future obligations of the Group generally are post-acquisition income.

12.3.4. Currency translation adjustment on disposal of a subsidiary

The currency translation adjustments of the consolidated entities whose financial statements are stated in a foreign currency are recorded as a separate component in consolidated equity attributable to the foreign entity. They are transferred into the income statement at the time of the disposal of the foreign operation.

In case of a partial disposal involving a loss of control, the Group share of currency translation adjustments ('CTA') is transferred into the gain or loss on disposal. E.g. if the Group has a 90% equity investee, for which it has M€10 of CTA – group share, at the date it sells 60% and loses control, the entire M€10 is recycled into profit or loss, despite the fact that a 30% equity interest is retained.

12.3.5. Gains or loss on disposal

When the Group (a) loses control of a subsidiary or (b) stops applying equity method of accounting (e.g. loss of (i) significant influence of an associate that does not become a joint venture or (ii) loss of joint control of a joint venture that does not become an associate), the profit or loss on disposal is calculated as the difference between

- (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and
- (ii) (a) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests, or (b) the carrying amount of the equity method investee.

Amounts previously recognized in other comprehensive income in relation to the investee are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of.

The fair value of any investment retained in the former investee at the date when (a) control is lost or (b) the Group stops applying equity method of accounting, is regarded as the fair value on initial recognition for subsequent accounting.

13 Appendix

13.1. Illustrative list of control indicators

Purpose

Below are non-exhaustive lists:

- (a) protective rights (not indicative of (joint) control), and
- (b) substantive rights (indicative of (joint) control).

Protective rights

- Any change in the objectives or general nature of the business of the Project Company from that described in the Bylaws.
- Any change in the authorized Share Capital of the Project Company, or the issuance of any additional Share Capital or of any option or right to subscribe to additional Share Capital of the Project Company.
- Any sale, transfer, assignment, pledge or hypothecation of Shares.
- The voting procedure for any ordinary or extraordinary meeting of the Shareholders.
- Any change in the number of Directors.
- Any change in the powers of the Shareholders to nominate Directors and executive officers.
- Repurchasing any Shares other than for their then fair market value.
- Any acquisition or formation of any subsidiary or the disposal or dilution of the Project Company's interest, directly or indirectly, in any subsidiary.
- Any merger, consolidation or reorganization of the Project Company with any other company.
- Any resolution to fund any extraordinary reserves or to make any extraordinary distribution of dividends to the Shareholders from time to time.
- The sale, transfer, lease, license or other disposal of all or substantially all of the Project Company's business, whether by a single transaction or series of transactions, related or not.
- Any sale, transfer or other disposal of any asset, in any single transaction, or series of transactions, where the net proceeds of such transaction or transactions exceed, in the aggregate, 20% of the fair value of the total assets of the Project Company in any one Accounting Year.
- Incurrence of any Indebtedness to the extent such incurrence of Indebtedness would materially affect the objectives and general nature of the Project Company's business.
- Any resolution to terminate or amend any Financing Document, or to refinance the Project Company, to the extent that such termination or amendment would materially affect the objectives and general nature of the Project Company's business.
- Creation or sufferance to exist of any lien on any of the Project Company's assets to the extent such lien would materially affect the objectives and general nature of the Project Company's business.
- Providing any guarantee or indemnity to the extent the provision of such guarantee or indemnity would materially affect the objectives and general nature of the Project Company's business.
- Making any loan to the extent the making of such loan would materially affect the objectives and general nature of the Project Company's business.
- Termination of or amendment to any Project Agreement, including the EPC Contract, the O&M Agreement or the Owner's Engineer Agreement to the extent such termination or amendment would materially affect the objectives and general nature of the Project Company's business.

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- Entry into or execution of any contract, agreement, arrangement or commitment (or any variation or amendment of any existing contract, agreement, arrangement or commitment):
 - to the extent such i) entry into or execution or ii) variation or amendment, as the case may be, would materially affect the objectives and general nature of the Project Company's business, or
 - with any competitive bidder and its related parties during the bidding period.
- Appointment of the Project Company's auditor.
- Any decisions concerning initiation or resolution of lawsuits affecting the objectives and general nature of the Project Company's business.
- Any decision causing the Project Company to enter bankruptcy.
- Any resolution for the winding-up of the Project Company, unless the Project Company has become insolvent.

Substantive rights

- Selection, termination and setting of the compensation of management responsible for implementing the investee's policies and procedures.
- Operating and financial matters, including budgets, that would not materially affect the objectives and general nature of the Project Company's business.
- Working capital management.
- Adoption of operating, and financial procedures (including accounting and management aspects).
- Appointment of executive officers.
- Any resolution to fund any reserves or to make any distribution of dividends to the Shareholders from time to time.
- Any sale, transfer or other disposal of any asset, in any single transaction, or series of transactions, where the net proceeds of such transaction or transactions are below 20% of the fair value of the assets of the Project Company in any one Accounting Year.
- Incurrence of any Indebtedness that would not materially affect the objectives and general nature of the Project Company's business.
- Any resolution to terminate or amend any Financing Document, or to refinance the Project Company, that would not materially affect the objectives and general nature of the Project Company's business.
- Creation or sufferance to exist of any lien on any of the Project Company's assets that would not materially affect the objectives and general nature of the Project Company's business.
- Providing any guarantee or indemnity that would not materially affect the objectives and general nature of the Project Company's business.
- Making any loan that would not materially affect the objectives and general nature of the Project Company's business.
- Termination of or amendment to any Project Agreement, including the EPC Contract, the O&M Agreement or the Owner's Engineer Agreement that would not materially affect the objectives and general nature of the Project Company's business.
- Entry into or execution of any contract, agreement, arrangement or commitment (or any variation or amendment of any existing contract, agreement, arrangement or commitment) that would not materially affect the objectives and general nature of the Project Company's business.
- Any decisions concerning initiation or resolution of lawsuits that would not affect the objectives and general nature of the Project Company's business.

13.2. Disclosures required by IFRS 12 *Disclosure of Interests in Other Entities*

13.2.1. Interests in subsidiaries

The interest that non-controlling interests have in the group's activities and cash flows

An entity shall disclose for each of its subsidiaries that have non-controlling interests that are material to the reporting entity:

- (a) the name of the subsidiary.
- (b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary.
- (c) the proportion of ownership interests held by non-controlling interests.
- (d) the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.
- (e) the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.
- (f) accumulated non-controlling interests of the subsidiary at the end of the reporting period.
- (g) summarised financial information about the subsidiary.

Summarised financial information

For each subsidiary that has non-controlling interests that are material to the reporting entity, an entity shall disclose:

- (a) dividends paid to non-controlling interests.
- (b) summarised financial information 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, for example, current assets, non-current assets, current liabilities, non-current liabilities, revenue, profit or loss and total comprehensive income.

The summarised financial information required shall be the amounts before inter-company eliminations.

The nature and extent of significant restrictions

An entity shall disclose:

- (a) significant restrictions (eg 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 the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group.
 - (ii) guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group.
- (b) the nature and extent to which protective rights of non-controlling interests can significantly restrict the 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).
- (c) the carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

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Nature of the risks associated with an entity's interests in consolidated structured entities

An entity shall 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 (eg liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support).

If during the reporting period a parent or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to a consolidated structured entity (eg purchasing assets of or instruments issued by the structured entity), the entity shall disclose:

- (a) the type and amount of support provided, including situations in which the parent or its subsidiaries assisted the structured entity in obtaining financial support; and
- (b) the reasons for providing the support.

If during the reporting period a parent or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to a previously unconsolidated structured entity and that provision of support resulted in the entity controlling the structured entity, the entity shall disclose an explanation of the relevant factors in reaching that decision.

An entity shall disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support.

Consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control

An entity shall present a schedule that shows the effects on the equity attributable to owners of the parent of any changes in its ownership interest in a subsidiary that do not result in a loss of control.

Consequences of losing control of a subsidiary during the reporting period

An entity shall disclose 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 recognised (if not presented separately).

13.2.2. Interests in joint arrangements and associates

Nature, extent and financial effects of an entity's interests in joint arrangements and associates

An entity shall disclose:

- (a) for each joint arrangement and associate that is material to the reporting entity:
 - the name of the joint arrangement or associate.
 - the nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities).
 - the principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the joint arrangement or associate.

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- the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).
- (b) for each joint venture and associate that is material to the reporting entity:
- whether the investment in the joint venture or associate is measured using the equity method or at fair value.
 - summarised financial information about the joint venture or associate.
 - if the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment.
- (c) financial information about the entity's investments in joint ventures and associates that are not individually material:
- in aggregate for all individually immaterial joint ventures and, separately,
 - in aggregate for all individually immaterial associates.

Summarised financial information

For each joint venture and associate that is material to the reporting entity, an entity shall disclose:

- (a) dividends received from the joint venture or associate.
- (b) summarised financial information for the joint venture or associate including, but not necessarily limited to:
- (i) current assets.
 - (ii) non-current assets.
 - (iii) current liabilities.
 - (iv) non-current liabilities.
 - (v) revenue.
 - (vi) profit or loss from continuing operations.
 - (vii) post-tax profit or loss from discontinued operations.
 - (viii) other comprehensive income.
 - (ix) total comprehensive income.

In addition to the summarised financial information required, an entity shall disclose for each joint venture that is material to the reporting entity the amount of:

- (a) cash and cash equivalents.
- (b) current financial liabilities (excluding trade and other payables and provisions).
- (c) non-current financial liabilities (excluding trade and other payables and provisions).
- (d) depreciation and amortisation.
- (e) interest income.
- (f) interest expense.
- (g) income tax expense or income.

The summarised financial information presented shall be the amounts included in the IFRS financial statements of the joint venture or associate (and not the entity's share of those amounts). If the entity accounts for its interest in the joint venture or associate using the equity method:

- (a) the amounts included in the IFRS financial statements of the joint venture or associate shall be adjusted to reflect adjustments made by the entity when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.
- (b) the entity shall provide a reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture or associate.

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An entity shall disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates that are accounted for using the equity method. An entity shall also disclose separately the aggregate amount of its share of those joint ventures' or associates':

- (a) profit or loss from continuing operations.
- (b) post-tax profit or loss from discontinued operations.
- (c) other comprehensive income.
- (d) total comprehensive income.

An entity provides the disclosures separately for joint ventures and associates.

An entity shall also disclose:

- (a) the nature and extent of any significant restrictions (eg 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 entity in the form of cash dividends, or to repay loans or advances made by the entity.
- (b) when the financial statements of a joint venture or associate used in applying the equity method are as of a date or for a period that is different from that of the entity:
 - the date of the end of the reporting period of the financial statements of that joint venture or associate; and
 - the reason for using a different date or period.
- (c) the unrecognised share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognising its share of losses of the joint venture or associate when applying the equity method.

Risks associated with an entity's interests in joint ventures and associates

An entity shall disclose:

- (a) commitments that it has relating to its joint ventures separately from the amount of other commitments.
- (b) in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, unless the probability of loss is remote, contingent liabilities incurred relating to its 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.

Document tracking – Versions

Version	Change(s)	Date	Changed by
1	Document issued	May 2015	IFRS Desk
2	Alerts to be sent to GAR (section 2)	November 2018	IFRS Desk
3	Section "BFC accounts" added	September 2019	IFRS Desk