August 31, 2015

Reference: *Inflation effect disclosure in financial statements*

Dear Wayne:

According to the commitment we assumed during the last EEG meeting held in Mexico City in May 2015, with respect to the issue of disclosure of the inflation effects in financial statements, assigned to the Argentine and Mexican members of the group, we are enclosing herewith the following documents:

1. Draft proposal on inflation effects disclosure
2. Summary financial information of three public companies that issued their financial statements under IFRS for fiscal year 2014, showing comparative:
   a. Figures presented by the entities according to IFRS (they applied the cost method to measure property, plant & equipment)
   b. Equivalent restated figures to recognize the effects of inflation during that period and accumulated period on non-monetary and equity items
   c. Theoretical figures that the entities would have presented if they had adopted the revaluation model for the measurement of property, plant & equipment

The figures described in item c. above were calculated to respond to a comment frequently heard from some members of the IASB and some technical advisors, regarding the use of the revaluation model as a way to correct a significant proportion of the unrecognized inflation effects for financial reporting purposes.

To restate the financial information described in b. above, we used the official price indexes prepared by the government of the home country of the companies analyzed. The companies have been selected randomly from the major companies in that market. The companies were not selected with the intention of obtaining a certain result or to show a certain distortion.

We believe that all, or nearly all, companies presenting financial information in the same economic environment shows a similar degree of distortion of their financial information, it just depends on the financial structure of each entity.

The selected companies are not identified by their name because they do not want anyone to mistake the information submitted as the official information of the entity, and only the activities of the companies are identified in order to facilitate the readers' understanding of the information provided.

We performed the calculations of the information presented in paragraph a. above using the methodology of IAS 29, although the cumulative three-year inflation rate at the closing date of the period presented does not reach the threshold of 100% established in the standard.

With respect to the information presented in accordance with c. above, we have assumed that the revaluation of property, plant & equipment to fair value was made using the replacement cost model, determined by applying specific indexes that, for purposes of this study, we assumed had a change similar to general inflation rate changes for the same period. The effect is that the revalued amounts for each category are similar to the values of historical cost adjusted for the effects of inflation.

We are including below some information that we consider very significant for traditional financial analysis, according to the three magnitudes we calculated according to the methods described above:

Telecommunications Entity: (Amounts in millions of MU)

Gas Distributor Entity: (Amounts in millions of MU)

Gas Transporter Entity: (Amounts in millions of MU)

As you can imagine, more detailed information would create additional differences between the restated (or revalued) amounts and the nominal information currently presented in financial statements prepared according to IFRS for almost all entities carrying out their activities in economic environments with high inflation but not hyperinflation.

Our opinion:

As a result of our analysis performed using the information obtained from the three companies selected, all very important in their capital market, we concluded that ***it is not appropriate to only disclose the effects of inflation on financial information***.

Our conclusion is based on the very significant differences between the information that would be presented in the notes and the information presented in the basic financial statements. Such situation would generate considerable confusion for the users of financial statements by creating the inevitable concern about which information presented (that in the financial statements or in the notes) is the one that best depicts the financial position and performance of the entity.

In this case we would have no alternative but to say that the information presented in the basic financial statements, prepared in accordance with IFRS, is not true and fair information, but rather totally distorts the information regarding the financial position and performance of the entity.

In our opinion, it is absolutely necessary that the IASB include in its agenda (or in the IFRS IC agenda) the situation faced by countries using IFRS in environments of high inflation but not hyperinflation.

We are aware that the issue is not widespread, but we know that the IASB has issued standards to assist certain countries to find an acceptable solution to certain local but important situations (IFRS 14 is an example).

High inflation is returning in various countries of our region, thereby creating the need to have proper standards to address the situations produced in the economic variables and therefore in the financial information. Our expectation is that IFRS can give us a trustworthy framework to be applied in the environments we have described.

If the IASB decides to add the issue to its agenda, we are committed to collaborate with the analysis and field tests for the proposals in any way you deem appropriate.

If you need more information or clarification about the present letter or the enclosed material, you can count with us for anything you need.

Best regards,

Domingo Mario Marchese,
Federación Argentina de
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Económicas

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Presidente del Consejo Emisor del CINIF
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