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Practical guide to IFRS

Combined and carve out financial statements

Contents

Introduction to our guide on the preparation of combined financial statements

Consolidated financial statements of an issuer of debt or equity securities are normally required by regulators around the world. These requirements are usually met by presenting consolidated financial statements prepared under IFRS or local GAAP. However there are occasions when financial information is required for part or parts of a group. Usually this is in connection with a transaction of some nature; disposals, distributions, business combinations, spin-offs and initial public offerings (IPOs) are examples of transactions where a specific type of financial information is required.

The financial information may be needed for parts of a group that are under common control but that are not part of a legal sub-group where the preparation of consolidated financial statements would be appropriate. Financial statements of entities that are under common control, primarily prepared for use in a transaction, are most often described as ‘combined’ or ‘carve out’ financial statements. This guide uses the term ‘combined financial statements’ to describe those non-standard financial statements. We use the term ‘new reporting entity’ to describe the economic activity, usually part of an existing group that is the basis of the combined financial statements.

The preparation of combined financial statements is a challenging process that can require the exercise of considerable judgement. Each transaction is different and each set of combined financial statements will present unique challenges. The nature of the transaction, the boundary of the reporting entity, the quality of the accounting records, the past practices and policies of the parent and the views of the relevant regulator are all very important.

IFRS does not include specific guidance on the preparation of combined financial statements, although the Conceptual Framework and other standards include relevant information for preparing combined financial statements. However, it is commonly accepted that in some circumstances combined financial statements can claim to be prepared in accordance with IFRS.

There is no set method that results in combined financial statements prepared in accordance with IFRS. However, there is a common set of questions that need to be asked; the answers will determine whether IFRS combined financial statements can be prepared and how that might be accomplished, as well as what disclosures might be required.

This publication is designed to assist in the preparation of combined financial statements (as defined above). Each set of combined financial statements presents unique questions and challenges. Nothing in this guide should be read as overriding the accounting standards or relevant regulatory requirements.

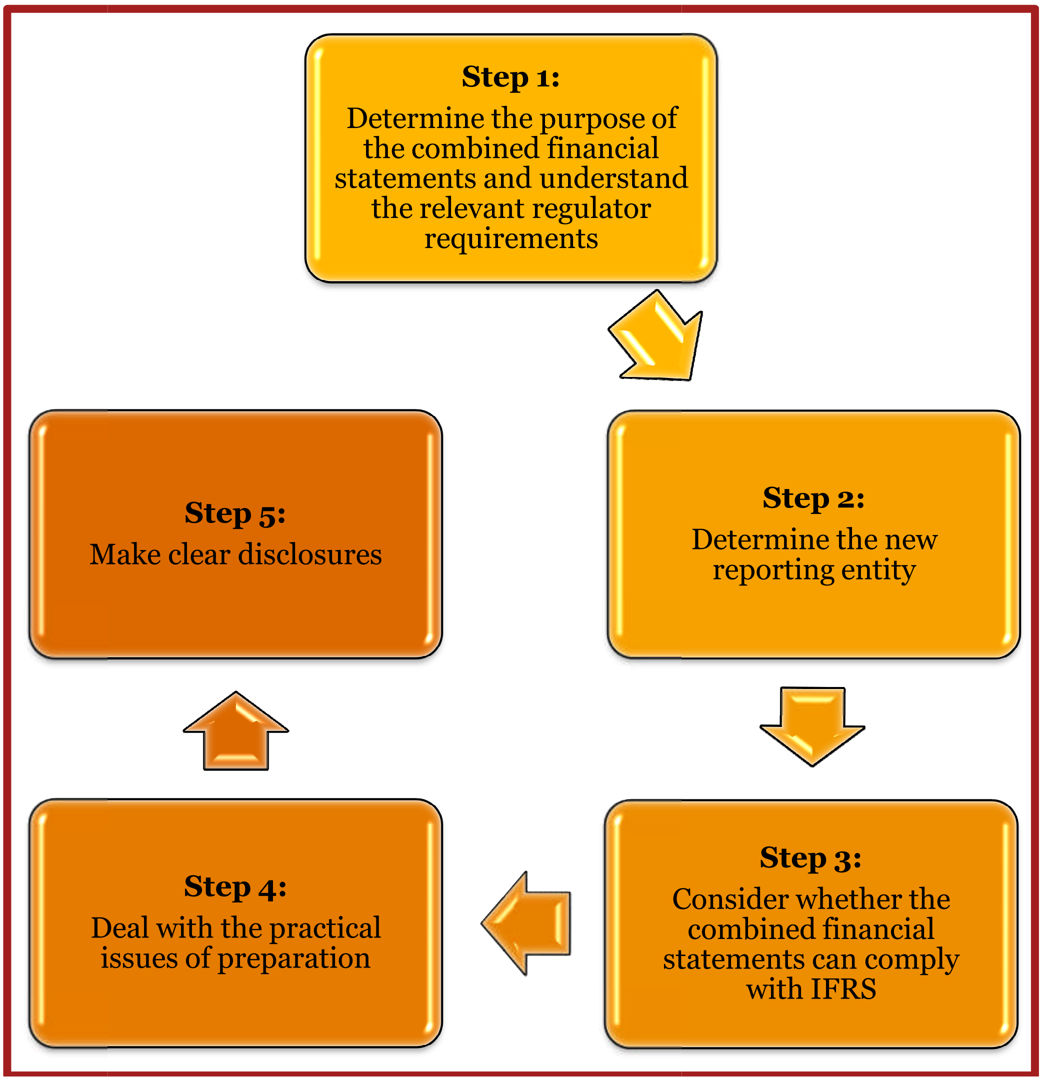
This practical guide sets out the questions and describes some of the common practices that are followed in preparing combined financial statements under IFRS. This guide does not provide authoritative guidance for preparing combined financial statements.

This guide does not address the accounting issues that might arise in the current parent or ultimate controlling party.

The preparation of combined financial statements, particularly for a capital markets transaction, always presents a unique set of issues. You need to ensure that you have consulted your auditors and professional advisors, as well as understand the views and requirements of the relevant regulators.

The five key steps below set out the process and considerations that are commonly encountered when preparing combined financial statements. This practical guide sets out under each of the headings below specific questions and issues that arise when preparing combined financial statements.

Step by step approach to the preparation of combined financial statements in accordance with IFRS



Step 1: Determine the purpose of the combined financial statements and understand the relevant regulatory requirements

There is no definition of combined or carve out financial statements in IFRS. This practical guide uses the term 'combined financial statements' when referring to financial information prepared by aggregating financial statements of segments, separate entities or components of groups that fail to meet the definition of a 'group' under IFRS 10. We use the term 'combined financial statements' to describe non-standard financial statements that are prepared in accordance with IFRS, rather than a basis of preparation or special purpose financial statements.

Consolidated financial statements and combined financial statements both present historical financial information. Consolidated financial statements require the consolidation of the parent company and all its subsidiaries. Combined financial statements present the historical financial information of specific economic activities.

A key assumption underlying the preparation of combined financial statements is that there is a binding element for the economic activities throughout the period (see further guidance on page 5). That binding element is not necessarily direct legal ownership, although common control is almost always present.

'Carve out' financial statements are the financial statements of a division or lesser business component(s) of a larger entity. The term 'carve out' arises because the business unit's financial statements are viewed as being 'carved out' of the larger consolidated financial statements. There is no accounting definition of a carve out transaction; the term is commonly used to refer to equity carve outs, spin-offs and split-offs.

What is the objective of the combined financial statements?

Combined financial statements are usually prepared in connection with a contemplated transaction such as an IPO through a spin-off of a division or major line of business or in connection with a planned distribution to shareholders. Alternatively, the combined financial statements might serve as the basis for final purchase price discussions in a merger and acquisition transaction.

The purpose and the users of the combined financial statements may influence how the financial information is prepared and presented. The working assumption in this guide is that non-standard financial statements are required that comply with IFRS.

Few countries have specific regulatory requirements for the preparation of non-standard financial statements. Refer to Exhibit 1 below for examples of regulatory requirements on combined financial information.

If there are specific regulatory requirements, then those must be followed. The resulting financial information may or may not comply with IFRS. For example, a reporting entity preparing combined financial statements under IFRS subject to SEC regulation will be expected to follow the SEC guidance. The combined financial statements would normally comply with IFRS as well. Financial information prepared on the basis of the UK's guidance in Standards for Investment Reporting (SIR) 2000, 'Investment reporting standards applicable to public reporting engagements on historical financial information' is seldom described as complying with IFRS.

Many other countries find the existing guidance of other regulators useful but are broadly looking for combined financial statements prepared in accordance with IFRS. Most combined financial statements are prepared with a view to capital market transactions and you need to understand the perspective of the relevant regulator in the early stages, even if the regulator has not published comprehensive guidelines on preparing combined financial statements. The views of the regulator may be obvious from similar transactions that have occurred, public statements, company law and similar sources.

Different regulators might take different views and this could have a profound impact on the nature, extent and even acceptability of the combined financial statements.

Exhibit 1 – Other information sources

The following list provides examples of other information that may be referenced when preparing combined financial statements.

Regulatory requirements*

United Kingdom

- Standards for investment reporting (SIR) 2000 (visit www.frc.org.uk)

United States

- SEC Codification of Accounting Bulletins Topic 1.B (visit www.sec.gov)

Australia

- Disclosing non-IFRS financial information (visit www.asic.gov.au)

Hong Kong

- Statement 3.340, Auditing Guideline (visit www.hkicpa.org.hk)

Other items

Federation of European Accountants

- Combined and Carve-out Financial Statements: Analysis of Common Practices (visit www.fee.be)

*The list includes regulatory requirements for combined, carve out, or other forms of non-standard financial information as of the date of publication. These requirements are specific to each regulator. Reference to these requirements from other jurisdictions may be made in some circumstances but must be considered in the context of the regulatory environment of the reporting entity.

Combined financial statements may be prepared in a jurisdiction that has no specific guidance or may be prepared for another purpose, such as providing to lenders, suppliers or counterparties. You may find it useful to voluntarily follow a set of regulatory guidance as it is likely to be better understood by users.

The basic objectives of financial reporting are to provide useful information for assessing management stewardship and allowing users to assess the ability of the reporting entity to generate cash flows. These objectives remain relevant when preparing combined financial statements.

Combined financial statements are prepared for a specific objective at a point in time for a specified number of reporting periods. The combined financial statements are inherently a 'temporary' measure. Following the transaction or the restructuring the reporting entity is either in a position to prepare consolidated financial statements or is subsumed into a larger group. It would be unusual for combined financial statements to be prepared for a number of successive periods.

Both the purpose of reporting and the relevant regulator may require a 'clean' audit opinion on the combined financial statements; a 'presents fairly' or 'true and fair view' opinion. That requirement may define how the financial information is prepared.

The more complex the pre-transaction structure and the more adjustments and allocations that are made during the preparation, the less likely combined financial statements can be created that provide a 'true and fair view'. See further discussion in Appendix 2.

Step 2: Determine the new reporting entity

A reporting entity in a typical capital market transaction is a group headed by a legal entity. However, if combined financial statements are required, the legal structure will seldom have been in place throughout the track record period. The legal group may only be established when the transaction is executed. There may be a group restructuring before the transaction, so the reporting entity's history includes common control acquisitions or combinations of entities that are not legally connected. Setting the 'boundary' of the new reporting entity is the basis of financial reporting. This process can be challenging and will involve judgement.

The IFRS Framework defines a reporting entity as "*an entity for which there are users who rely on the financial statements as their major source of financial information about the entity*". It is important to identify the potential users and understand the purpose of the combined financial statements. The users might be, for example, investors who may purchase shares in an IPO or the shareholders who need to approve a major transaction such as a spin-off or sale. The 'boundary' of the new reporting entity becomes clearer when the purpose of the combined financial statements is defined.

An operating segment of a larger group, a group of entities that are legally unconnected but operating together under common control to achieve a single business objective, or entities bound together by contract could all be a reporting entity in the appropriate circumstances.

The IASB issued an exposure draft (ED) in 2010 on the 'Conceptual framework for financial reporting', which defines a 'reporting entity' as: "*a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided.*"

A reporting entity, under the ED, should have the following three features:

- economic activities are being conducted, have been conducted, or will be conducted;
- those economic activities can be objectively distinguished from other entities and the economic environment; and
- financial information about the economic activities of that entity has the potential to be useful in making decisions.

In addition, the ED proposes that the entity should have commonly controlled management.

Can a 'business' without legal boundaries be a reporting entity?

A reporting entity need not be a legal entity. A separate vehicle that is not a legal entity and that does not have a separate legal 'personality' has the potential to be a reporting entity if it is a separately identifiable financial structure – for example, some type of partnership, branch or segment.

A reporting entity is a circumscribed area of business activity of interest to present and potential equity investors, lenders and other capital providers. The guidance in the ED is not final, although the IFRS Interpretations Committee noted in its meeting in July 2011 that it reflects current practice.

A reporting entity, under the proposed Conceptual Framework, would not therefore be limited to business activities that are structured as legal entities; it should take other factors into consideration, such as the reporting entity's economic activities and the ability to distinguish these activities from those of other entities.

What factors indicate that economic activities are bound together and form a reporting entity?

There are two key considerations to assess when determining whether a reporting entity exists as a basis for preparing combined financial statements. These include:

- whether the assets and liabilities are under common control and common management; and
- whether the economic activity of the reporting entity is or will be legally bound together through:
  - a legal reorganisation of a group or groups that has occurred after the reporting date, but before publication of the financial statements;
  - a reorganisation that will happen simultaneously with a proposed IPO, disposal or similar transaction; or
  - an agreement that was signed and in place throughout the periods covered by the combined financial statements.

Must common control be present for a reporting entity to exist?

Absent common control it would be rare that a reporting entity would be identified.

A reporting entity where the various entities or businesses are under common control will have a single governing body that governs the relevant activities. Users can assess whether that governing body made efficient and effective use of the resources if entities have been under common control.

However, combined financial statements can only be prepared for the period that entities were under common control. If you acquired an entity from a third party during the track record period of the combined financial statements, acquisition accounting is applied from the date that control was obtained.

Can I prepare combined financial statements if the economic activities of the proposed reporting entity are not under common control?

It is rarely appropriate to prepare combined financial statements where the economic activities have been under common management not accompanied by common control.

Common management, when not supported by contractual arrangements or common control is seldom a sufficient basis to establish a reporting entity.

A fund manager, for example, may be responsible for managing portfolios of different funds but often has no beneficial interests in those funds. The decision-making process requires the fund manager to request approval from the unit holders on major decisions. The funds are under common management but there is no basis for aggregating all funds managed by the same fund manager. The aggregated funds do not represent a reporting entity; fund holders or creditors of one fund do not have access to the assets of other funds and it is not possible to hold a residual interest in aggregate of all of the funds.

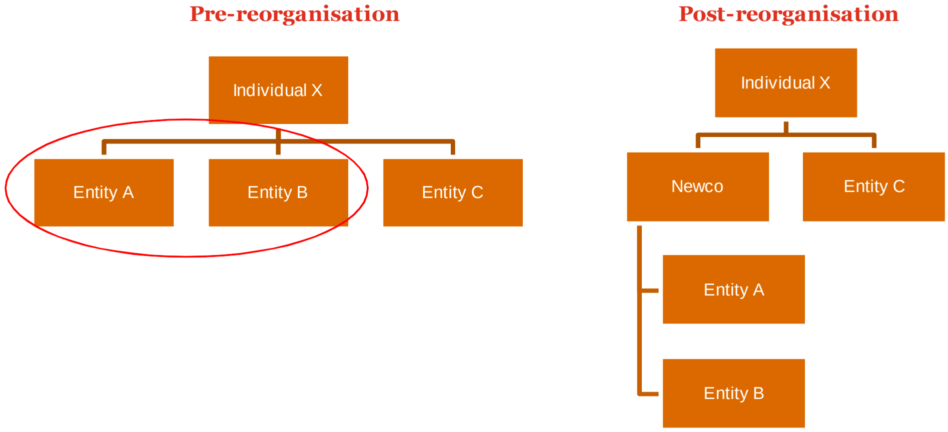
A common business is seldom sufficient to establish a reporting entity. A private equity fund might decide to acquire a number of businesses in a single industry over a short period of time and then consolidate these into a group to achieve economies of scale and synergies. The purchase of each individual business is a business combination and acquisition accounting is required.

The entities acquired have a common business and combining financial information over several years might be useful for investors. However, preparing combined financial statements for the acquired businesses and the acquirer would conflict with the requirement to exclude the financial information of an acquiree before acquisition.

When can combined financial statements be prepared?

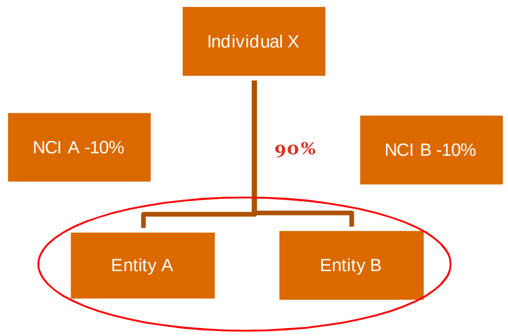
The following diagrams illustrate some common scenarios in which a new reporting entity can be identified and combined financial statements can be prepared for its economic activities.

Exhibit 2 – Reporting entity established from entities that will be legally bound together through a reorganisation



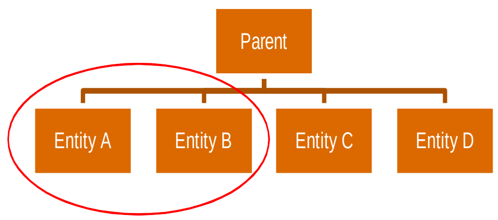
Entities A and B comprise a single business, operating independently from Entity C, under Individual X's common control. The entities are legally unconnected but will form a new legal group through the insertion of a new company (Newco) before an IPO. Although entities A and B were legally unconnected before the reorganisation, it might be possible to prepare combined financial statements for the new reporting entity. They were under common control for the entire historical track record period, they represent an area of economic activity and they will be legally bound together before the proposed IPO.

Exhibit 3 – Reporting entity established from entities that have been legally bound together under a contractual arrangement



Entities A and B are separate businesses but have been managed together under a single contractual arrangement between the parent and two NCI shareholders. Synergies are achieved by managing the two businesses together, and a contractual arrangement is necessary because the two NCI shareholders have different economic interests in their respective businesses. Combined financial statements for entities A and B can be prepared because they are under common control, and they have been legally bound together for the entire track record period under a contractual arrangement.

Exhibit 4 – Reporting entity established from separate entities managed together as a single economic entity



The parent's chief operating decision-maker monitors the group's performance based on its three business segments: entities A and B, which constitute one operating segment; and entity C and entity D, each of which is an operating segments. Each operating segment has its own management team responsible for operating activities, financial forecasts and performance.

Entities A and B are under common control and have been managed together by the same segmental management team as a single economic entity for the entire track record period. Therefore combined financial statements can be prepared for entities A and B as they can be seen as one reporting entity.

Exhibit 5 – Demerger transaction into a Newco

Extract from Orascom Telecom Media and Technology Holding S.A.E. 31 December 2011

Orascom Telecom Media and Technology Holding S.A.E. ("OTMT" or the "Company") is a joint stock company with its head office in Cairo, Egypt. The Company was established on 29 November 2011 and until this date the businesses of the Company were performed under various entities which were controlled by Orascom Telecom Holding, S.A.E. ("OTH"). As part of a larger transaction pursuant to which VimpelCom Ltd had acquired OTH, its shareholders agreed to effect the demerger, whereby, OTH was split into two companies, OTH and the Company ("Demerger"). The Demerger resulted in the transfer of certain telecom, cable and media and technology assets (the "OTMT Assets") to the Company.

Do the principles of consolidation accounting apply when preparing the combined financial statements of the reporting entity?

The combined financial statements must follow all of the recognition, measurement and disclosure requirements of IFRS to claim compliance with IFRS. The basic objectives of financial reporting should apply, providing useful information for:

- assessing management stewardship;
- allowing users to assess the ability of the reporting entity to generate cash flows; and
- allowing comparability over time.

Often a reorganisation is effected to form a new reporting entity. A new entity may be formed to acquire only a portion of the existing legal group as the listing business.

Practice varies as to whether the combined financial statements present a non-controlling interest. This is a complex area that depends on a number of factors, including whether or not the non-controlling interest survives the planned transaction. You should consider what treatment will both provide useful information and comply with IFRS.

What is the disposal group approach and when might it be appropriate for combined financial statements?

A new reporting entity, preparing combined financial statements for a transaction, may include businesses that were legally part of the reporting entity during the track record period but will not be part of the new reporting entity going forward. A reorganisation is effected at or near the point of the transaction so that only the continuing business (the new reporting entity) forms the new legal group. You need to decide how to present the financial results and financial position of the reporting entity in the combined financial statements, particularly when there has been a reorganisation that includes the disposal of some elements of the new reporting entity.

The two approaches commonly seen in practice are:

- to exclude all businesses and activity that will not form part of the new legal group from the combined financial statements (carve out basis); or
- to include such businesses and activity and present them as a disposal group or discontinued operations (disposal group basis).

Regulators may have a preference for one type of presentation; for example, regulators in the US would generally expect the disposal group basis approach to be followed. The approach chosen will depend on several factors and involve the exercise of judgement.

Users often prefer to have information relating only to the continuing business, so where possible, you might seek to apply the carve out approach in the combined financial statements. Certain circumstances should be present to make it reasonable to follow the carve out approach. These criteria are not defined under IFRS, but regulators in some jurisdictions (for example, the UK and US) have more explicit guidance that generally shares similar concepts. These are:

- the business that is being disposed of is dissimilar to the remainder of the new reporting entity;
- the business that is being disposed of has been separately managed; and
- separate historical books and records exist for the business being disposed of.

The disposal group approach is an alternative basis for presenting the combined financial statements of a new reporting entity that comprises both listing and non-listing businesses (in the case of an IPO) during the track record period when it is not appropriate or possible to use the carve out approach. The disposal group approach consolidates all of the businesses to be disposed of up to the date of disposal or discontinuance.

The financial information of the disposed businesses or discontinued operations is included in the new reporting entity up until this date; they are presented as a disposal group separately from the continuing business.

The concept of a 'disposal group' in the context of preparing combined financial statements is similar to the definition of a disposal group in accordance with IFRS 5: "*a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction*".

A disposal group does not necessarily need to meet the definition of a 'discontinued operation' as defined in IFRS 5.

The disposal group treatment is applied only for those balance sheets where the requirements of IFRS 5 have been met as of the balance sheet date.

The disposal-group approach is commonly used when the new reporting entity includes entities that will not be transferred upon a reorganisation.

However, management should consider the specific facts of each individual case.

Step 3: Consider whether the combined financial statements can comply with IFRS

Combined financial statements are those where you are seeking to claim compliance with IFRS and are prepared based on historical data. Historical financial information is past information that has been prepared in accordance with statutory requirements and relevant accounting standards. A core assumption is that the historical financial information is drawn from distinct or separate accounting records and that the information can be audited.

Pro-forma financial information, on the other hand, is hypothetical information that seeks to illustrate a particular outcome or scenario on a 'what if' basis.

Historical or pro-forma?

A new reporting entity being prepared for a transaction is rarely a neat sub-group that has prepared consolidated financial statements that present only and all the economic activities and transactions that encompass the new reporting entity, including debt, taxes, share-based payments, share of corporate assets, management services and charges. The reporting entity can prepare and present consolidated financial statements in those circumstances. This fortunate circumstance rarely occurs.

Most new reporting entities preparing for a transaction will not have the financial information in the form and nature described above. You may need to make adjustments, including the allocation of certain assets, liabilities and expenses that are relevant to the new reporting entity but that have not been accounted for within the legal entities within the boundary of the reporting entity.

Combined financial statements prepared in accordance with IFRS will frequently include adjustments or allocations to reflect the items described above. Determining what is appropriately included as historical financial information is a key area of judgement in preparing combined financial statements. The combined financial statements should avoid 'as-if' adjustments but there is limited guidance on what to adjust and how. The following section of the Practical Guide sets out the allocations and adjustments that are frequently seen in combined financial statements that claim compliance with IFRS. The goal is to avoid 'as-if' or 'pro-forma' financial information. The meaning and interpretation of the term 'pro-forma' might differ from territory to territory and there might be some differences in how pro-forma financial information is prepared. However, pro-forma financial information does not comply with IFRS.

Some jurisdictions (for example, the UK) regard the allocation of historical expenses incurred by the larger group to the reporting entity as historical information; this is because the allocation is based on actual past expenses incurred by the larger group, allocated to the reporting entity on a rational basis.

Other jurisdictions may regard any allocations as a pro-forma adjustment. Exhibit 7 sets out a basis of preparation from a set of pro-forma financial statements.

Exhibit 6 – Historical information prepared in accordance with IFRS

Group X intends to dispose of its subgroup Y, together with one other directly owned subsidiary of X, Entity Z. Management prepares combined financial statements for group Y and subsidiary Z.

Group X acquired subgroup Y four years ago; it did a purchase price allocation (PPA), which resulted in goodwill being recognised for the acquisition in X's consolidated financial statements, in accordance with IFRS.

Management prepares combined financial statements using the amounts in group X's consolidated financial statements for group Y and subsidiary Z. The goodwill and other PPA adjustments that were reflected in group X's consolidated financial statements are included in the subgroup financial statements.

The combined financial statements are based on financial statements that were prepared using only historical information and it may be possible to claim compliance with IFRS.

Exhibit 7 – Financial statements with significant adjustments

Group X has two major areas of operations – in metals and coal. Management plans a demerger that will spin-off the metals business into a new sub-group and create two new listed entities: A Metals and A Coal.

Each shareholders investment in Group X will be divided into separate investments in A Metals and A Coal.

Group X has prepared the A Metals combined financial statements from historical information relating to A Metals extracted from Group X's audited financial statements and the underlying accounting records.

The income statements and cash flows for A Metals have been presented on the basis that the demerger has occurred and A Metals existed as a stand-alone group for the three year track record period required by the listing authority. The financial information has been prepared incorporating the following adjustments:

- it excludes activities of the coal business that had been in the same legal entities as the metals business in certain jurisdictions;
- asset impairments that had been recognised during the track record period are reversed as an adjustment to opening retained earnings; and
- additional costs are recorded to present A Metals as if it had been operating as a separate listed entity rather than as part of Group X, without consideration of Group X's actual expenses incurred.

The adjustments result in information that is prepared on a pro-forma basis and is not in accordance with IFRS.

Step 4: Deal with the practical issues of preparation

Which accounting policies should be used in the combined financial statements prepared in accordance with IFRS?

Accounting policies should be appropriate for the purpose of the combined financial statements.

The accounting information previously recorded about the circumscribed area of economic activities will be the basis for preparing the combined financial statements. It might then be necessary to make adjustments to present the combined financial statements in accordance with the chosen accounting policies.

Different approaches are used in different circumstances. These are described below:

- Using the accounting policies followed in the consolidated financial statements of the group (the current parent) to which the respective economic activities belong; this is frequently the case where a seller is preparing information to present to its existing investors or potential purchasers, such as information on parts of a legal group that are to be sold.
- Using the accounting policies that will be applied in the financial statements of the new reporting entity to which the respective economic activities will belong. This is often appropriate when a business is being demerged from an existing group into a new and separate legal entity. The combined financial statements are intended to show the financial performance of the economic activities forming part of that new reporting entity.
- The acquirer's accounting policies might be applied when the combined financial statements of the target company is prepared for a proposed acquisition, to present the financial performance of the acquiree under the acquirer's accounting policies. This approach is required in certain jurisdictions, including the UK.

The choice of accounting policies will depend on the intended users of the financial information and the purpose of reporting. The fact that different accounting policies may be applied does not cause issues with regard to IFRS compliance; IFRS requires management to select appropriate policies that result in information that is relevant and reliable.

Purchase accounting adjustments from previous transactions

The new reporting entity may include businesses or entities that were previously acquired by the current parent. The treatment of purchase price adjustments and goodwill related to the new reporting entity, recognised by the current parent, can vary.

The predecessor method of accounting for common control business combinations and reorganisations typically uses the carrying values at the highest level of common control. The current parent is unlikely to form part of the new reporting entity. The question arises as to whether adjustments should be made to the combined financial statements of the new reporting entity to reflect the carrying values of the current parent. Obvious examples of such allocations are any goodwill and related purchase price adjustments recorded by the current parent that relate to the new reporting entity.

Parent entities rarely allocate goodwill and purchase price adjustments when using IFRS in separate financial statements. There is no requirement for 'push-down accounting' under IFRS and company law in many jurisdictions would make push-down accounting difficult.

However, goodwill and the related purchase price adjustments are frequently included in the combined financial statements of the new reporting entity. The financial track record of the new reporting entity would be seen by many users and regulators as incomplete if it does not reflect the cost of the business to the current parent entity. In essence, the goodwill and purchase accounting should not be stranded in the current parent company but should accompany the business to which it relates.

Exhibit 8 – Allocation of goodwill

Extract from African Barrick Gold's carve out accounts 31 December 2009

13. GOODWILL

Goodwill and accumulated impairment losses by operating segments:

	For the year ended 31 December (in thousands of United States dollars)			
	North Mara	**Bulyanhulu**	**Tulawaka**	**Total**
At 1 January 2007[1]	237,524	121,546	13,805	372,875
2007 movements	–	–	–	–
At 1 January 2008	237,524	121,546	13,805	372,875
Impairments[2]	(216,478)	–	–	(216,478)
At 1 January 2009	21,046	121,546	13,805	156,397
2009 movements	–	–	–	–
At 31 December 2009	**21,046**	**121,546**	**13,805**	**156,397**
– Cost	**237,524**	**121,546**	**13,805**	**372,875**
– Accumulated impairments	**(216,478)**	**–**	**–**	**(216,478)**

1 The Group's goodwill arose from the acquisition of a subsidiary of Placer Dome Inc. on 19 January 2006 (the "acquisition date"). The goodwill allocated to Barrick's African-based gold business, now the Group's business, has been presented in the combined historical financial information as if the Group acquired this business as of the acquisition date.

2 The impairment charge is primarily due to a significant decrease in the applied NPV multiple and increase in discount rates in 2008 due to increased risk factors attributable to North Mara, as well as increased country specific risk premiums.

Tangible and intangible assets

The new reporting entity will recognise all of the assets in the combined financial statements that its constituent entities control. Challenges can arise when the new reporting entity has used corporate assets such as brands or patents and these may or may not be transferred to the new reporting entity. Similarly, a reporting entity may have historically controlled assets that will not be transferred to it as part of the transaction.

Assets might be attributed to the new reporting entity based on legal ownership, usage or through an inter-company sharing arrangement, such as an operating or lease agreement. The attribution should reflect the legal substance of arrangements that existed throughout the track record period.

Assets that have been controlled by a part of the new reporting entity during the track record period might not transfer to the new reporting entity as part of the transaction. Similar to the discussion on the disposal groups, two approaches are seen in practice. One or the other might be preferred by the relevant regulator or may be more appropriate in the specific circumstances. The two approaches are to include the asset until the date of the transaction and make clear disclosure that it will not transfer or to exclude the asset from the combined financial statements during the track record period, again making clear disclosure.

Exhibit 9 – Allocation of intangible asset

A new reporting entity (business units planned for sale) and several other business units of the same group used a brand name owned by the parent entity. The brand name is patented and legally owned by the parent. Should the brand name be included in the combined financial statements prepared in accordance with IFRS?

Scenario 1 – buyer does not acquire the brand name

It would not be appropriate to include the brand name as an asset on the new reporting entity's balance sheet, as the brand will not be sold to the buyer. If the parent previously charged the business units a royalty for the use of the brand name, the combined financial statements should include that expense. However, if the parent did not previously charge a royalty to the businesses, this fact should be disclosed but no 'as-if' adjustment should be made; consideration should also be given to whether any amortisation of the brand at the parent level needs to be allocated to the new reporting entity.

Scenario 2 – buyer acquires the brand name

If the new buyer acquires the brand name with the new reporting entity, it would be appropriate to include the parent's historical cost of the brand name asset in the combined financial statements of the new reporting entity. The income statement should include the relevant cost of amortisation of the brand name; the carrying value of intangible assets, however, is frequently nil.

Debt

The new reporting entity will often have debt for which it is legally obligated and this will be included in its combined financial statements. This will include third party debt issued directly by the legal entities that form the new reporting entity.

Third party debt of the current parent may also be assigned or legally assumed by the new reporting entity. This debt should be included in the combined financial statements of the new reporting entity for all periods that the debt was outstanding.

Finance lease liabilities would follow the related asset. The allocation of interest income and costs would follow the way in which the related debt and debt instruments have been apportioned.

There might be other circumstances in which debt should be included in the combined financial statements of the new reporting entity. You should carefully consider the presentation that is most meaningful to users of the combined financial statements. For example, if the new reporting entity will have interest bearing obligations to the current parent, this should be presented as debt financing. The basis for allocation should be consistent with the terms of the transaction, demerger or disposal agreement as relevant.

What income and expenses should be included in the combined financial statements of the new reporting entity?

The combined financial statements of the new reporting entity should include all economic activity arising from its business. A new reporting entity that has been part of a larger group will seldom have a freestanding financial track record.

Income and expenses from its economic activities may be recorded elsewhere in the group and may need to be allocated to the new reporting entity for its combined financial statements to be described as prepared in accordance with IFRS. All relevant expenses should be included in the combined financial statements of the new reporting entity if a reasonable basis of allocation can be established.

Expenses incurred at the corporate level might be with third parties or services performed at the corporate level for lower level entities. These might include payroll, accounting, centralised purchasing, marketing, executive management, rent, advertising, legal, insurance, selling and administrative expenses. Some expenses – such as pensions, and other employee benefits – might only be recorded at the parent or corporate level.

The combined financial statements should reflect a reasonable allocation of expenses from the parent or other units of the group providing the services. The method of allocation might be by specific identification, legal obligation or in a manner that best reflects the nature of how the expense is incurred, such as headcount and time usage.

The allocation of corporate overhead involves judgement but should reflect the incremental costs incurred to service the new reporting entity. Inter-company transactions that have been eliminated in consolidated financial statements, such as purchases and sales, should be reinstated in the combined financial statements.

Estimating and allocating transactions not previously allocated to the reporting entity is not the same as creating transactions that have never happened (akin to 'pro-forma' information). Allocations are acceptable provided there is an appropriate basis, and the basis is clearly disclosed in the combined financial statements. The disclosure should include how allocated items were identified and the method and effect of allocation.

The allocations should be made using high quality information. Allocations should not be made if the information to make reasonable and supportable estimates does not exist. You should instead provide sufficient disclosure in the notes to enable readers of the combined financial statements to understand the nature of the expenses that have not been included in the new reporting entity.

Clear and meaningful disclosure in the notes to the combined financial statements is essential for a good understanding of the financial statements.

The UK's SIR 2000 and US SEC guidance (see links on page 4) may be useful when determining how to allocate expenses to the new reporting entity. Factors usually considered when doing an allocation include:

- will the assets and liabilities be part of the new reporting entity;
- was there any intra-group recharge between the parent and the new reporting entity; for example, legal, accounting, finance, employee benefit expenses; and
- do the recharges represent amounts actually incurred and how has the basis of the recharge been determined.

There are a few areas that have specific guidance issued by regulators in addition to the general guidance above. These are discussed in the following section.

Exhibit 10 – Allocations in combined financial statements

Extract from Electrolux's annual report – 31 December 2006

The following describes the most significant allocations and assumptions when preparing the combined financial statements for the Outdoor Products operations 2005 and for the period January - May 2006:

Allocations of certain group common services provided by Electrolux including financial, legal, human resources and other support functions. The allocations have primarily been made based on percentage of revenue or employees, which management believes represent a reasonable allocation methodology.

Since the Electrolux Group does not allocate liquid funds, loans and equity on divisions, assumptions regarding the capitalization of the Outdoor Products operations that are not separate legal units have to be made. In preparing the combined financial statements, minor divisions were assumed to be financed by loans. Major divisions were assumed to be capitalized according to the debt/equity ratio in the respective legal unit where they belonged. Interest has been charged to the finance net, taking into account the varying need for capital during the year by using average net assets.

Income taxes

Accounting for income taxes in combined financial statements almost always presents challenges. The ideal situation is a new reporting entity that was a legal sub-group filing a group tax return or individual tax returns and will continue under the same tax regime subsequent to the transaction. This situation rarely occurs in practice. However, the new reporting entity needs to apply the requirements of IAS 12 in preparing the combined financial statements.

You need to analyse the tax circumstances of the new reporting entity, including its legal status subsequent to the transaction, to account for income taxes. There are two approaches broadly seen in practice to apply IAS 12 to the combined financial statements of the new reporting entity; the separate tax return method or the tax incurred method.

The separate tax return method aggregates the tax position of the individual entities of the new reporting entity. Legal entities that comprise the new reporting entity and previously filed separate tax returns have a clear tax position. Current tax expense and tax assets and liabilities are accounted for in accordance with the tax returns. Deferred tax assets and liabilities arise from the individual book tax differences.

However, some groups prepare consolidated tax returns that include all entities in the group and allocate tax expense under an inter-company or tax-sharing arrangement.

If you choose to follow the separate return method to determine current tax expense in the track record period, differences will arise between the tax expense or benefit under the separate return basis and taxes paid or received under the legal tax sharing arrangement. These differences are normally treated as a capital contribution or distribution to or from the parent entity and included in the reconciliation of invested capital between periods.

You need to give careful consideration to carryforward tax losses and ensure that these will be available to the new reporting entity before recording deferred tax assets.

The tax-incurred method of determining tax expense may be appropriate if the parent recharged taxes to the entities that will comprise the new reporting entity.

You should assess the recoverability of deferred tax assets, as normal, using the financial results of the new reporting entity for all periods presented. However, assumptions made in assessing the realisation of deferred tax assets and establishment of uncertain tax positions should reflect the facts as they existed at the historical dates; they should not incorporate the benefit of hindsight.

Exhibit 11 – Allocation of expenses

Extracts from Experian Group Limited's combined financial information 31 March 2006

Tax charges in the Combined Financial Information have been determined based on the tax charges recorded by Experian companies in their statutory accounts as well as certain adjustments made for GUS plc Group consolidation purposes. The tax charges recorded in the combined income statement have been affected by the taxation arrangements within the GUS plc Group and are not necessarily representative of the tax charges that would have been reported had Experian been an independent group. They are not necessarily representative of the tax charges that may arise in the future.

Interest expense

Interest expense should be included in the combined financial statements of the new reporting entity if:

- the carve out entity has historically been allocated an interest charge; or
- the new reporting entity will assume the debt associated with the interest charge; or
- the debt will be repaid by the new reporting entity using the proceeds of an offering of securities; or
- the debt on the parent's books specifically related to the activity of the new reporting entity.

Capital structures are usually complex in transactions involving a new reporting entity that needs to prepare combined financial statements. A regulator may not insist on including interest expense. However, they usually allow an interest charge to be included if a reasonable allocation of interest can be made, irrespective of whether interest was previously charged to the new reporting entity.

Exhibit 12 – Allocation of expenses

Extracts from Experian Group Limited's combined financial information 31 March 2006

Interest income and expense recorded in the combined income statement have been affected by the financing arrangements within the GUS plc Group and are not necessarily representative of the interest income and expense that would have been reported had Experian been an independent group. They are not necessarily representative of the interest income and expense that may arise in the future. The rate of interest applying to funding balances within the Combined Financial Information has been determined by GUS plc.

Pension plans

The employees of the new reporting entity may have participated and or continue to participate in the parent's employee benefit plans. It is rare that the new reporting entity will have its own defined benefit plans at the time of a transaction or that it will be legally assigned the pension liability for its own employees.

The appropriate treatment of the employee benefit plans in the combined financial statements will depend on several factors, the most significant of which will be the nature of the plans subsequent to the transaction. Two approaches are frequently observed.

The employee benefit plans of the parent may become, in effect, multi-employer plans with the employees of the new reporting entity as participants in the multi-employer plans. Contributions to the plan are included in the profit or loss account of the new reporting entity, or it may be appropriate to allocate employee benefit expense to the new reporting entity.

Alternatively, the new reporting entity may be assigned a portion of the pension assets and assume all existing obligations for the employees that are transferred to the new reporting entity, effectively creating a new defined benefit plan for the new reporting entity. This is seldom likely to have been effected by the date of the transaction although it is likely to have been announced or agreed with employees. It may be appropriate to reflect pension assets and liabilities in the combined financial statements, with appropriate disclosure. Calculation of pension assets and liabilities in these circumstances is complex and may well require the involvement of actuaries.

Impairments

The parent of the new reporting entity may have recorded impairment charges related to non-financial assets that will be included in the new reporting entity. Likewise, it may have avoided recording impairments because of synergies in the wider group that will no longer exist after the transaction.

The new reporting entity will need to determine its cash generating units for impairment testing of non-current assets and groups of cash generating units for impairment testing of goodwill and assets that benefit more than one cash generating unit.

You will need to test goodwill and other non-current assets with indefinite lives. You will need to separately assess if any events have occurred to your stand alone operations that would trigger the need to perform a non-financial asset impairment test for each period covered by the combined financial statements. This assessment would be made without the benefit of hindsight.

Non-financial asset impairments should not be apportioned to the carve out entity; they should be based on the actual assets allocated to the carve out entity and the carve out entity's stand alone results.

Share-based payments

Share-based payments awarded to employees of the new reporting entity by a related party or other holder of an economic interest in the new reporting entity (that is, parent, other group company, shareholder) as compensation for services provided to the entity are accounted for as share-based payment transactions following the guidance in IFRS 2. This is required under IFRS unless the transfer is clearly for a purpose other than compensation for services to the reporting entity, such as settlement of an obligation to the employee not related to employment.

Inter-company transactions and balances

Previous interactions between the new reporting entity and other entities in the group should be re-assessed for classification; they are likely to be 'third party' transactions in the combined financial statements.

However, entities in the previous group will normally be regarded as related parties during the track record period and therefore the requirements of IAS 24 should be applied.

Further to the additional disclosure requirements under IAS 24, some practical issues could arise:

- Previous trading balances might include trading and financing elements and should be separated in the new reporting entity's balance sheet.
- Classification as non-current might change; for example, finance leases could become operating leases in the new entity.
- Receivables from related parties may not be recoverable as parental guarantees fell away.
- Additional liabilities may crystallise on separation from the previous group.

Exhibit 13 – Allocation of expenses

Extracts from TNT's combined financial statements on de-merger 31 December 2010

The combined financial statements have been prepared on a 'carve out' basis from the TNT N.V. consolidated financial statements for the purposes of presenting the financial position, results of operations and cash flows of Express on a stand alone basis. The combined financial statements of Express reflect assets, liabilities, revenues and expenses directly attributable to Express, including management fee allocations recognised on a historical basis in the accounting records of TNT on a legal entity basis. Although it is not possible to estimate the actual costs that would have been incurred if the services performed by TNT had been purchased from independent third parties, the allocations are considered to be reasonable by the directors of TNT and management of Express. However, the financial position, results of operations and cash flows of Express are not necessarily representative or indicative of those that would have been achieved had Express operated autonomously or as an entity independent from TNT.

Management fee

TNT uses a cost recovery mechanism to recover certain central management and other similar costs it incurs at a corporate level. The management fees reflected in the combined financial statements are based on the amounts historically due and have been recorded in the accounts of the individual legal entities within Express under the contractual cost recovery mechanism. An appropriate proportion of the remuneration of personnel for TNT and Express, including their salaries and pension costs, is included in these management fees. These management fees have either been directly attributed to individual operations of Express or, for costs incurred centrally, allocated between the relevant TNT businesses and Express operations on arm's length basis. A complete discussion of the relationship Express has with TNT and other TNT entities, including a description of the costs that have historically been charged to Express, is included in note 33 to these combined financial statements.

Exhibit 13 – Allocation of expenses (continued)

Pension and post retirement costs

Express operates a number of pension plans around the world, which include defined benefit plans in the Netherlands, United Kingdom, Germany, Italy and Australia. The Dutch pension plans are funded defined benefit plans covered by pension funds externally funded in 'Stichting Pensioenfonds TNT' and 'Stichting Ondernemings-pensioenfonds TNT'. TNT N.V. is the sponsoring employer for these two Dutch pension plans and consequently these pension plans qualify as Group plans for Express, in accordance with IAS 19.34a. Due to their qualification as Group plans, Express recognises in the combined financial statement a cost equal to the contribution payable for the period.

Interest

The interest charge reflected in the combined financial statements is based on the interest charge historically incurred by the entities included in Express on specific external borrowings or financing provided by other TNT companies. Details of specific external borrowings and borrowings held with other TNT companies are set out in note 12 and note 13.

Taxation

The tax charge attributable to Express is based on the tax charge attributable to the individual entity or group of TNT entities in the relevant individual tax jurisdictions, on a separate return basis. Tax liabilities that may arise from any separation from TNT tax groups of the operations of Express in specific countries have not been reflected in these combined financial statements.

Goodwill

Goodwill recorded at a consolidated TNT level and attributable to Express as a result of previous business combinations with parties outside of the TNT group of companies has been recorded in these combined financial statements.

Share-based Payments

A number of Express employees participate in TNT's performance share schemes. For purposes of these combined financial statements, transfers of TNT's equity instruments to employees of Express have been reflected as equity settled share-based payment transactions.

The principal accounting policies applied in the preparation of these combined financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. All amounts included in the financial statements are presented in euro, unless otherwise stated.

Transaction costs

Combined financial statements are usually prepared in accordance with a transaction of some type and so the issue of transaction costs will frequently arise.

There are three main issues in practice concerning transaction costs:

- what IPO costs are eligible for capitalisation;
- the allocation of IPO cost among existing shareholders and shareholders contributing new funds; and
- whether transaction costs incurred in anticipation of an IPO can be deferred.

An IPO of the new reporting entity's shares will often follow a group reorganisation. You should make a clear distinction between group re-organisation costs and IPO costs. The latter only represent the incremental equity issuance costs; this will not include the costs of the reorganisation such as staff redundancies, relocation, legal expenses and tax costs. Costs of a reorganisation or restructuring should be expensed as incurred.

New shares are issued to investors in an IPO to raise additional capital and, along with existing shares, subsequently become listed on a stock exchange. Costs incurred in listing existing shares on a stock exchange are not transaction costs relating to the issue of an equity instrument. These costs are incurred to make the existing shares more marketable and do not relate to raising new capital.

Costs incurred in issuing new shares to raise capital ('primary offering') in an IPO are transaction costs of the equity instruments and are a deduction from equity.

Costs that are incurred to raise capital and list existing shares are allocated between the new shares and the existing shares on a reasonable basis. Any costs incurred to list existing shares or to list new shares arising from a demerger are not equity transaction costs and are charged to the income statement.

Qualifying transaction costs incurred in anticipation of issuing equity shares can be deferred on the balance sheet until the transaction occurs or can be shown as a deduction from equity. Costs must be expensed if the transaction is not assessed as probable. Costs previously written off should not be reinstated.

Presentation of equity

The new reporting entity is seldom a separate legal entity throughout the entire track record period and therefore has no share capital and reserves in its own right. Where the separation from the previous group has not finished, any equity represents the parent's net investment in the new reporting entity. Typically this is labelled 'invested capital' or 'parent company investment' in the combined financial statements.

When legal share capital exists, it would be shown separately in equity (in which case, the presentation of EPS is also meaningful, see below).

Irrespective of whether such legal accounts are shown or not, those 'recyclable' balances that require separate disclosure under other IFRSs should be disclosed separately (for example, hedging or available-for-sale reserves).

Special attention should be given to outstanding balances that still exist between the new reporting entity and its parent. Balances without the characteristics of debt should be included as part of the invested capital.

Presentation of earnings per share

IAS 33 requires presentation of EPS for an entity "*that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market*".

However, presentation is often less meaningful because the combined financial statements are unlikely to have legal share capital (see above). Some regulators accept omission of this disclosure in such a case. However, once the shares are issued, EPS figures become meaningful for capital markets and therefore should be adjusted retrospectively. Some regulators, notably the SEC, require that the shares issued to the existing investors on formation of the combined entity legal structure be used as the denominator in calculating historical EPS.

Care should be taken if the new reporting entity's invested capital fluctuates significantly throughout the track record period, caused by, for example, share issuances for cash or management buy-out. Where it is practicable, you should highlight the impact of such transactions on the number of shares used for the purpose of calculating the EPS figures.

Exhibit 14 – No EPS presented

Extract from ABG's prospectus – December 2009

As the financial information has been prepared on a combined basis, it is not possible to measure earnings per share. Accordingly, the requirement of IAS 33 'Earnings per Share' ("IAS33") to disclose earnings per share has not been complied with.

Application of hindsight

The general principles of not applying hindsight and presenting the business as run by management at the time mean that it is appropriate to keep comparative periods closed. For example, if a lawsuit is settled by the time the combined financial statements are prepared, the accruals that were made in the track record period are not 'trued up' to the actual settlement amount.

Cash flows

The presentation of the carve out entity's statement of cash flows can be challenging. For example, inter-company transactions that would not have been reflected in the consolidated statement of cash flows at the parent company level should be reflected in the cash flow statement at the carve out entity level. These inter-company transactions need to be properly classified in the combined financial statements.

Transition to IFRS

The requirements of IFRS 1 should be applied when financial statements are prepared for a new reporting entity. This publication focuses on specific issues related to the preparation of combined financial statements and does not address the general requirements of IFRS 1 that are relevant for all first time adopters.

Reconciliations

IFRS 1 requires reconciliations between previous GAAP and IFRS explaining how the transition affected the financial position and performance of the reporting entity. A new reporting entity is unlikely to have previously prepared financial statements; and therefore no reconciliation can be prepared.

A new reporting entity that is spun off from an existing IFRS reporter would not have any reconciling items as it can apply the same exemption that is available for subsidiaries transitioning after their parent.

Opening balance sheet

The standard requires the preparation and presentation of an opening balance sheet as a starting point of the financial statements. This requirement is also applicable for combined financial statements.

Other complex areas

This guide does not address complex areas of accounting that largely depend on individual facts and circumstances or governed by local regulations, for example, calculation and presentation of non-controlling interest or foreign currency translation differences.

Step 5: Make clear disclosures

Clear and transparent disclosures are fundamental to the understanding of combined and carve out financial statements. This type of financial information is usually prepared to represent specific circumstances; they are often governed by local regulatory requirements.

Disclosure notes should address at least:

- the purpose for which the combined financial statements are prepared;
- how the new reporting entity was identified and the significant judgements that were made. The boundary of the new reporting entity should be clearly described in the basis of preparation, including the explanation for what entities are included in the combined financial statements;
- a list of combining entities;
- whether the combined financial statements are prepared in accordance with IFRS or a basis of preparation;
- the principal accounting policies followed in preparing the combined financial statements;
- how the allocation of assets, liabilities, income and expenses were performed;
- how inter-company transactions were reflected in the combined financial statements;
- how EPS was calculated, if applicable;
- the critical judgments and estimates involved in the preparation of combined financial statements; and
- disclosure requirements of all applicable IFRSs if the combined financials claim compliance with IFRS.

Appendix 1 – Defined terms

New reporting entity: the economic activity for which combined financial statements are prepared.

Binding element: the characteristic based on which the economic activities are "bound" together throughout a period, for example, legal ownership or common control.

Common control: where the power to govern the financial and operating policies of two or more economic activities (to obtain benefits from its activities) lies with the same ultimate party or parties bound by a contract.

Combined financial statements: financial information that includes economic activities that are bound together by common control but are not a legal group. These are usually prepared by aggregating the financial statements of segments, separate entities or components of groups that fail to meet the definition of a 'group' under IFRS 10.

Carve out financial statements: these are the financial statements of a division or lesser business component(s) of a larger entity; the term is commonly used to refer to equity carve outs, spin-offs and split-offs. Carve out financial statements are usually combined financial statements in that they seldom represent a legal sub-group.

Pro-forma financial information: As used in this publication, it is hypothetical financial information that includes effects of events or transactions that did not occur (non-historical) or occurred earlier or later than the date recognised in the financial statements. This term is used in different ways in different jurisdictions.

Push-down accounting: Push-down accounting refers to establishing a new accounting basis for an acquired business in its separate financial statements following an acquisition; effectively the parent's goodwill and purchase accounting adjustments are included in the separate financial statements.

Appendix 2 – Level of assurance

There are many examples of combined financial statements of a new reporting entity that assert compliance with IFRS that have been subject to a normal audit. An audit opinion might refer to 'true and fair' or 'fair presentation in accordance with IFRS'.

However, there are circumstances in which the combined financial statements should be described as 'drawn up in accordance with the basis of preparation described in Note X'; these 'basis of preparation' combined financial statements are not general purpose financial statements in accordance with IFRS.

The more complex the pre-transaction structure and the more adjustments and allocations that have to be made will push the financial information towards a 'basis of preparation' and away from 'in accordance with IFRS'. Therefore the assurance given will refer to compliance with the basis of preparation as set out.

The nature of the audit opinion is principally governed by local regulation and the nature of the financial information. 'Basis of preparation' is widely accepted in the UK; other regulators (for example, the Hong Kong Stock Exchange) require audit opinions that refer to full compliance with IFRS.

An 'emphasis of matter' paragraph is also commonly used in the auditors' opinion on combined financial statements prepared in accordance with IFRS. The opinion in Exhibit 16 below explains that the new reporting entity has not operated as a separate entity; it also explains that the combined financial statements are not necessarily indicative of results that would have occurred if the business had been a separate standalone entity during the period presented, nor is it indicative of future results of the business.

Exhibit 15 – Audit opinion in accordance with basis of preparation

Extract from Eurasian Natural Resources Corporation PLC combined accounts – December 2007

We report on the financial information set out in Section B of this Part V for the three years ended 31 December 2006 and the six months ended 30 June 2007. This financial information has been prepared for inclusion in the prospectus dated 7 December 2007 (the "Prospectus") of Eurasian Natural Resources Corporation PLC (the "Company" and, together with its subsidiaries, the "Group") on the basis of the accounting policies set out in Note 1 to the financial information. This report is required by item 20.1 of Annex I to the PD Regulation and is given for the purpose of complying with that item and for no other purpose.

In our opinion, the financial information gives, for the purposes of the Prospectus dated 7 December 2007, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in Note 1.

Exhibit 16 – Audit opinion with emphasis of matter

Extract from TNT carve out accounts – December 2010

In our opinion, the accompanying combined financial statements as set out in the combined financial statements present fairly, in all material respects, the financial position of the Express business of TNT N.V. as at 31 December 2010, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter
We draw attention to the basis of preparation of the combined financial statements in the notes to the combined financial statements. As the Express business has not operated as a separate entity, these combined financial statements are therefore, not necessarily indicative of results that would have occurred if the Express business had been a separate standalone entity during the year presented or of future results of the Express business. Our opinion is not qualified in respect of this matter.

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