GUIDE ON

PRO FORMA
FINANCIAL INFORMATION

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PRO FORMA FINANCIAL INFORMATION

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PREFACE

This guide has been developed in consultation with the JSE Limited (JSE), in order to:

- assist directors in preparing pro forma financial information and thus to understand the accounting implications of the corporate action; and
- assist investors in understanding the pro forma effects and the accounting implication of the corporate action.

This guide was initially issued by The South African Institute of Chartered Accountants (SAICA) in September 2005. The original document was revised and reissued in September 2012, bringing in the following changes:

- minor wording amendments to the JSE Listings Requirements and to abbreviate terminology used in International Financial Reporting Standards;
- clarification of the definition of intangible assets;
- clarification and further guidance in five areas, being: the reporting period for the subject matter of the corporate action, adjustment columns, transaction costs, the provisional purchase price allocation exercise of a business combination and the prohibition on presenting additional earnings per share figures; and
- the removal of the reporting accountants' aspects which are provided in the International Standard on Assurance Engagement on *Assurance Engagements to Report on the Compilation of Pro-forma Financial Information Included in a Prospectus,* and any relevant guidance issued by the Independent Regulatory Board for Auditors. **The International Standard on Assurance Engagement on *Assurance Engagements to Report on the Compilation of Pro-forma Financial Information Included in a Prospectus* is effective for assurance reports dated on or after 31 March 2013. Prior to this date, reporting accountants are required to refer to the *Guide on Pro Forma Financial Information* as issued in 2005 for guidance.**

The guide was revised and reissued in September 2014, bringing in changes as a result of amendments to the JSE Listings Requirements (issued on 29 August 2014) which removed the obligation to produce pro forma financial information in certain instances.

Introduction

.01 The objective of this guide is to:

- set out overall considerations for the preparation and presentation of pro forma financial information to be included in a prospectus, pre-listing statement, circular or announcement; and
- provide guidance on the structure and the content of pro forma financial information.

.02 A prospectus, pre-listing statement, circular or announcement contains financial information prepared in accordance with the JSE Listings Requirements, the Companies Act No.71 of 2008 and the guidance provided in the Revised Guide on Forecasts. The financial information includes:

- the report of historical financial information;
- pro forma financial information; and
- the forecast.

.03 A prospectus, pre-listing statement, circular or announcement also contains non-financial information as required in terms of the JSE Listings Requirements and the Companies Act No.71 of 2008.

.04 It should be noted that the pro forma financial information should be given no greater prominence in the prospectus, pre-listing statement, or circular than the report of historical financial information. This is likely to be of particular relevance in considering the relative prominence of information presented in financial highlights and summaries extracted from the report of historical financial information and pro forma financial information included in a prospectus, pre-listing statement or circular.

Responsibility

.05 The pro forma financial information must state that it is the responsibility of the directors of the issuer.

.06 The responsibility for preparing and presenting the pro forma financial information and for the completeness and accuracy of the pro forma financial information to be included in a prospectus, pre-listing statement, circular or announcement is that of the directors of the company. The reporting accountant's report on the pro forma financial information does not relieve the directors of their responsibilities.

.07 Despite the prevalence of pro forma financial information in the circumstances described in this guide, it is important that directors ensure that the information is not misleading. The JSE should be consulted if the directors are of the view that the pro forma information is presenting a misleading picture to shareholders.

.08 Other parties involved in the prospectus, pre-listing statement or circular may need to acknowledge their responsibility for pro forma financial information to be included in the prospectus, pre-listing statement or circular. The acknowledgement is usually in writing, and could be in the form of board minutes and letters of representation.

Definitions

.09 The following terms are used in this guide with the meanings specified:

An announcement is any announcement required by the JSE that includes a report of historical financial information, pro forma financial information and/or a forecast.

A business undertaking is the shares or other interest in, or all, or part of, the business assets of a company, body corporate, partnership or other business enterprise.

The Companies Act is the South African Companies Act No. 71 of 2008, as amended from time to time.

A corporate action is any action that affects the holders of securities in terms of entitlements or notifications of meetings, any section 9 or 10 transaction as defined by the JSE Listings Requirements, or any issue or repurchase of securities.

Financial information is the report of historical financial information, pro forma financial information and/or forecasts.

An issuer is any company issuing a prospectus, pre-listing statement, circular or announcement.

An intangible asset is an identifiable non-monetary asset without physical substance, as defined by International Financial Reporting Standards (IFRS) and includes intangible assets not within the scope of the IFRS on *Intangible Assets*; for example, deferred tax assets and exploration and evaluation assets.

A circular is any circular required by the JSE that includes a report of historical financial information, pro forma financial information and/or forecasts.

Net asset value is the value of the total assets (non-current assets plus current assets) minus total liabilities (non-current liabilities plus current liabilities). Assets include financial assets and liabilities include financial liabilities. The classifications used for reporting purposes should not be altered when computing the above values; for example, if preference shares are classified as equity for financial reporting purposes, they should remain as such for the purpose of the above definition.

Net tangible asset value is the net asset value less the value of goodwill and other intangible assets.

A pre-listing statement is a circular that includes listing particulars as set out in section 6 of the JSE Listings Requirements.

A prospectus is any prospectus, notice, circular, advertisement, or other invitation offering any shares of a company to the public.

For purposes of this guide a report of historical financial information is a report of historical financial information to be included in a prospectus, pre-listing statement or circular.

A reporting accountant is the person or firm engaged to report on the historical financial information, pro forma financial information and/or forecast.

A share, in relation to a company, is a share in the share capital of that company and includes stock and, in relation to an offer of shares for subscription or sale, includes a share and a debenture of a company, whether a company within the meaning of the Companies Act or not, and any rights or interests (by whatever name called) in a company or in any such share or debenture.

A statement of comprehensive income refers to a single statement of comprehensive income or two statements, whichever format a company elects to follow.

Pro forma financial information

.10 The guidelines in paragraphs 11 to 85 are to be applied in the presentation of pro forma financial information to be included in a prospectus, pre-listing statement, circular or announcement prepared and presented in accordance with the provisions of the JSE Listings Requirements.

.11 The JSE Listings Requirements require the presentation of the following pro forma financial information.

For all corporate actions included in a prospectus or pre-listing statement and for certain corporate actions the subject of a circular or announcement:

- pro forma earnings and headline earnings per share (HEPS), and diluted pro forma earnings and HEPS if applicable; and
- pro forma net asset value and net tangible asset value, per share.

For all corporate actions included in a prospectus or pre-listing statement, for circulars dealing with category 1 or related party transactions (as defined in section 9 and 10 of the JSE Listings Requirements respectively), and for certain specific issues of shares for cash:

- a pro forma statement of financial position;
- a pro forma statement of comprehensive income; and
- a pro forma statement of changes in equity.

There are also instances when pro forma information may be presented on a voluntary basis, in which case the JSE Listings Requirements dealing with the presentation of pro forma financial information must be complied with.

.12 The statement of financial position, statement of comprehensive income and earnings per share (EPS) and diluted EPS are to be calculated and presented in terms of IFRS. HEPS and diluted HEPS are to be calculated in terms of Circular 3/2012, *Headline Earnings*, issued by SAICA, and as amended from time to time. Net asset value and net tangible asset value are defined above. The reconciliation of changes to equity is not a statement of changes in equity as required by IFRS but must rather, by way of a reconciliation, show all changes to share capital, reserves or another equity item as a result of the corporate action. This reconciliation can be presented in the format of a note where there is no change to equity other than the issue of shares as a result of the corporate action.

Information to be presented

.13 Pro forma financial information is to provide investors with information about the impact of the corporate action, the subject of the prospectus, pre-listing statement, circular or announcement, by illustrating how that corporate action might have affected the reported results of the issuer had the corporate action been undertaken at the commencement of the period being reported on or, in the case of a pro forma statement of financial position, at the date reported on. The pro forma financial information presented:

- is not to be misleading,

- is to assist investors in analysing future prospects of the issuer, and
- is to include all appropriate adjustments permitted by paragraph 55 below of which the issuer is aware, and which are considered necessary to give effect to the corporate action as if the corporate action had been undertaken at the commencement of the period being reported on or, in the case of a pro forma statement of financial position, at the date reported on.

.14 Some examples of corporate actions for which pro forma financial information may be presented are set out below:

- For an acquisition or disposal, the purpose of pro forma financial information is to illustrate the effect thereof on the issuer's financial position and results of operations.
- For an issue of equity, the purpose of pro forma financial information is often to illustrate the effect on EPS and diluted EPS and HEPS and diluted HEPS through the reduction in gearing and interest costs that result from the application of the proceeds of the issue in repaying debt and the effect on net asset value and net tangible asset value.
- When a business undertaking is unbundled, the purpose of pro forma financial information may be to illustrate the impact of the unbundling on gearing or other statement of financial position ratios and the earnings, headline earnings and diluted earnings and diluted headline earnings of the remaining businesses of the issuer after the unbundling.

.15 Pro forma financial information for inclusion in a prospectus, pre-listing statement, circular or announcement is prepared by:

- presenting financial information that is included elsewhere in the prospectus, pre-listing statement, circular or announcement or that has been previously reported; and
- making adjustments to that information to illustrate how it might have been affected had the corporate action occurred at an earlier date.

.16 Pro forma financial information is the result of adjusting information about the issuer at a specific date or for a particular period. Even though adjustments can be based on information at a different date or for a different period or relate to subsequent corporate actions, the result is still described as pro forma financial information at the date or for the period covered by the unadjusted source information about the issuer. In addition, the process of deriving pro forma financial information is always characterised as one of adjusting information about the issuer. For example, even where several acquisitions are being reflected, the pro forma financial information is not the result of aggregating information about a number of business undertakings, but of adjusting information about the issuer to reflect acquisitions.

Judging whether information is misleading

.17 Pro forma financial information is not to be misleading. To judge whether or not pro forma financial information is misleading, the purpose of the information is to be identified. Paragraphs 25 and 26 below discuss this fundamental precondition in further detail. In making this judgement, the pro forma financial information as a whole is to be considered, having regard to each of the following components of the information:

- the introductory narrative explaining the purpose and nature of the pro forma financial information;
- the statements, formats and captions selected for presentation;
- the unadjusted information about the issuer and whether it is actual or forecast and audited or unaudited;
- the adjustments;
- the pro forma totals; and
- the notes explaining the sources of information, adjustments, and assumptions underlying the basis of preparation.

.18 The requirement that pro forma financial information is not misleading does not imply that pro forma financial information can result in fair presentation of the effect of a corporate action. Pro forma financial information purports to represent what the issuer's financial position or results of operations would have been had the corporate action occurred at the date assumed for the purpose of its preparation. It does not purport to show what the issuer's financial position or results of operations will be once the corporate action does occur. Pro forma financial information indicates instead how a corporate action might affect the broad outline of the issuer's financial performance and position.

.19 Historical and forecast information about financial performance and position is part of a range of information that investors use to consider the future prospects of an issuer. Pro forma financial information provides investors with illustrative information about the impact of proposed corporate actions on historical or forecast information and so may provide some assistance in their analysis of future prospects. In judging whether or not pro forma financial information is misleading, consideration is given to, amongst other things, the relevance of the information to any assessment of the issuer's future prospects.

.20 The term "appropriate adjustments" is to be viewed in the context of the purpose for which the pro forma financial information is prepared. The requirement to include all such adjustments emphasises the need to avoid 'cherry-picking'. In judging whether or not information may be misleading, it is to be ensured that overall the adjustments are not materially biased or one-sided. For example, where the purpose of pro forma financial information is to show the potential effect of an acquisition on asset backing and profitability, it would be inappropriate to include fixed assets in a net asset statement at their fair values without reflecting depreciation charges based on those values in any pro forma statement of comprehensive income information. Similarly, it would be inappropriate to illustrate an identified cost saving without reflecting a potential related cost increase or revenue reduction. For example, where the proceeds of a share issue will be used to fund a debt repayment and this leads to a pro forma adjustment to reduce the interest expense, the issuer also reflects any related increase in its tax charge.

.21 Issuers are to include all appropriate adjustments of which they are aware.

.22 The reference to "all appropriate adjustments" is also to be read on the basis that the concept of materiality applies to the process of preparing pro forma financial information. Therefore, issuers need to make adjustments only for those items that are likely to influence the decisions of investors. Indeed, by making adjustments for immaterial items, issuers may give a false impression of the precision and reliability of the resulting pro forma financial information and detract from disclosures they make about the nature and limitations of the information. Nevertheless, issuers are to bear in mind that the materiality of an item is determined not only by its size but also by the qualitative factors of its nature and circumstances.

Articulation

.23 Pro forma financial information is to give effect to a corporate action as if the issuer had undertaken the corporate action at the commencement of the period being reported on or, in the case of a pro forma statement of financial position or net asset statement, at the date being reported on. These requirements mean that, where pro forma financial information is presented both for a period and at a date, there is a possibility that it may not "articulate". Financial statements exhibit articulation when different primary statements, such as the statement of financial position and statement of comprehensive income, reflect different aspects of the same corporate action and are founded on the same judgements and methods of calculation. This is not necessarily true of pro forma financial information.

.24 As a consequence of this possible lack of articulation, a pro forma statement of financial position may not reflect the cumulative impact of pro forma statement of comprehensive income adjustments. By way of example, it is appropriate to assume for pro forma statement of comprehensive income purposes that the proceeds of a share issue are received at the beginning of the period. The proceeds might then be applied to the repayment of debt so that interest costs are reduced. However, a pro forma statement of financial position at the end of the period may not reflect the benefits of reduced interest costs since, in preparing the pro forma statement of financial position, the issuer assumes that it only receives the proceeds at the reporting date. Nevertheless, where there is disclosure of the differing assumptions that underlie pro forma financial information, possible lack of articulation does not make such information misleading.

Deviation from the principle of backdating a transaction for statement of comprehensive income purposes

.25 The overriding principle is that the pro forma information should not be misleading. By assuming that a corporate action was effective at the beginning of a period, in the case of a pro forma statement of comprehensive income, this may result in certain adjustments being misleading. There are therefore certain exceptions to the principle of reflecting a corporate action at the beginning of the period for statement of comprehensive income purposes and at the end of the period for statement of financial position purposes. These are set out below.

.26 For the disposal/acquisition of a business undertaking, assuming the net asset value at the beginning of the period could result in a profit or loss value attached to the tangible and intangible assets acquired being materially different from that at the actual effective date of the transaction. In this case, it may be more appropriate to assume the net assets disposed of or acquired at the actual effective date, or the reporting date, thereby reflecting a more appropriate adjustment for the profit or loss on disposal, goodwill and adjustment for depreciation of the assets acquired.

.27 In the case of an option, the option value at the beginning of the period may not be a true reflection of the effective date option value. In this case, it may be more appropriate to calculate the option value at the actual effective date, or the reporting date, thereby reflecting a more appropriate adjustment.

Presentation of information

.28 The information is to state clearly:

- the purpose for which it has been prepared;
- that it is prepared for illustrative purposes only; and
- that, because of its nature, it may not fairly present the issuer's financial position, changes in equity, results of operations or cash flows.

.29 These disclosures caution readers of pro forma financial information about the value of the information and the use to which it should be put.

.30 Users of pro forma financial information generally cannot expect it to show a fair picture of the issuer's financial position, changes in equity, results of operations or cash flows. Reasons for this include the following:

- The actual corporate action will take place at a date later than that at which it is included in the pro forma financial information and so subsequent trading and changes in the mix of assets and liabilities will not be reflected.
- If the issuer had undertaken a corporate action at the beginning of the period, as is assumed for pro forma income statement and cash flow purposes, then it might have taken different commercial decisions during the subsequent period. Such hypothetical decisions cannot be reflected in pro forma financial information or objectively determined for disclosure elsewhere in the prospectus, pre-listing statement, circular or announcement.

Identifying the purpose of the information

.31 Disclosure of the purpose for which pro forma financial information is prepared is fundamental to its presentation. The generic purpose of pro forma financial information is to illustrate the effects of one or more corporate actions on certain unadjusted financial information or aspects of that information. Pro-forma financial information therefore clearly identifies the specific corporate action/s and unadjusted financial information involved. As well as identifying the purpose of pro forma financial information in overall terms, for example to illustrate the effects of a share issue, issuers are also to make more specific references, for example to the effects on gearing and interest cover. Unless the issuer identifies a specific purpose, it will not be apparent to investors why it has selected particular pro forma statements for presentation and why it has highlighted particular captions within those statements.

.32 It is highly unusual for issuers to prepare complete pro forma financial information comprising a statement of financial position, statement of changes in equity, statement of comprehensive income, statement of cash flows, and supporting notes. This is because their purpose in presenting pro forma financial information rarely requires the presentation of more than an analysis of assets and liabilities shown on the face of the statement of financial position, a summarised statement of comprehensive income, EPS and diluted EPS, and HEPS and diluted HEPS. The provision of additional pro forma financial information could actually frustrate the purpose of the information and give a false impression of its reliability.

Information to be presented in columnar form

.33 The information is to be presented in columnar format showing separately the unadjusted financial information, the pro forma adjustments and the pro forma financial information. The pro forma financial information is to be prepared in a manner consistent with both the format and accounting policies adopted by the issuer for its financial statements and is to identify:

- the basis upon which it is prepared; and
- the source of each item of information and adjustment.

.34 Pro forma financial information is presented in columnar format. The first column shows unadjusted financial information for the issuer on which the effect of one or more corporate actions is illustrated. Subsequent columns reflect adjustments for the effect of the corporate action or corporate actions that are the subject of the prospectus, pre-listing statement or circular. The issuer may aggregate adjustments to simplify the presentation as long as there is sufficient detailed disclosure in the notes to explain clearly the components of each column. The final column displays the resultant adjusted amounts. An adjustment column need not be presented for an announcement or in the summarised financial effects table, in which case there will just be a before and an after column.

.35 Where more than one corporate action is involved, the separate effects of each corporate action must be presented. Where, however, the corporate actions are conditional upon one another and the resolutions to be voted on at the general meeting are conditional upon one another, the JSE must be approached and its approval obtained for the effects of such corporate actions to be combined and shown in one column. If, however, the inter-conditional corporate action is a related party transaction, or if the JSE believes that it is misleading to combine the effects, separate financial effects will have to be shown.

.36 If the issuer has previously published financial effects that have not been reported on by the reporting accountant but, in respect of which, the exclusion thereof would render the effects in respect of the current corporate action less meaningful, such previously published financial effects should be included in a separate column and should be reported on by the reporting accountant as part of the current report. At the announcement stage, the issuer must show the effects of this previous corporate action or actions separately from the current corporate action/s.

Accounting policies

.37 Pro forma financial information is to be presented in a manner consistent with both the format and accounting policies adopted by the issuer in its report of historical financial information. This does not preclude simplification of the presentation where such simplification assists in a clear reading of the pro forma financial information and is consistent with the specific purpose of the pro forma financial information. In quantifying adjustments, the issuer is to apply accounting policies on the same basis as the issuer would normally adopt in preparing its annual financial statements. However, the format and purpose of the pro forma financial information are likely to constrain the extent of the related disclosures.

Application of acquirer's policies on an acquisition

.38 The requirement to apply the issuer's accounting policies in preparing pro forma financial information applies to adjustments made in respect of a material acquisition. Where the report of historical financial information of the acquired business undertaking has not been adjusted to the accounting policies of the issuer, because it is impractical to do so, the presentation of pro forma financial information may be misleading. The JSE should be consulted in these instances.

New accounting standards

.39 In general, pro forma financial information is prepared in accordance with the policies adopted in the unadjusted financial information of the issuer at the relevant date or for the relevant period, even where new accounting standards will apply subsequently. It is never appropriate for adjustments in pro forma financial information to reflect the retrospective impact of new accounting standards on previously reported financial information. Nevertheless, when adoption of a new standard will not result in the restatement of such unadjusted financial information, and the new standard will need to be applied to the corporate action that is the subject of the pro forma financial information, issuers may calculate adjustments on the basis of the new standard. An issuer makes appropriate disclosure where it accounts for a corporate action in pro forma financial information on a different basis from that which a new standard will require it to apply in its subsequent financial statements. Furthermore, if the issuer has no current accounting policy for the transaction, it must apply the accounting policy that it would be required to apply in its next reporting period.

Selection of periods

.40 Pro forma financial information may only be published in respect of:

- the most recent completed financial period; or
- the most recent interim period for which unadjusted information has been published or is being published in the report of historical financial information;
- in the case of a pro forma statement of financial position, as at the date on which such periods end or ended; or
- the forecast (provided the forecast has been published and reported by the reporting accountant in terms of the JSE Listings Requirements) for statement of comprehensive income purposes and the appropriate historical period ended for statement of financial position purposes.

.41 The selection of the periods or dates used for presenting pro forma financial information depends on the situation under consideration and the specific purpose of the information. The prohibition on presenting pro forma financial information for more than the financial year immediately preceding the issue of the prospectus, pre-listing statement, circular or announcement prevents issuers from presenting a three-year record on a pro forma basis. Going back more than one financial year is likely to produce meaningless information.

.42 The period or the date of the unadjusted information relating to the issuer determines the period or date in respect of which pro forma financial information is published. This is true even where an issuer makes adjustments in respect of information drawn up for other periods or at other dates.

Subsequent events

.43 No adjustments may be made to pro forma financial information in respect of events after the reporting period except:

- as provided for in the IFRS on *Events After the Reporting Period*; or
- in respect of the particular corporate action for which the pro forma financial information is being presented; or

- in respect of any previously published financial effects; or
- in respect of any post-reporting period corporate action of the issuer or of the target, where it would be misleading not to make an adjustment.

.44 Adjustments must be made for a post-reporting period corporate action where it would be misleading not to make an adjustment. Examples of these sorts of corporate actions would include, amongst other things, a category 2 transaction, a material disposal by the target or the declaration of a large dividend. The issuer must show the effects of the post-reporting period corporate action in a separate column if a reporting accountant has not previously reported on the financial effects. In the instance where the financial effects have been previously reported on by a reporting accountant in a circular or prospectus, the issuer can use as the starting column the previously published results.

.45 Where non-adjusting events after the reporting period date are of such importance that non-disclosure would affect the ability of investors to make proper evaluations and decisions, the nature of the event and an estimate of its financial effect (or a statement that such estimate cannot be made) are disclosed in the notes to the pro forma financial information.

.46 It is recommended practice to draw attention to the approach taken with regard to subsequent events by making a disclosure in the notes to the pro forma financial information to the effect that the information does not take account of any trading or other corporate actions subsequent to the date of the financial statements.

Acquisitions and accounting periods

.47 Where a pro forma statement of comprehensive income or cash flow information is presented for two or more entities or business undertakings, such as may be the case in a material acquisition, the unadjusted information about the issuer and the adjustments in respect of the other entity or entities are to cover periods of the same length.

.48 While desirable, it is not normally necessary to use coterminous accounting periods when preparing a pro forma statement of comprehensive income or cash flow information for two or more entities or business undertakings. For example, an entity may be preparing a pro forma statement of comprehensive income based on its latest 31 December year end results for inclusion in a circular for a category 1 acquisition. If a 12-month statement of comprehensive income information is only available for the business undertaking to be acquired up to the preceding 30 June, that information could generally be used for the purpose of making an adjustment to derive a pro forma statement of comprehensive income.

.49 Even where businesses are seasonal, the use of non-coterminous accounting periods would not usually distort pro forma statement of comprehensive income and cash flow information so long as all the information covers a complete year. Nevertheless, where pro forma interim information is presented and seasonal factors are significant, coterminous accounting periods may be required to prevent the information from being misleading.

.50 Non-coterminous accounting periods may also be of concern when preparing the pro forma statement of financial position. An issuer needs to consider any significant seasonal variations. In the situation of a material acquisition, it might not be appropriate to make adjustments to an acquirer's 31 December information using 30 June information for the acquired business undertaking if it is known that seasonal factors would make the financial position of the acquired business undertaking significantly different at 31 December. In this instance an issuer may consider presenting the pro forma financial information for a 12-month period (as opposed to a six-month period).

Unadjusted information

.51 The unadjusted information of the issuer is to be derived from the most recent:

- published audited financial statements, published interim or provisional reports;
- previously published report of historical financial information;
- previously published pro forma financial information reported; or
- forecast that has been reported on by the reporting accountants in terms of the JSE Listings Requirements.

.52 The unadjusted information of the subject matter of the acquisition or disposal is to be derived from the:

- most recent published audited annual financial statements, published interim reports, preliminary reports or provisional reports;
- forecast that has been published and reported on by the reporting accountant in terms of the JSE Listings Requirements for statement of comprehensive income purposes and the appropriate historical information for statement of financial position purposes; or
- unpublished management accounts provided that:
    - o the issuer is satisfied with the quality of those management accounts and includes a statement to that effect;
    - o shareholders are warned about the source of the information; and
    - o for the subject matter of the category 1 or related party transaction and for a pre-listing statement which either includes those management accounts and/or uses them for the purpose of the pro forma financial information, a reporting accountant's review or audit opinion (whichever is applicable) must be obtained on those accounts.

.53 The objective is to ensure that the reporting periods of the issuer and the subject matter of the corporate action are as closely aligned as possible. It would therefore be inappropriate to use forecast information of the subject matter for the next 12 months if the issuer's information is based on an historic 12-month period.

.54 At an announcement stage, the published information for the target company may be more than 12 months old. In this instance, the issuer can use management accounts provided that it is satisfied that the management accounts are unlikely to be materially different from the final published results and that full disclosure is made to shareholders, warning them that the source information has not been audited or reviewed.

Adjustments

.55 Any adjustments that are made to the information referred to in paragraph 51 above in relation to any pro forma statement are to be:

- clearly shown and explained;
- directly attributable to the corporate action concerned and not relating to future events or decisions;
- factually supportable; and

- in respect of a pro forma statement of comprehensive income or statement of cash flows, clearly identified as those adjustments that are expected to have a continuing effect on the issuer and those that are not.

.56 It is important that issuers clearly show and explain each adjustment so that investors can understand those adjustments. With this objective of transparency in mind, issuers include detailed notes to the pro forma financial information that set out:

- each individual adjustment;
- any assumptions on which the adjustments are based;
- the range of possible outcomes where there is significant uncertainty;
- the sources of the amounts concerned; and
- where relevant, how adjustments have been aggregated or allocated to financial statement captions.

.57 Aggregation of adjustments can lead to confusion that is not always easy to correct in the detailed notes. It would therefore be normal to use more than one column for the adjustments, especially in instances where there are multiple corporate actions or acquisitions and disposals, as these can be impacted by numerous accounting standards.

.58 The purpose of the requirement that adjustments are directly attributable to the corporate action concerned is to prevent pro forma financial information reflecting matters that are not an integral part of the corporate action which is the subject of the prospectus, pre-listing statement, circular or announcement. In particular, pro forma financial information does not include adjustments that are dependent on actions to be taken once the corporate action has been completed, even where such actions are central to the issuer's purpose in entering into the corporate action, e.g. eliminating duplicate facilities after an acquisition.

.59 In order to provide assurance as to the reliability of pro forma financial information, adjustments are supported by facts. The nature of the facts supporting an adjustment will vary according to the circumstances. Nevertheless, facts are expected to be capable of some reasonable degree of objective determination. Support might typically be provided by published financial statements; other financial information and valuations contained in the prospectus; pre-listing statement; circular or announcement; purchase and sale agreements; and other agreements integral to the corporate action covered by the prospectus, pre-listing statement, circular or announcement.

.60 An issuer may be aware of the need to make an adjustment while lacking the appropriate factual support to satisfy paragraph 55. In these circumstances, the issuer bears in mind the stated purpose of the related pro forma financial information and considers whether disclosing the omission of the adjustment will be sufficient to prevent the pro forma financial information from being misleading. In such a case, the issuer would normally consult the JSE. Where disclosure will not suffice, the issuer either makes further efforts to obtain appropriate support or reconsiders whether or not the proposed purpose of the pro forma financial information is realistic. This is particularly important where pro forma financial information could be misleading for reasons that are beyond the control of the preparer. As in other areas of financial reporting, there is sometimes a trade-off between the relevance and reliability of financial information. This may mean that an issuer does not report information that may be relevant because it is not sufficiently reliable.

Continuing effects

.61 In respect of the pro forma statement of comprehensive income or statement of cash flows, the issuers are to identify clearly those adjustments that are expected to have a continuing effect on the issuer and those that are not. An issuer is not permitted either:

- to omit adjustments that are directly attributable to a corporate action and factually supportable on the grounds that they do not have a continuing effect; or
- to make adjustments to eliminate items solely on the grounds that they are considered not to have a continuing effect.

.62 Ultimately, it is the responsibility of investors to make their own individual assessments of future earnings and cash flows. Consequently, it is recommended that an issuer interprets the fourth bullet of paragraph 55 in line with the requirements of the IFRS on *Non-current Assets Held for Sale and Discontinued Operations*, which covers appropriate disclosure of the result of continuing and discontinued operations and separately disclosable items of income or expenditure within profit or loss from ordinary activities. Items attributed to discontinued operations will not have a continuing effect, and items identified as separately disclosable will generally be presumed not to have such an effect. An issuer does not explicitly describe other items as having or not having a continuing effect.

.63 The following paragraphs describe the application of paragraph 55 to a number of items that are frequently considered for adjustment in pro forma financial information.

Tax and similar effects

.64 An issuer considers the tax effects of adjustments directly attributable to a corporate action, along with other non-discretionary effects, such as any material impact on profit-related bonuses. In quantifying tax effects, the issuer looks at the incremental impact on tax liabilities and assets using the issuer's accounting policies for taxation rather than simply applying the issuer's overall effective tax rate. The types of taxes that must be considered include those accounted for in terms of the IFRS on *Income Taxes,* and other consequential taxes paid to government; for example, taxes on dividends.

Transaction costs

.65 An adjustment must be made for costs directly attributable to a corporate action that do not relate to future events or decisions and are factually supportable. Written estimates from advisers that are disclosed in total elsewhere in the prospectus, pre-listing statement or circular will normally provide sufficient factual support. The issuer must indicate if costs have been expensed or capitalised. Transaction costs are material by their very nature and therefore should not be excluded.

Debt repayment

.66 The proceeds of an issue of shares in terms of a prospectus, pre-listing statement, circular or announcement are often used to repay debt. The issuer generally wishes to present pro forma financial information to illustrate the potential effect of such corporate actions on gearing, interest cover and earnings. Two questions that commonly arise in determining the relevant adjustments are:

- how to allocate the proceeds of the issue to the repayment of different debt instruments when insufficient funds will be raised to repay all debt; and, conversely,

- how to treat any excess of the amount raised over the debt shown in the unadjusted financial information of the issuer.

.67 In addressing the first question, proceeds of the issue are allocated to the repayment of debt instruments on the basis of commitments stated in the prospectus, pre-listing statement, circular or announcement or legal agreements existing at the date of the prospectus, pre-listing statement, circular or announcement that specify how the issuer will apply the proceeds. In rare circumstances where there are no stated commitments or legal agreements, the repayment of debt would not be directly attributable to the corporate action that is the subject of the prospectus, pre-listing statement, circular or announcement. It would relate instead to future events or decisions, and non-consequential adjustment would be made to reduce debt balances or interest costs in the pro forma financial information.

.68 Where a corporate action results in an increase in cash balances, in a pro forma net asset statement or statement of financial position, it is normally inappropriate to make an adjustment to pro forma statement of comprehensive income or earnings information to reflect interest or other income that cash balances might generate. This is because, where management has discretion over how to use positive cash balances, any adjustment for interest or other income on those balances would not satisfy the requirement of paragraph 55 for the adjustment to be factually supportable and unrelated to future events or decisions. Exceptions would only arise where an issuer was committed to invest funds in a particular way, which meant that it could demonstrate that income would be earned and could quantify it. This could arise, for example, where a financial institution was raising funds to meet capital adequacy requirements. The issuer would draw investors' attention to the pro forma statement of comprehensive income treatment of issue proceeds where it was considered to be of particular significance in helping investors understand the issuer's prospects. The principle of not reflecting interest or other income that cash balances might generate is in line with the requirements of other major international security exchanges. Including an interest-received benefit often results in significantly improved pro forma earnings. This can be misleading where the cash is invested in working capital or new operations (particularly for mining companies) that will not generate returns in the immediate future.

.69 Where it would be misleading not to show income attributable to the increase in cash resources, an issuer must consult the JSE. If the corporate action that results in the increase in cash is a rights offer or an issue of shares for cash, the JSE may permit the issuer not to show an effect on earnings. In this instance, the issuer must provide a detailed note to the financial effects setting out the proposed application of the funds.

Fair value adjustments

.70 An issuer entering into a corporate action accounted for as an acquisition will need, as a direct consequence of the corporate action, to ascertain the fair value of the underlying assets and liabilities of the acquired business undertaking in accordance with the IFRS on *Business Combinations*. A provisional assessment of the fair value of the assets and liabilities being acquired must be made for the purposes of the pro forma financial information regardless of the fact that the IFRS on *Business Combinations* allows for a period of up to one year from the acquisition date for the final assessment to be made. However, when pro forma financial information is being included in an announcement only and the issuer judges that fair value adjustments are unlikely to be material in the context of the stated purpose of pro forma financial information, such adjustments are not necessary. In such a case, the issuer makes appropriate disclosure in the notes to the pro forma financial information. In other circumstances, the issuer will need to record fair value adjustments, supported, as appropriate, by note disclosure of their provisional nature and any related uncertainties and contingencies. Where initial estimates are subject to significant subsequent changes, the issuer will need to ensure that it makes appropriate disclosure to investors. An issuer must use its best endeavours to comply fully with the IFRS on *Business Combinations*.

Business undertakings being sold

.71 Financial information on a business undertaking that is the subject of a material disposal is normally extracted from the report of historical financial information in the related circular that is required by the JSE Listings Requirements. However, where an issuer presents pro forma information in an announcement, it is allowed to make adjustments based on interim financial statements of the business undertaking to be disposed of, notwithstanding that these amounts will not have been separately disclosed in the disposal circular or separately published elsewhere. Information about a business undertaking to be disposed of is generally considered to be factually supportable in so far as it comprises amounts that have been incorporated in the unadjusted information previously published by the issuer.

Foreign currency translation

.72 It may be necessary to translate adjustments into the reporting currency of the issuer. For a pro forma statement of financial position, the rate applied would usually be the rate ruling at the date of the issuer's unadjusted statement of financial position. For a pro forma statement of comprehensive income or statement of cash flows, the issuer would adopt its normal translation policy for subsidiaries. If the issuer uses an average rate, the rate applied for the purposes of making an adjustment would normally be calculated on the basis used by the issuer in preparing its unadjusted information for the relevant period. In the note to the pro forma financial information, the issuer must disclose the rates used, and should provide an explanation where the rates used for statement of financial position and statement of comprehensive income purposes are significantly different.

Consideration in cash or shares

.73 It may be necessary to make an assumption where there is a choice as to the form in which consideration is received or paid. For example, it may not be possible to determine in advance the extent to which a mixed cash and shares offer will be taken up in cash or shares. Consequently, an issuer will need to make an assumption as to the mix that they believe is most likely and state that assumption clearly. Any assumption that was made would need to represent an appropriate basis, given the stated purpose of the pro forma financial information. In addition, for a prospectus, pre-listing statement or circular, an issuer must present two further scenarios showing the two extremes of a one hundred per cent cash consideration and a one hundred per cent share consideration. This must also be presented in a columnar format.

Contingent consideration

.74 In accordance with the principles outlined in the IFRS on *Business Combinations*, to the extent that consideration is payable or receivable in the future and is dependent on the outcome of future events, the issuer needs to make an appropriate assumption as to the most likely amount to be paid. This does not violate the prohibition on making adjustments relating to future events. The need to make a best estimate of the amount of contingent consideration that is payable or receivable is a direct consequence of an acquisition or disposal. The relevant future events determine how accurate such an accounting estimate turns out to be but do not determine whether an estimate needs to be made. Where initial estimates are subject to material subsequent changes, issuers will need to ensure that appropriate disclosure is made to investors in their subsequent interim report, preliminary report or provisional report.

.75 It may appear prudent to assume that the maximum amount payable under an acquisition agreement will be paid or that the minimum amount receivable under a sale agreement will be received. However, the overriding requirement is to make an appropriate estimate, given the stated purpose of the pro forma financial information. In circumstances where the impact of paying or receiving additional consideration could be significant, an issuer must present an extension to the pro forma financial information illustrating the potential impact of such additional consideration to the maximum extent. This must be presented in a columnar format. It is recommended that the notes to a pro forma statement of financial position summarise the terms on which additional consideration is computed and any cap on that consideration.

Synergy benefits

.76 It is often the case that acquisitions are justified in terms of the synergies to be obtained from bringing two business undertakings together, either through savings in costs or through enhanced cross-selling of products and services. Pro forma financial information provides a common basis that investors can adjust to allow for estimated synergy benefits and other post-corporate action events. It is not, however, to be seen as indicating the issuer’s post-corporate action performance or financial position.

.77 Synergies are normally dependent on the future actions of the management of the enlarged group after completion of the corporate action. Consequently, synergies are not to be the subject of adjustments made in deriving pro forma financial information, although it may be appropriate to indicate opportunities for synergy benefits elsewhere in the prospectus, pre-listing statement, circular or announcement. Nevertheless, it is consistent with this principle that pro forma forecasts might reflect synergy benefits accounted for in the post-acquisition period that affect the issuer or the business undertaking acquired.

Cost and revenue eliminations

.78 When considering a listing or the bringing together of two or more business undertakings on an acquisition, it is sometimes possible to identify past costs or revenues that will not occur in future financial periods under the terms of the corporate actions. For example, levels of remuneration paid prior to an acquisition or listing can be inconsistent with agreements entered into at the time of such corporate actions. Whilst it may be reasonable to consider eliminating such costs as an adjustment in a pro forma statement of comprehensive income, they will often need to be offset against increases in other costs which the issuer will incur that are not capable of being factually supported. In such circumstances, issuers provide separate disclosure of past costs or revenues that will not occur in future, instead of eliminating them through pro forma adjustments.

Reflecting other small corporate actions

.79 Issuers may wish to make adjustments to reflect other corporate actions that have taken place since the latest statement of financial position date but that did not require a prospectus, pre-listing statement or circular. These could be immaterial acquisitions or disposals or small issues of capital.

.80 As explained in paragraph 55, as a matter of general principle adjustments are limited to:

- the corporate action that is the subject of the prospectus, pre-listing statement, circular or announcement, e.g. the new issue of shares covered by the prospectus, pre-listing statement, circular or announcement;
- in respect of any post-reporting period corporate action of the issuer or of the target, where it would be misleading not to make an adjustment; or
- the particular corporate action for which the pro forma financial information is presented, e.g. the acquisition to be made out of the issue of shares covered by the prospectus.

By definition, it is not misleading if adjustments are not made for a small corporate action, and therefore these adjustments should be avoided. It can become confusing to have too many adjustments, which may dilute the understanding of the corporate action that is the subject of the prospectus, pre-listing statement, circular or announcement.

EPS and diluted EPS

.81 Where pro forma EPS, diluted EPS, HEPS and diluted HEPS information is given for a corporate action that includes the issue of securities, the calculation is to be based on the weighted average number of issued shares, adjusted as if that issue had taken place at the beginning of the period.

.82 A note discloses the basis of calculation of pro forma EPS, diluted EPS, HEPS and diluted HEPS information. In particular, the note sets out the amount of the earnings and the number of equity shares used in the calculation. As a consequence, it will also be necessary to present sufficient pro forma statement of comprehensive income information to show the derivation of pro forma earnings.

.83 It is inappropriate to show other adjusted EPS figures; for example, figures that show the impact of a corporate action excluding a particular adjustment required in terms of IFRS or the JSE Listings Requirements. As examples, disclosure of earnings adjusted for the cost savings of future intended staff retrenchments or ignoring the actual *Share-based Payment charge* for the BEE corporate action under consideration is not permitted. These sorts of other adjusted EPS figures are, by definition, contrary to the JSE Listings Requirements and are therefore unacceptable to the JSE.

.84 Where the proceeds of an issue are applied to the repayment of debt, but the proceeds exceed the debt outstanding for all or part of the period for which pro forma EPS, diluted EPS, HEPS and diluted HEPS are calculated, it is generally not appropriate to take account of interest that might have been earned on the excess. The reasons are the same as those given above in paragraph 60. The issuer must explain this aspect of the calculation of pro forma EPS, diluted EPS, HEPS and diluted HEPS in the notes to the pro forma financial information where they believe that it is of particular significance in helping investors understand the issuer’s prospects.

Subsequent adjustments to pro forma financial information

.85 It is possible that in the course of preparing the circular, and after publishing the announcement, the issuer may find it necessary to make changes to the pro forma financial information. If the changes are significant (as defined in the JSE Listings Requirements) an issuer must publish an announcement detailing these changes. Furthermore, until such time as the transaction is approved by shareholders, an issuer must consider issuing a supplementary circular and/or making a supplementary announcement if a significant new matter or change arises. Even after a transaction is approved by shareholders, the issuer has an obligation to release an updated announcement if there is a significant new matter or change to the pro forma financial effects of a transaction, if that information is regarded as being price sensitive.

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