HEINEKEN'S ACQUISITION OF ASIA PACIFIC BREWERIES: ACCOUNTING FOR BUSINESS COMBINATIONS AND CHANGES IN OWNERSHIP INTERESTS

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THE CASE

"Heineken gulps Tiger after takeover approved," [1] The announcement on 28 September 2012 effectively brought to a close the battle over Asia Pacific Breweries Limited (APB) between Heineken N.V. and the Thai group of companies linked to the business tycoon Charoen Sirivadhanbhakdi (Thai Beverage and Kindest Place Group). Heineken eventually had full control over APB and that's when Rene Hooft Graafland, the Chief Financial Officer of Heineken, had a complex task set out before him. Accounting standards on business combinations and consolidation issued by the International Accounting Standards Board (IASB) resulted in radically different procedures from previous accounting standards.

APB was a key player in the Asian beer industry with a strong portfolio of over 40 award-winning beer brands including Tiger beer. Heineken was a global brewer based in the Netherlands, looking towards expanding into the high-growth Asian markets.

Prior to the takeover, Heineken owned 50% of a joint venture with Fraser and Neave Limited (F&N). The joint venture, Asia Pacific Investment Private Ltd (APIPL), in turn had control over APB. With the takeover[2], Graafland and his team would have to apply accounting standards on business combinations (International Financial Reporting Standard (IFRS) 3) and consolidation of financial statements (International Accounting Standard (IAS) 27[3]) on the events surrounding the acquisition of APB. In particular, the change from a joint venture to a subsidiary has its own complexities and special requirements relating to a business combination achieved in stages should be considered. Heineken was buying up APB shares incrementally throughout 2012. When exactly is control achieved? Accounting standards set different measurement bases for shares acquired before and after control is obtained. There is also a need to determine a number of fair value measures in the accounting process.

Key accounting questions for Graafland were:

- How should Heineken account for the gain in control over APB? Prior to the acquisition of control, APB was a joint venture company. How should previously held interests in APB be accounted for?
- How should the fair values of the net identifiable assets, including intangible assets be identified and measured?
- How should the fair values of previously held interests and non-controlling interests be determined?
- How should goodwill arising from the acquisition of APB be determined?
- What is the immediate impact of the APB acquisition on the financial statements of Heineken?
- How should Heineken account for the purchases of remaining shares in APB after acquisition date? How should the excess of consideration paid over the carrying amount of non-controlling interests be accounted?

[1] Channel News Asia, 28 September 2012.
[2] For purposes of this case study, the acquisition of APB includes the acquisition of APIPL.
[3] In the European Union, IAS 27 will be replaced by IFRS 10 Consolidated Financial Statements for annual periods beginning on or after 1 January 2014. In Note 3 (v)(ii) of the Annual Report 2012, Heineken stated that it did not expect the change in standard to have a significant effect on the consolidated financial statements.

The key accounting questions posed above present learning opportunities for accounting students worldwide to have a better grasp of complex accounting requirements surrounding the acquisition of control. The learning objectives in this case apply to both IFRS and U.S. GAAP contexts. IFRS 3 is substantially aligned with U.S. GAAP standard Statement of Financial Reporting Standard (SFAS) 141 (R) *Business Combinations*[4] issued by the Financial Accounting Standards Board (FASB) of the United States in 2007. One significant difference relates to the measurement of non- controlling interests at acquisition date[5]. Aside from this critical difference, both the IASB and the FASB arrive at similar conclusions on most other major issues.[6]

Global Beer Industry

In 2008, the global retail sales for beer grew from 96 billion litres in 2003 to 123 billion litres. However, most of the sales growth came from the emerging markets while sales in Western Europe and the United States matured. In 2009, the market shrunk by 1% due to the financial crisis that started in the second half of 2008. Still, the beer market recovered to a value of US$515 billion, with retail sales at 165.2 billion litres. The market was expected to continue to grow by 17.8% between 2011 and 2016, to reach US$606 billion in 2016.[7]

Standard lager was the largest segment of the global beer market, accounting for 57.9% of the market's total value in 2011. The premium lager segment accounted for a further 25.6% of total sales. Europe made up 38.2% of the global market with sales of US$196.6 billion. This was followed by Asia Pacific and the America, accounting for 31.3% and 28.5% of global sales, respectively.

Within the Asia Pacific region, China was the largest market, taking a dominant 42.6% market share. Growth in China outpaced that of the region – between 2007 and 2011, China's compound annual growth rate was 10.4%. The market in China was dominated by four companies – SAB Miller (20.3%), Tsingtao Brewery Company (13.8%), Anheuser-Busch InBev (12.8%) and Molson Coors (11.9%). Japan accounted for another 27% of market share. India accounted for just 3.5% of the Asian Pacific beer market in 2011.[8]

Unlike the global market, the Asian beer industry was fragmented. SAB Miller was the only company to capture 16.4% of the market in 2011. Molson Coors Brewing Company was a distant second with 3.7% of the market share. Anheuser-Busch InBev held less than 1% market share and Tsingtao Brewery Company held 0.5% of the Asian market.

Asia Pacific Breweries Limited (APB)

APB, a listed company on the Singapore Exchange (SGX) was a joint venture between the Fraser and Neave (F&N) Group of companies and Heineken. In 1931, APB first started its business in Singapore as Malayan Breweries Limited (MBL), and launched the *Tiger beer* brand a year later. With the expansion of business beyond Singapore into the Asia Pacific region and the addition of new brands, MBL was renamed Asia Pacific Breweries Limited (APB) in 1990.

Asia Pacific Breweries Limited (APB) was a key player in the Asian beer industry with a strong portfolio of over 40 award-winning beer brands and brand variants, which included *Tiger beer*,

[4] This standard is now presented as Codification Topic 805 *Business Combinations*.
[5] U.S. GAAP requires non-controlling interests to be measured at fair value including goodwill whereas IFRS 3 allows the acquirer a choice not to recognize the goodwill attributable to non-controlling interests.
[6] Appendix G, SFAS 141 (Revised), FASB, December 2007.
[7] "Global Beer", MarketLine Industry Profile, February 2013.
[8] "Beer in China". MarketLine Industry Profile, February 2013.

Heineken, *Anchor beer*, *ABC Extra Stout* and *Baron's Strong Brew*. APB had a diversified geographical footprint, operating 30 breweries in 14 countries mainly in Asian markets such as Singapore, China, Indonesia, Malaysia and Thailand, and marketed its brands extensively across 60 countries. APB was named the prestigious Brewers Association World Beer Cup 2010 Champion Brewery and Brewmaster for the Large Brewing Company category. APB enjoyed strong growth and profitable track record and was placed in the 2011 Forbes Asia's Fab 50 list of the 50 most profitable listed companies with large market capitalisation in Asia[9]. (Please refer to Exhibits 1, 2 and 3 for the ownership structure, board of directors and financial information of APB).[10]

APB operated a vast global marketing network across 60 countries. The network had a supply of 30 breweries in 14 countries including Singapore and other key Asian countries. The Asian market gained in relative importance to the Dutch giant with the decline of demand in Western Europe. Asia Pacific was the largest beer market in the world, accounting for 35.3% of the total volume in 2011, up from 34.4% in 2010 according to international business consultancy Euromonitor. Total volume in 2011 at 66.97 million litres was expected to rise to 84.55 million litres by 2016, Euromonitor predicted.[11] APB has a number of subsidiaries. One of its partly owned subsidiaries is PT Multi Bintang Indonesia in which it has an 80.6%[12] effective holding in 2012 and 2011.

Fraser and Neave, Limited (F&N)

In 1883, John Fraser and David Neave pioneered the aerated water business in South East Asia and established the Singapore and Straits Aerated Water Company. In 1898, Singapore and Straits Aerated Water Company went public under the name Fraser and Neave, Limited (F&N). From a soft drinks base, F&N ventured into the business of brewing in 1931, dairies in 1959, property development and management business in 1990 and publishing and printing in 2000.

By 2011, F&N had attained the status of a leading pan-Asian consumer group listed on the SGX with subsidiaries in diversified businesses of food and beverage, property (residential properties, retail malls and serviced residences) and printing and publishing industries. It owned a suite of renowned brands that enjoyed market leadership positions in many of its businesses, and is present in over 20 countries spanning Asia Pacific, Europe and the US, employing about 18,000 people worldwide. In 2011, F&N had total assets of S$13.8 billion and earned net profit of S$1.1 billion.

In food and beverage, the reputable brands of F&N included *F&N*, isotonic drink *100PLUS* (which had close to 90% market share in Malaysia), *F&N Seasons* for soft drinks, *F&N Magnolia*, *F&N Fruit Tree Fresh* and *F&N Nutrisoy* for dairies, *Tiger*, *Anchor*, *Baron's* and *ABC* for beer.

In properties, F&N had a global portfolio of quality residential properties, serviced residences, and commercial properties in countries such as Singapore China, Thailand, UK and Australia through its wholly-owned subsidiary, Frasers Centrepoint Limited ("FCL"). FCL was one of Singapore's top three property companies with total assets in excess of S$7 billion. F&N engaged in property development and provides property management in both Hong Kong and China via Frasers Property (China) Limited ("FPCL"), its listed company in Hong Kong.

In printing and publishing, F&N held Times Publishing, Singapore's largest publishing and printing company. Times Publishing had an established track record in publishing, printing, direct sales, distribution and retailing of books, magazines and the provision of educational services.

9 Annual Report 2012, Asia Pacific Breweries
10 Annual Report 2012, Asia Pacific Breweries
11 Euromonitor
12 Note 38, Annual Report 2012, Asia Pacific Breweries

Heineken

In 1864, Gerard Adriaan Heineken acquired a small brewery in the heart of Amsterdam. Since then Heineken beer gradually gained reputation. Heineken became available in America in 1933 and in Dutch East Indies in 1937. Over the years, the company expanded through growth and acquisitions, firstly in Western Europe and Africa, followed by acquisitions in Russia and Central and Eastern Europe.

In 2008, the Company operated 125 breweries in more than 70 countries and sold 162 million hectolitres of beer. *Heineken* had become Europe's largest brewer and the world's third largest by volume. In 2010, Heineken acquired the beer operations of Fomento Economico Mexicano, S.A.B. de C.V. in Mexico (including its US and other export business) and Brazil, an acquisition that strengthened the company's international portfolio with the addition of Dos Equis, Sol and Tecate. In 2011, Heineken acquired five breweries in Nigeria and two breweries in Ethiopia. The company also started brewing Heineken in Mexico and India.

Four generations of the Heineken family had actively participated in the global expansion of Heineken. By 2012, the small local Amsterdam brewer had grown into a global business with one of the most valuable international premium beer brand that still bore the founder's family name *Heineken*.

In 2011, Heineken marketed 200 international premium, regional, local and specialty beers and ciders. These included *Amstel*, *Birra Moretti*, *Cruzcampo*, *Foster's*, *Maes*, *Murphy's*, *Newcastle Brown Ale*, *Ochota*, *Primus*, *Sagres*, *Star*, *Strongbow*, *Tiger* and *Zywiec*. Heineken's revenue and net profit totalled EUR27.1 billion and EUR1.6 billion respectively in 2011. Heineken N.V. and Heineken Holding N.V. shares were listed on the Amsterdam stock exchange (Please refer to Exhibit 4 for financial information on Heineken).[13]

The Battle for APB

APB was considered a crown jewel to all its stakeholders Tiger beer was a well-established Asian brand with a significant market share in the region and long-term earning potential. APB reported revenues of S$773.42 million in its second quarter ending 31 March 2012, up 15% from a year ago, with most sales generated in Southeast Asia.

APB was strategically important to Heineken given APB's market leadership positions in fast-growing markets of Indo-China and Southeast Asia. A successful takeover of APB would give Heineken an edge over its competitors in the Southeast Asia market of about 600 million consumers. The rival brands included Charoen's Chang Beer, Philippines' San Miguel, Indonesia's Bintang (also owned by APB), Denmark's Carlsberg and other brands from developed economies. APB had a close working relationship with Heineken through licensing agreements, in which it brewed and distributed Heineken beers in certain Asian markets.

On 18 July 2012, companies linked to Thai tycoon Charoen Sirivadhanbhakdi – Thai Beverage and The Kindest Place - secured deals to buy OCBC Bank and Great Eastern Holdings' stakes in F&N and APB for S$8.875 (US$7.1) and S$45 (US$36) per share respectively[14]. The companies linked to Charoen Sirivadhanabhakdi were Thai Beverage Limited, owned by Charoen himself and Kindest Place, owned by a son-in-law of Charoen. Gains from divestment would add approximately 2% to OCBC's shareholders' funds.

[13] Heineken N.V.'s Annual Report 2012.
[14] SGD 1 = US$ 0.80, annual average exchange rate for 2012, www.oanda.com, accessed June 2013.

According to the conditional sale and purchase agreements, OCBC divested its interests in APB and F&N through:

- Sale of approximately 3.4% shareholding in APB for S$389 million (US$311.2 million) (equivalent to S$45 or US$36.00 per APB share) to Kindest Place Groups Limited.
- Sale of approximately 3.2% shareholding in F&N for S$410 million or US$328 million (equivalent to S$8.875 or US$7.1 per F&N share) to Thai Beverage Public Company Limited.

OCBC's 87.2%-owned subsidiary, Great Eastern Holdings Limited (GEH) also entered into conditional sale and purchase agreements, under which:

- Sale of approximately 4.6% shareholding in APB for S$531 million or US$424.8 million (equivalent to S$45 or US$36 per APB share) to Kindest Place Groups Limited
- Sale of approximately 14.9% shareholding in F&N for S$1,885 million US$1,508 million (equivalent to S$8.875 or US$7.1 per F&N share) to Thai Beverage Public Company Limited. [15]

Based on the above-mentioned prices, the gains from the divestment of APB and F&N shares were estimated at approximately S$786 million (US$628.8 million) for OCBC Group excluding GEH and S$1,153 million (US$922.4 million) for OCBC Group including gains attributable to shareholders of GEH.[16]

Charoen's expanding interests in APB troubled Heineken, who had keen interest in controlling the Asian brewer. This sparked off a bidding war. On 20 July 2012, Heineken launched S$5.125 billion (US$4.1 billion) takeover bid for F&N's 39.7% stake in APB at S$50 (US$40) per share. This offer price was a premium of 45% over the prior one month's volume weighted average price per share. Heineken already had 41.9% stake in APB, which would increase to 81.6% if its offer were accepted. Heineken had also offered S$163 million (US$130.4 million) for F&N's interest in the non-APB assets held by APIPL, the joint venture company between Heineken and F&N.

After the extension of the offer by a week at F&N's request, F&N's Board on 6 August 2012 agreed to recommend to shareholders the sale of its shareholding in APB to Heineken at S$50 (US$40) a share. "We proposed a highly attractive offer to F&N's board and we are delighted that they have now recommended it to the shareholders," Heineken spokesman John Clarke told AFP.[17] F&N chairman Lee Hsien Yang described the Heineken offer as a "validation" of APB's success, its business model, leading brands and strong management team. He added that the sale of APB allowed F&N to immediately unlock substantial value in the beer business, which was consistent with their objective of maximising shareholder returns.[18]

A successful bid would give Heineken 81.6% shareholding in APB, and that would trigger a mandatory general offer for the remaining shares under the takeover rules in Singapore. Nonetheless, Japan's Kirin Holdings Co had a 15% stake in F&N while Thai Beverage through its acquisition of interests held by OCBC, GEH and Lee Rubber owned a 24.1% stake in F&N. The total 39.1% stake held by Thai Beverage and Kirin meant that their votes would be critical to the success of the Heineken bid, Dow Jones Newswires reported.[19]

Analysts expected that Heineken's offer could lead to a takeover battle with Thai and Japanese investors for control of APB. However, Senji Miyake, president of Japanese brewer Kirin which owned 14.7% of F&N, said that his company was not keen to take control of APB. [20]
On 8 August 2012, just days after F&N board had recommended to shareholders to accept Heineken's US$40 a share offer for APB, a better offer emerged. F&N said in a filing to SGX that

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15 OCBC major regulatory announcements http://www.ocbc.com/group/investors/Major-Regulatory-Announcements.html
16 http://sgx.i3investor.com/servlets/fdnews/39049.jsp
17 Bangkok Post 6 August 2012. http://m.bangkokpost.com/business/306164
18 AFP 3 August 2012. http://www.afp.com/en/news/topstories/378628/sitemap/
19 Dow Jones newswires.
20 AFP 3 August 2012. http://www.afp.com/en/news/topstories/378628/sitemap/

it had received an offer from Kindest Place to acquire F&N's 7.3% stake in APB (18.75 million APB shares) at US$44 a piece. The offer valued F&N's APB shares at US$0.8 billion and would close on 24 August.[21]

The Thai group of companies by then already owned 8.6% stake or 22 million shares in APB. If Kindest's offer went through, it would have a stake of 15.9% in APB and become a significant minority shareholder. In this case, Heineken would have to seek Kindest Place's approval for acquiring the APB stake, as well as getting approval from F&N shareholders. Heineken also faced potential opposition from Thai Beverage. Thai Beverage had become F&N's largest shareholder with a stake of 26.4%, and some analysts expected that it would oppose the sale of APB in order to retain a foothold in the Tiger beer brewer's thriving business. Analysts questioned if Heineken could have lowered its acquisition cost by giving an attractive offer to buy the OCBC group's shares in APB at first.

An analyst was of the view that the partial offer by Kindest was intended to draw a higher offer from Heineken, which would benefit Thai Beverage/Kindest given their large stakes in APB (8.6%) and F&N (24.1%). Still F&N's board might consider that Kindest's offer was only for a partial stake in APB. Selling that stake for a slightly higher price might not be worthwhile as it would put F&N in a weaker negotiating position versus Heineken.

Heineken was not going to lie on its laurels. Analysts predicted that a better offer from Heineken could be on the cards for APB. Heineken, in response to Kindest Place's offer, stated that its bid was "richer" and created more value for investors. Nonetheless the Dutch brewer would need more than words to convince shareholders of F&N, said an analyst.

On 14 August 2012, OCBC and its units finalised the sale of their stakes in F&N and APB to Thai Beverage and Kindest Place Groups. Under the deal with OCBC and its units, Thai Beverage purchased a 22% stake in F&N, while Kindest Place acquired an 8.6% stake in APB. Thai Beverage had also been gradually accumulating its interest in F&N and held 26.4% stake in F&N.

On 18 August 2012, Heineken raised its offer for a controlling stake in APB to prevent the Thai companies from disrupting its takeover plans. The Dutch beer maker increased its bid to S$53 (US$42.4) per share, up from its initial bid of S$50 (US$40). The board of F&N advised its shareholders to accept the offer. F&N shareholders would vote on 28 September 2012 at an Extraordinary General Meeting on the offer.

If F&N shareholders approved the sale, Heineken agreed to offer as much as S$5.6 billion (US$4.48 billion) for F&N's entire stake of 39.7% direct and indirect interest in APB. Heineken had committed to maintain APB's Asian headquarters in Singapore and to growing the Tiger brand. F&N's board agreed not to solicit, engage in discussions or accept any other offers for its interest in APB, according to a statement by Heineken. F&N had also agreed to pay a break-up fee of about US$45 million if the transaction was not completed in 120 days.

On 14 September 2012, the events took another turn after the Thai companies launched a takeover bid for F&N at S$8.88[22] (US$7.104) a share in a move that scuppered Heineken's attempt to acquire the APB. The bid came after the Thai billionaire Mr Charoen's Thai Beverage and TCC Assets increased their combined stake in F&N to 30.36%, triggering a mandatory general offer for the remaining F&N shares. In reaction to the news, F&N's shares went up 4.8% to close at S$8.92 (US$7.136). The bid came just two weeks before the vote by F&N shareholders on the proposed sale of F&N's stake in APB to Heineken.

[21] http://bizdaily.com.sg/newsite/heineken-faces-tough-fight-for-asia-pacific-breweries/
[22] Announcement, 13 September 2012, TCC Assets Launches Mandatory Conditional Cash Offer for Fraser and Neave Limited, www.fraserandneave.com

On 19 September 2012, Heineken announced that it had reached a deal with Kindest Place. The Thai companies promised to vote in support of Heineken's bid for APB and in return Heineken irrevocably undertook not to make an offer for F&N. Between 17 August 2012 and 15 November 2012, Heineken purchased an additional 8.6% stake in APB from the Kindest Place Group. Heineken also acquired an additional 5.1% stake from other parties. In total, the acquisition of the additional 13.7% during the period from 17 August 2012 to 15 November 2012 cost Heineken a total consideration of EUR1,194 million.

The deal with Kindest Place paved the way for the Heineken takeover of APB. On 28 September 2012, 98.73% of F&N shareholders voted in support of the Heineken bid for F&N's 39.7% stake in APB at S$53 a share. This allowed Heineken to own 95.3% of APB for a consideration of EUR3,480 million. Heineken also acquired non-APB assets held by APIPL for a consideration of EUR104 million.[23] The deal was formally completed, after regulatory approvals on 15 November 2012.[24] A total consideration of EUR3,584 million was paid to F&N on 15 November 2012.

On 15 November 2012, Heineken announced a mandatory general offer for the remaining 4.7% interest in APB that it did not own. The total consideration of these remaining shares was EUR398 million.[25] In its half yearly announcement for the first six months of 2013, Heineken announced that it had completed the purchase of the remaining 1.84% of APB shares with cash consideration of EUR156 million.[26] Hence, approximately 2.86%[27] of APB shares would have been acquired by Heineken for EUR242 million[28] between 16 November 2012 and 31 December 2012. As our case focuses on events in 2012, changes in ownership in 2013 will not be included in our case discussion.

Accounting for Joint Ventures

Prior to the acquisition by Heineken, APIPL was a 50-50 joint venture between F&N and Heineken (refer to the ownership structure of APB in Exhibit 1A). The accounting was governed by IAS 31 *Interests in Joint Ventures*. Under IAS 31, a venturer that has joint control over a joint venture may choose to apply either proportionate consolidation or equity method to account for its interests in the joint venture. (This option will no longer apply when the new standard IFRS 11 *Joint Arrangements* becomes operational in 2013 or when the national standard setting regime adopts the standard.)

Heineken applied the equity method to account for its investment in APIPL prior to its acquisition of control in the entity. Under the equity method, the investment is recognized at cost, with the addition of the investors' shares of the investee's post-acquisition profits less any impairment and less dividends received. In the consolidated income statement, the investors' shares of profits before taxes and taxes are recognised. Equity accounting has often been described as the "one-line consolidation" approach because it recognizes the investor's share of the net assets of the investee in the investment account. Consolidation, on the other hand, requires a line-by-line aggregation of assets and liabilities. Although equity remains essentially the same under both methods, the magnitude of assets and liabilities would differ considerably between the equity method and consolidation.

[23] After the acquisition, Heineken also owned 100% of APIPL, the joint-venture vehicle that owned APB.
[24] Note 6 of Heineken N.V.'s Annual Report 2012.
[25] Ibid.
[26] Heineken Media Release: Heineken N.V. reports 2013 half yearly results.
[27] In Note 36 of Heineken N.V.'s Annual Report 2012, ownership interest in APB was 98.7%. Using this percentage, the interest acquired during the period from 16 November 2012 to 31 December 2012 would have been 3.3% (or the difference between 98.7% and cumulative interest of 95.4% as at 15 November 2012). We have used 2.86% in our analysis.
[28] In Note 37 of Heineken N.V.'s Annual Report 2012, total cash consideration in relation to the acquisition of the remaining shares after 31 December 2012 was approximately EUR146 million. If this amount had been used in the analysis, the inferred purchase consideration between 16 November 2012 and 31 December 2012 would have been EUR252 million. We have used information from the half-yearly announcement 2013 to provide a more up to date measure of the consideration paid for the remaining shares in 2012.

Accounting for Business Combinations

When Heineken acquired control of APB, it ceases to equity account its interests in APB and instead consolidates the revenue, expenses, assets and liabilities of APB. As at the date of acquisition, Heineken also recognized goodwill on acquisition and applied rather complex procedures relating to business combinations.

The accounting standards relevant to the acquisition of APB were IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*.[29] A business combination is any event or transaction in which one party (the acquirer) obtains control of another party (the acquiree) and the acquiree is a business. IFRS 3 requirements also apply to "merger of equals" or "true mergers". The position taken by the IASB is that it is extremely rare that none of the combining entities obtains control of the others. [30]

IFRS 3 required Heineken to apply the four-step acquisition method to account for its acquisition of APB. The four steps[31] are as follows:

(a) Identifying The Acquirer

In the business combination between Heineken and APB, it was very clear that Heineken is the acquirer. Heineken was actively seeking to gain control through the acquisition of the voting rights in APB. After the acquisition, Heineken was able to control the operating and financial policies of APB. However, in some business combinations, it may be unclear as to which party is the acquirer. To determine which party has control, we have to consider the principles in the companion standard on consolidation. With effect from 1 January 2013 (or later depending on the adoption of the standard by the national standard-setting body), IFRS 10 provides the principles to determine control. An acquirer has control when it is "exposed or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee".[32] Hence, an investor has control of an investee if the investor has all three elements of control: (i) power over the investee (ii) exposure to variable returns of the investee and (iii) ability to use the power to affect the amount of the returns to the investor[33].

IFRS 10 requires parties in a business combination to determine which party has *de facto* control or effective control by considering all factors and circumstances and not simply voting rights. For example, an investor may have 40% voting rights in an investee with the remaining 60% dispersed among many individual shareholders. If past voting patterns indicate that only 70% of shareholders vote at shareholder meetings, the investor with the 40% shareholding effectively has relative voting rights of 57% (40%/70%). IFRS 10 also requires an investor to continuously assess its control over an investee if facts and circumstances changes. IFRS 10 has a significant impact on business combinations with investors having to consider more factors in determining control than absolute voting rights.

(b) Determining The Acquisition Date

The acquisition date is the date when the acquirer obtains control of the acquiree. The date when an acquirer obtains control is a major economic event and signifies the beginning of a new relationship between the acquirer and the acquiree. On the acquisition date, the acquirer assumes control of the acquiree and has effectively acquired the goodwill and identifiable net assets of the acquiree. As such, the acquired goodwill and fair value of the identifiable net assets are recognized

[29] Heineken applies IFRS as endorsed by the European Union and which also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code.
[30] Basis of Conclusions, BC35, IFRS 3, IASB, January 2008.
[31] Paragraphs 4-5, IFRS 3, IASB, January 2008.
[32] Paragraph 6, IFRS 10, IASB, May 2011.
[33] Paragraph 7, IFRS 10, IASB, May 2011.