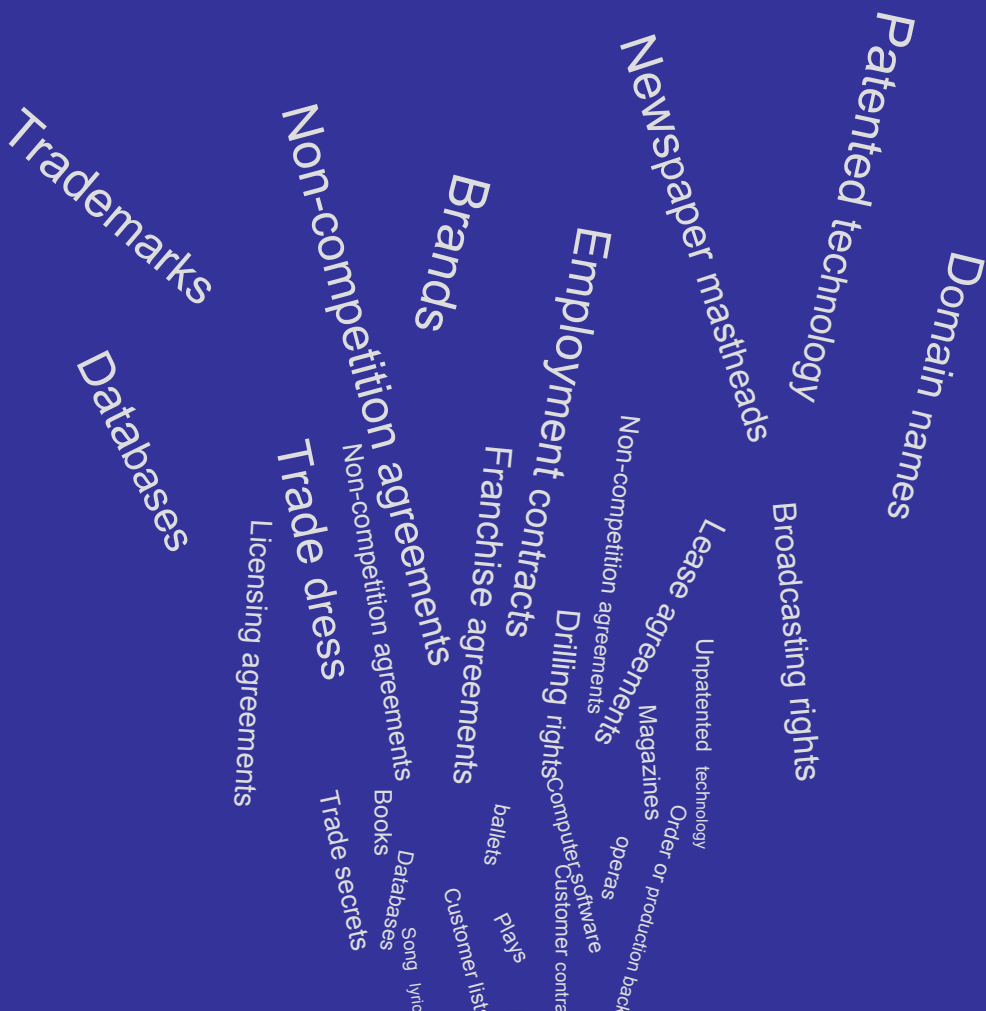


IFRS 3: The First Year

The FTSE 100's reporting of acquired intangible assets





IFRS 3: The First Year. The FTSE 100's reporting of acquired intangible assets

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1. Introduction

Businesses acquisitions have a significant impact on the buyers' shareholder value, sometimes for the better and sometimes for the worse. In the past such acquisitions have also been a notorious area for creative accounting and results have been distorted. There has been a drive to address this, part of which is a new accounting standard (International Financial Reporting Standard 3, Business Combinations, "IFRS 3") critically aimed at giving increased transparency to accounting for business combinations.

A key concept underlying IFRS 3 is that of purchase price allocation, where the cost of an acquired business is analysed into the value of all its components:

- Tangible net assets, such as property, plant and equipment and working capital.
- Intangible net assets, such as brands and customers.
- Goodwill, being the balance.

This purchase price allocation should give greater insight into significant investment by companies, by requiring analysis and disclosure of the assets, liabilities and other factors supporting acquisitions. Particular emphasis should be given to the analysis of intangible assets and goodwill, which often forms the bulk of value.

This study investigates the impact of the new standard (IFRS 3) on the transparency of acquisition accounting in the first year of reporting for the UK's major listed companies.



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2. Methodology

This study has focused on the largest companies listed on the London Stock Exchange reporting under International Accounting Standards. The starting point was the FTSE 100, and for each of these companies the prime source of information was the most recent annual report and accounts, for most companies this was for the year ended 31 December 2005 or the year ended 31 March 2006.

“...total deal value of £40 billion.”

Of the FTSE 100 the annual report and accounts for 88 companies was under IFRS. The rest had either not yet reported or had reported under different accounting standards. We included a small number of business combinations from the previous, comparative, accounting period on the basis that these business combinations were also being accounted for under IFRS for the first time. The transactions we analysed were for companies which had made acquisitions with a total deal value of £40 billion.

The main source of information on business acquisitions from the annual report and accounts was the notes to the accounts on business acquisitions. In addition other parts of the accounts were of assistance including the notes on intangible assets and goodwill, and the operating and financial review. Where disclosure permitted, purchase price allocations were summarised, and where reporting was in foreign currencies this was translated into £sterling at standard rates, mainly US\$1.8 to £1.

Intangible Business is a leading international independent intangible asset valuation consultancy. Valuing intangible assets has been the focus of our activities for the past five years, during which time we have valued some of the world's biggest intangible assets for management, financial and legal purposes. Using this experience and skill we have reviewed this analysis at an overall level, and at the level of individual transactions.

In this report we have used the following terms:

- **Purchase Price Allocation (“PPA”)** – the allocation of the cost of an acquisition to the fair values of the underlying assets and liabilities both tangible and intangible.
- **Intangible Assets** – a non financial asset without physical substance, not including goodwill.
- **Goodwill** - the difference between the acquisition cost and the total of the individual fair values of the related assets and liabilities.



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3. Summary

Our exclusive research shows that the spirit of IFRS 3 is not being followed, nor are its specific rules. As a result the accounting for business acquisitions is still opaque and creative accounting is still occurring.

“...a new area of creative accounting.”

These shortcomings are so significant that our conclusion is that IFRS 3 has not significantly improved the transparency of acquisition accounting. The principal shortcomings are:

- Overall, intangible asset values have been reported at under values and goodwill at corresponding over values.
- There have been no useful descriptions of the factors making up goodwill, even though this should be possible.

“...£21 billion is lost in a black hole.”

This has resulted in an accounting black hole of £21 billion which has been described as goodwill but is really largely something else.

These issues relate to some of the most significant figures in the accounts, acquisition cost and goodwill. Given that significant cost has been incurred in relation to IFRS 3 the level of non-compliance is quite remarkable. However, it is the first year of implementation, and we consider the challenge for the accounting profession is to put this straight and not allow it to continue as the norm.

Putting this straight would necessitate giving full values to intangible assets and fully explaining the nature of residual goodwill. This would then facilitate an understanding of how business acquisitions create value, by reference to their cost. This is important given the substantial amounts of money being expended on business acquisitions. Shareholders should be given sufficient information to see the rationale for such investments.

“...insufficient information for shareholders.”



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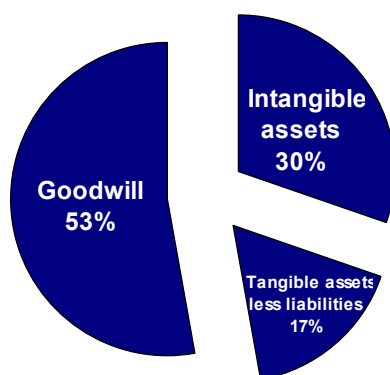
4. Key findings

1. Under-reporting of intangible asset value

Figure 1 below shows that intangible asset value only makes up 30% of the overall cost of acquisitions. In our view this is too low, intangible asset value (in particular brands and customer relationships) generally forms a far higher part of acquisition value.

“...intangible asset value makes up only 30% of overall cost.”

Figure 1 - FTSE 100 IFRS Purchase price allocation



“...goodwill accounts for over half of acquisition costs.”

2. Goodwill is too high

The value of goodwill (53% of acquisition cost) is too high. A key purpose of IFRS 3 is to identify and value all of the assets being purchased. Anything then left over in goodwill would then be difficult to pin down. So the prima facie expectation is that goodwill would either not be that significant or if it was would have to be fully described. The under reporting of intangible asset value results in the over reporting of goodwill value.

3. Failure to fully disclose the nature of goodwill

In spite of the significance of the goodwill numbers reported there is no description of the factors that make up goodwill (as required by IFRS 3) and no corresponding justification of that goodwill.

“A description of the factors that contributed to a cost that results in the recognition of goodwill – a description of each intangible asset that was not recognised separately from goodwill and an explanation of why the intangible asset’s fair value could not be measured reliably – or a description of the nature of the excess recognised in profit or loss.” IFRS 3, Disclosure 66 (h)

“...goodwill is not described as required by IFRS 3”

Given the emphasis on valuing as much of the component parts as possible, the expectation should be that what is left over needs particular justification. This would be a key analysis justifying the rationale for the acquisition, but it is absent. An explanation for goodwill could simply be that too much was paid, compared with the stand alone value of the acquired business. However, if this is the case it could still be justified by reference to the value that would be created on the acquisition, for example by achieving synergies through economies of scale. In such circumstances this would be a key factor making up goodwill value. There is a fundamental economic issue here. If an overpayment is justified through synergies, then those synergies need to be realised or shareholder value will be destroyed. None of the accounts reviewed analyse this by reference to goodwill, in our view a significant omission.

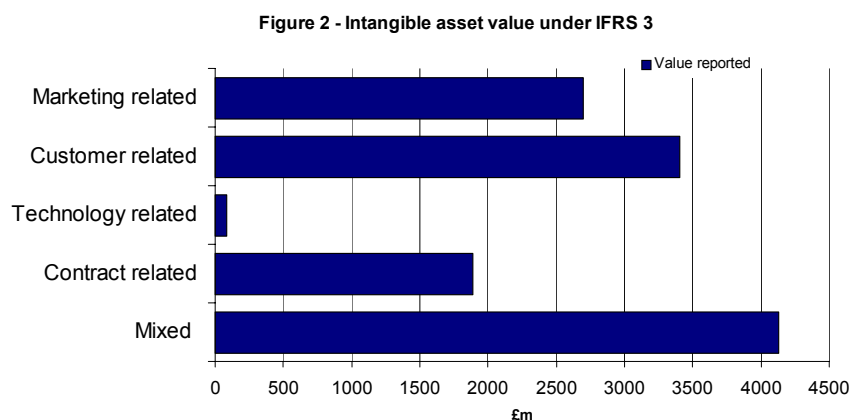


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4. Poor descriptions of intangible assets

The level of disclosure about intangible assets acquired in the annual reports and accounts is patchy and inconsistent. Information on acquisitions is often aggregated and hard to interpret. It means that the role and nature of intangible assets in acquisitions has not been transparently reported.

Many of the companies that recognised the value of their intangible assets did not use the descriptions of intangible assets suggested by IFRS 3. The majority of intangible asset value as seen in Figure 2 below was allocated to the 'mixed' category which was either a combination of the other classifications or described generally (for example as 'other intangibles') in the analysed reports. This 'mixed' category offers little transparency in the accounts.



5. No real insight given to investors of the success of the acquisition

With the under-reporting of intangible assets, the high levels of value in goodwill and the lack of disclosure, it is hard for shareholders to assess whether the acquisition has generated any value for the company. Therefore, shareholders are unable to see how business acquisitions are performing.

6. Wasted costs

The specialist skills needed to undertake the implementation of IFRS 3 has cost these companies an estimated £80 million. We consider that these are largely wasted costs given the lack of usefulness of the information. This may be because this is the first year of adoption of IFRS 3 and there has been a learning curve. We consider that now is the time to address how these resources will be deployed going forward to ensure that the benefits provided are in proportion to the costs incurred.

“...£80m of shareholders money wasted.”



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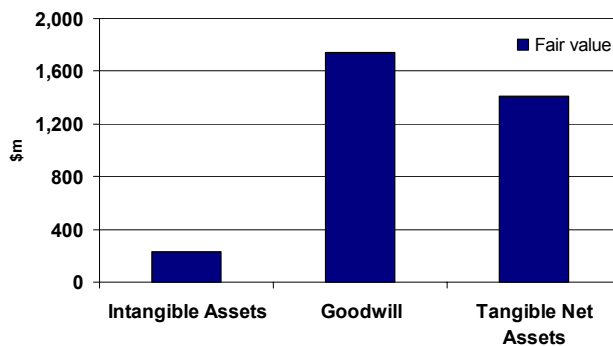


5. Examples of inadequate reporting

Standard Chartered's acquisition of Korea First Bank (\$3.4 billion)

Standard Chartered acquired Korea First Bank (a major banking group in South Korea) in April 2005 for \$3.4 billion. In September 2005 all 407 branches, 2100 ATMs and 7 kilometres of signage were rebranded as SC First Bank. Branch integration was completed in November. The plan was to lead by providing innovative products and services for consumers, and allowing wholesale banking clients to take advantage of the international network and products. Standard Chartered opened Korea's largest dealing room in October.

Figure 6 - PPA on Standard Chartered's acquisition of Korea First Bank



“... 407 branches, 2100 ATMs and 7km of signage and although Standard Chartered admits the significance of Korea First Banks' brand and customers, they only account for 7%.”

This purchase price allocation seems to substantially undervalue the driving forces behind the acquisition, being customers and brand. In fact the first page of Standard Chartered's accounts sums up what they stand for, which puts significant emphasis on brand and customers. Banking customers are generally highly valuable as once formed such customers are unlikely to change. This is one of the reasons why such high commissions are paid on the sales of financial services products. As the acquisition of customers is costly this also indicates that they are valuable. The existing brand should still have been valued even though it was rebranded. So the PPA analysis appears unrealistic by placing so little of the value on customer relationships and brands.

Although there are some brief references to synergies, there is no description of the factors underlying goodwill and how this would justify an allocated value amounting to \$1,738 million particularly in view of the assertion that the customers and brand had no value. Synergies would not be that all embracing as, for example, the Korean market is quite different from the key Standard Chartered markets such as the UK. In any event the information disclosed in the accounts is insufficient to assess the value of synergies compared with the cost allocated to goodwill.

So it appears that intangible asset values are understated with a corresponding overstatement of goodwill. The lack of description of the factors underlying goodwill mean it is impossible to understand the justification for this acquisition from the information disclosed in the accounts, which are far from transparent.



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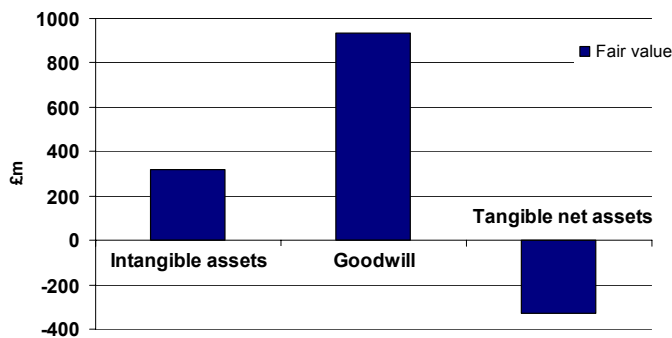


WPP's acquisition of Grey Global Group (£928 million)

WPP acquired Grey Global Group in March 2005 for just over £928 million, allocating £319 million to intangible assets, and £936 million to goodwill. The intangible asset value was allocated to a 'black hole' category of 'other intangibles' without further explanation. There was no allocation of value to marketing related intangibles including brands even though WPP is a marketing group and has accounted for brand values in the past for other similar brands such as JWT, Hill & Knowlton, Ogilvy & Mather Worldwide and the Young and Rubicam Group. There is no real justification for the allocation to goodwill of an amount approximately equal to the acquisition cost.

“...ranked in the top tier of global advertising agencies with a successful network in 90 countries, a blue chip client base including one fifth of all Fortune 500 companies and specialists in brand communication but WPP, one of the world's largest marketing services companies, allocated no value to Grey's brand.”

Figure 8 - PPA on WPP's acquisition of Grey Global Group



The lack of information in this instance is remarkable and makes it difficult to form any views on the transparency of the acquisition. Even so the allocation to intangible assets again looks to be too low and the allocation to goodwill correspondingly too high.



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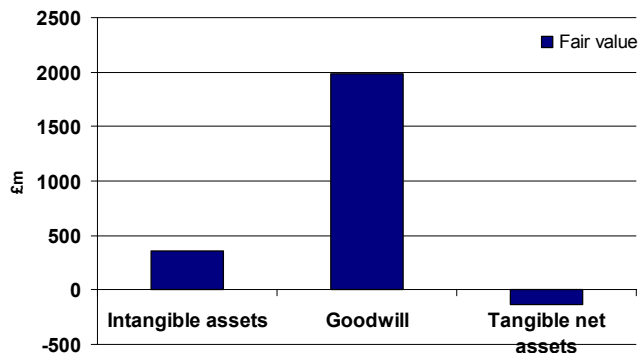
BAE SYSTEMS

United Defense

BAE's acquisition of United Defense (£2.2 billion)

BAE acquired United Defense, who have produced the Bradley combat system for over 20 years, in the summer of 2005. United Defense was a leader in the design, development and production of combat vehicles, artillery, naval guns, missile launchers and precision munitions used by the US Department of Defense and its allies worldwide, and the largest non-nuclear ship repair, modernisation, overhaul and conversion company. The acquisition was combined with BAE's existing land systems activities in the UK, Sweden and South Africa. This formed one of the world's leading design, manufacture and support providers of land and armament systems.

Figure 7 - PPA on BAE's acquisition of United Defense



“... understated intangible assets and overstated goodwill... intangible assets accounted for less than 2%.”

The most significant of the intangible assets are described as acquired order book and on-going programme relationships.

As before the low intangible asset value and high goodwill value have little supporting disclosure and are difficult to understand. £1.9bn of the £2.2billion acquisition price was accounted for as goodwill, with no real explanation of it other than some bland statement about it being the opportunities presented by the circumstances.

So it appears that intangible asset values are understated with a corresponding overstatement of goodwill. The lack of description of the factors underlying goodwill means it is impossible to understand the justification for this acquisition from the information disclosed in the accounts, which are far from transparent.



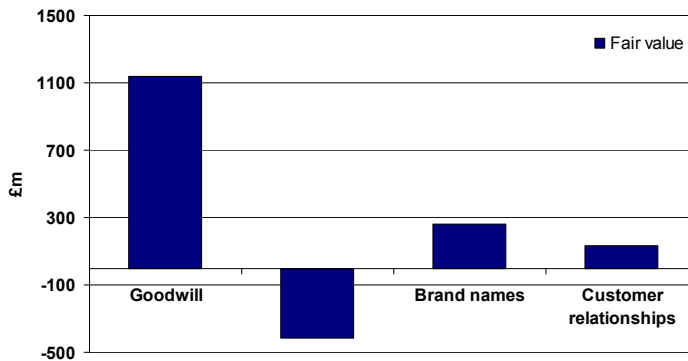
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Aviva's acquisition of RAC (£1.1 billion)

Aviva bought the RAC in March 2005 for £1,133m. The RAC had 7 million members and 'The RAC brand is one of the most trusted in the UK,' said Aviva's acquisition press release. The RAC deal included the BSM brand which is the market leader in driving tuition, providing to 157,000 each year. The purchase price allocation for the acquisition of the RAC by Aviva is summarised below:

Figure 9 - PPA on Aviva's acquisition of RAC



“...7m members worth only £53 each? Two of the most trusted brands in the UK worth £260m - only 23% of the acquisition price? This is distorted reporting.”

As far as the acquisition details are concerned the levels of disclosure are less than normal which makes the acquisition accounting far from transparent. Even the information summarised above has had to be derived by analysis of the accounts. There are, however, some comments in the annual report and accounts indicating that significant synergies through cost savings and increased revenues were expected from the acquisition. However it also states that RAC is a well known and highly respected brand, and that the aim was to generate value from the brand through this acquisition.

The value of the RAC brand and customer relationships most likely forms the bulk of the value in the RAC business. Whilst there may be synergies, this should not be used to justify a low value for the brand and customer relationships and a high value for the goodwill. This is a distorted reporting of what was acquired.



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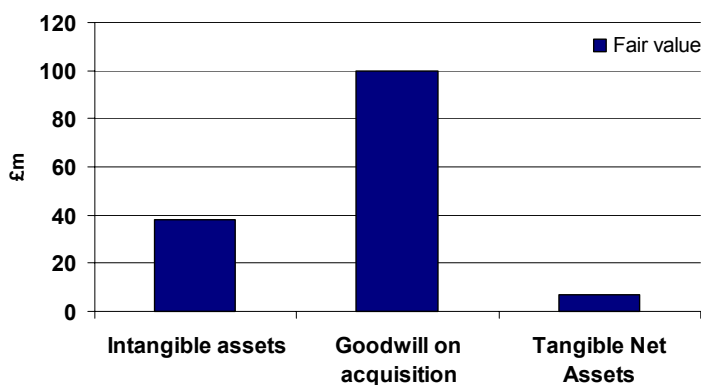


ITV's acquisition of Friends Reunited (£145m)

ITV acquired Friends Reunited (described as the US's leading reunion website) in December 2005 for £145m. The accounts stated it had four key segments each driven by user generated content. These were Friends Reunited – a schools and colleges alumni site; Genes Reunited – a genealogy site; Friends Reunited Dating, Friends Reunited Jobs and Connections - a social networking site.

In addition, across their sites Friends Reunited had 15 million registered UK members and more than 1 million paying subscribers. The Chairman's Statement explained that this supported ITV's strategy by increasing customers for its content based services and building communities through cross promotion from television.

Figure 3 - PPA on ITV's acquisition of Friends Reunited



“...15m customers, 1m paying subscribers and a significant brand only accounted for 26% of the deal... whereas 69% of the total value was dumped into goodwill.”

The accounts state that intangible assets were recognised at fair value and include the brands and customer relationships. Goodwill recognised represented the benefits of the acquisition across the Group when combined with existing Group assets and businesses and the value of those assets not requiring valuation under IFRS 3. This is the extent of the description of these assets in ITV's accounts.

We consider that the driving force behind the acquisition was the Friends Reunited brand and customers. Given this, and that there are 15 million registered users and 1 million paying customers we would expect that the brand and customer value would be much higher than £38 million allocated. In addition the allocation to goodwill looks too high and there are no descriptions of the factors that contributed to goodwill and no explanation why intangible assets were not required to be valued under IFRS 3 (as is specifically required).

We consider that the value attributed to intangible assets should likely be much higher, with a corresponding reduction in the value attributable to goodwill. We also consider that a detailed description and evaluation of the synergies, to justify the remaining goodwill, would make this accounting much more transparent.



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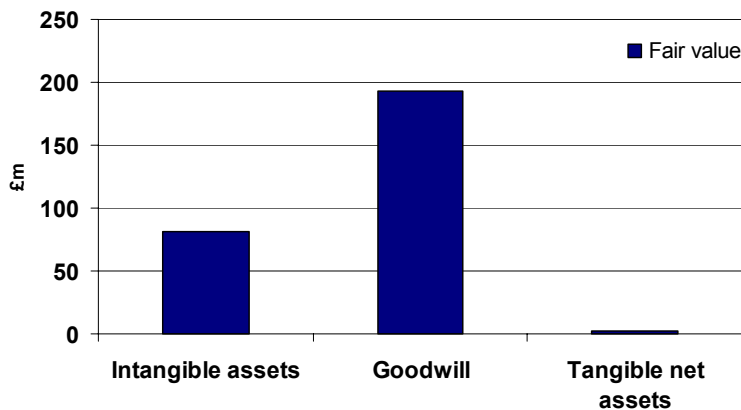


GUS' acquisition of PriceGrabber.com (£277m)

GUS acquired PriceGrabber.com (described as a leading US provider of online comparison shopping services) in December 2005 for £277m. £81m has been attributed to the value of intangible assets, but this is not explained further.

Goodwill represents 85% of the purchase price with a value of £193m which again is unexplained – so much for transparent accounting.

Figure 4 - PPA on GUS' acquisition of PriceGrabber



“... £193m is unexplained – 85% of the deal.”

The Business Review states that PriceGrabber.com would benefit from the rapid growth in internet usage by consumers and clients, as well as from the synergies available in areas such as access to data, analytical tools and clients.

The lack of information on this means that the acquisition accounting lacks any transparency. We have no confidence in the allocation of the purchase price and consider that the value attributed to intangible assets could well be much higher, with a corresponding reduction in the value attributable to goodwill. We also consider that a detailed description and evaluation of the synergies, to justify the remaining goodwill, would make this accounting much more transparent.



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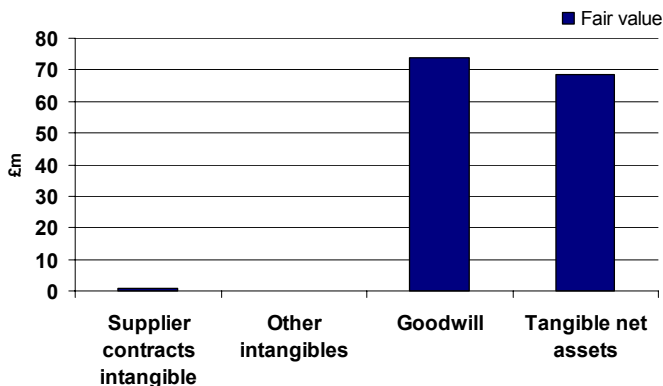
KINGFISHER



Kingfisher's acquisition of OBI Asia (144m)

Kingfisher acquired the OBI business in China (comprising 13 stores) in June 2005 for £143.5 million. There is not much reported on this in the accounts other than it was for Kingfisher's DIY business B&Q, and it consolidated B&Q China's market leading position in that market. Integration was said to be progressing well with the stores rebranded B&Q and the transition to B&Q's systems, merchandising and product offer well advanced.

Figure 5 - PPA on Kingfisher's acquisition of OBI Asia



“... a £144m retail business with 13 superstores and what was the value of its brand and customer base? £0.”

OBI Asia was a substantial business, and would have most likely owned a strong set of intangible assets including a strong brand/customer base, access to market and retailing know how. The existing brand should still have been valued even though it was rebranded to B&Q. Customer relationships are likely to have been relatively important, and highly valuable. So the PPA analysis appears unrealistic by placing essentially none of the value on brands and customer relationships.

Although there are some brief references to synergies, there is no description of the factors underlying goodwill and how this would justify an allocated value amounting to £74 million particularly in view of the assertion that the brand and customers had no value. Synergies would not be that all embracing as, for example, the average Chinese home is quite different from the average home in other key B&Q markets such as the UK. In any event the information disclosed in the accounts is insufficient to assess the value of synergies compared with the cost allocated to goodwill.

So it appears that intangible asset values are understated with a corresponding overstatement of goodwill. The lack of descriptions of the factors underlying goodwill means it is impossible to understand the justification for this acquisition from the information disclosed in the accounts, which are far from transparent.



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6. Examples of less inadequate reporting

In the midst of questionable and opaque reporting on the values of acquired intangible assets and goodwill, there are a few companies that appear to have been more realistic in the values allocated to their acquired intangible assets. Diageo and Cadbury Schweppes in their acquisitions of Bushmills and Green & Blacks respectively, have recognised the value of their intangible assets (i.e. brands) forms a significant part of the purchase price:

Figure 10 - Cadbury Schweppes' acquisition of Green & Blacks

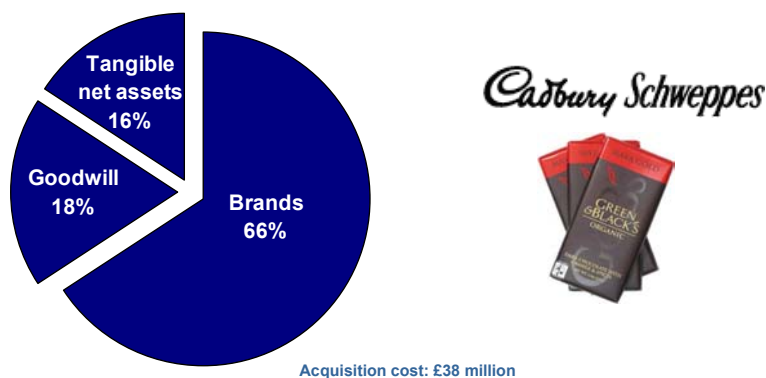
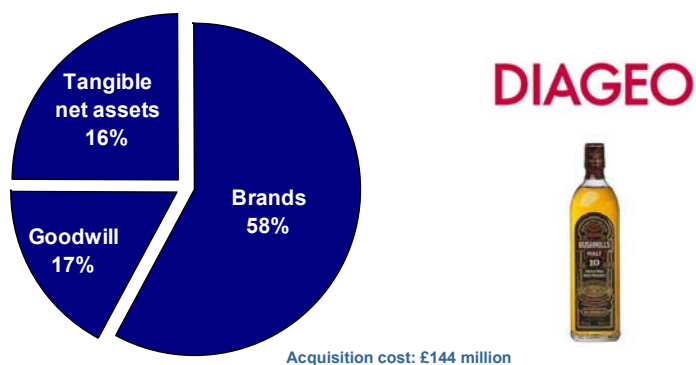


Figure 11 - Diageo's acquisition of Bushmills



Even so, there is little real description of the factors making up the goodwill on these acquisitions in either of the annual reports and accounts. It is possible to infer that they would achieve significant value through synergies, both in increased sales from increased market power and cost savings from economies of scale. If this is the case then these factors could have been described in the accounts, which would have increased transparency and helped to justify amounts allocated to goodwill.



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7. The likely reasons for this inadequate reporting

The reasons behind this inadequate reporting are quite difficult to see. As we are immersed in the environment of valuing intangible assets we have a clearer picture of why this happens. We have been able to identify the following:

To increase profits through reduced amortisation charges

Intangible assets need to be amortised and the amortisation charged to profits, if they have a finite useful life. Goodwill cannot be amortised. So minimising the values of intangible assets and maximising goodwill means that amortisation charges to profits would most likely be reduced.

To minimise the risk of impairment charges

Acquired intangible assets have to be separately valued on the balance sheet and individually tested for impairment annually. This gives a risk of impairment charges arising in the future for intangible assets, and the risk increases the higher the values allocated to intangible assets.

Goodwill also has to be tested for impairment, but it should be tested together with the goodwill for the rest of the associated cash generating unit. As such goodwill is not revalued it might be recorded in the accounts at much less than its current value. This gives headroom for impairment tests on such goodwill, reducing the risk of having to recognise impairment charges. This is a peculiar inconsistency of IFRS 3.

So it can be safer to attribute more value to goodwill and less to the value of intangible assets in that the risk of future impairment charges can be much reduced.

Lack of specialist skills to implement IFRS 3

As many companies have implemented IFRS 3 for the first time a lack of knowledge or confidence might have led to a lack of quality reporting. The valuation of intangible assets for business combinations requires specialist skills with an appreciation of the issues which are difficult to find.

Failure to see the wood from the trees

It is likely that the accounting for these business combinations has generally got bogged down in detailed processes and regulations. There may well have been insufficient standing back from the detail to reassess overall what the business acquisition was about, how it was justified and what the reporting standards are seeking to achieve - transparency of acquisition accounting so that the business justifications for investing can be seen and understood by reference to the value of the assets acquired.



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8. Defining goodwill

This research shows there is very little disclosure of the nature of goodwill. Only a few companies have provided brief details of what the goodwill is, but this is quite uninformative as it lacks any real analysis or insight.

Goodwill can be described in a number of ways, the most prominent being intangible assets which are not valued, workforce in place and synergies.

Intangible assets not valued

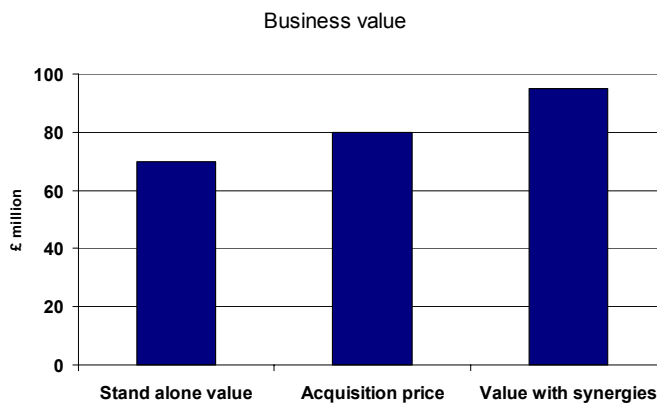
If intangible assets do not meet the criteria for recognition under IFRS 3 then their value would be included in goodwill. The recognition criteria are in fact so wide ranging that this is unlikely to occur to any significant level. However if there are such assets, IFRS 3 requires full disclosure and reasons why they have not been valued. There have been no examples of this seen in our research.

Workforce in place

IFRS 3 prohibits the valuation in intangible assets of a business' work force. Therefore if it has any value this would be included within goodwill. This can be difficult to quantify, and depends on the circumstances. Sometimes people are important to business value, sometimes they are not.

Synergies

It is often the case that business acquisition prices can be justified in part by synergies the buyer can achieve. In principle you should not pay for value which you generate, but in practice it may be necessary to do this to achieve a deal. This can still be justified if the price paid is still below the value of the business including synergies, as illustrated below:



Commercial synergies are therefore often closely evaluated when assessing deals, and can take many forms. Broadly they relate to cost synergies and sales synergies.



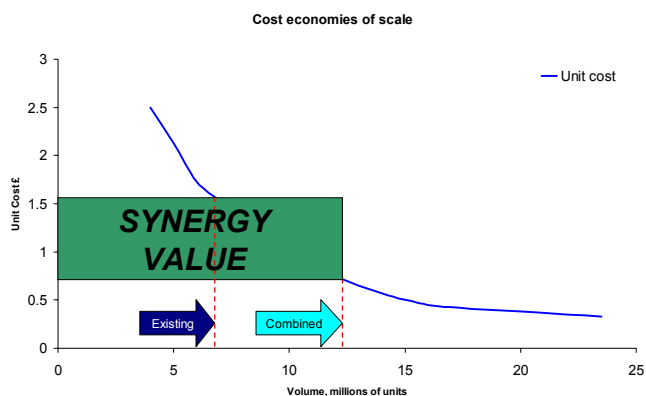
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Cost synergies

When businesses combine, overall costs can be reduced through removing duplication and through economies of scale.

For example the head office of the acquirer would be able to assume the function of the head office of the business acquired, thereby saving those head office costs. This synergy can be rigorously quantified and valued. To illustrate this, a saving of annual head offices costs might be quantified at £5 million a year, equating to a capital value of £50 million.

An example of economy of scale is where unit costs can be reduced by using the greater purchasing power achieved through higher volume. The diagram below illustrates the impact of this on annual improvement to profits which is equal to the area of the green rectangle. This arises because the unit cost for both businesses would be lowered because of their combined purchasing power.



So this type of synergy can also be rigorously quantified and valued. A saving of unit cost of £1.00 on 12,000,000 units would be an annual profit improvement of £12,000,000 which could equate to a capital value of £120 million. As it is based on the whole volume of both businesses, this type of synergy can be very significant indeed.

Sales synergies

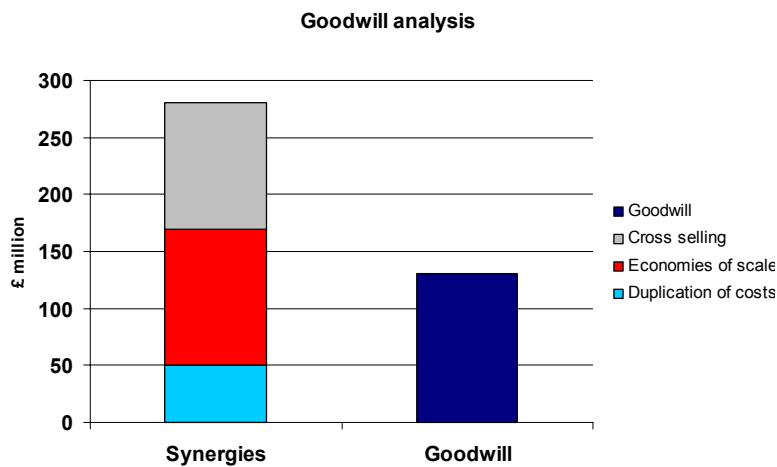
Combined businesses can achieve sales synergies through, for example, cross selling. Two businesses with powerful portfolios which dovetail nicely could achieve increased overall sales by combining and leveraging their portfolios. Sometimes $2 + 2$ really can equal 5. Increasing overall sales in this way is likely to be much more difficult than eliminating duplicate costs, so it is clear that some synergies will be more easily achieved than others. Nevertheless they can be quantified and valued.



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Value added by buyer

What this boils down to is that the value of goodwill can be assessed by reference to expected synergies. The more value that can be added through synergies and the less this is paid for, the more value a buyer should get out of an acquisition. This value creation can be illustrated by the following diagram, which indicates that this acquisition should add shareholder value of £150 million for the buyer:



Of course this analysis could also show that the buyer is destroying value, if the value of goodwill cannot be supported through value created through the acquisition.

Our research has seen no such analyses of synergies, describing the factors underlying value attributable to goodwill.



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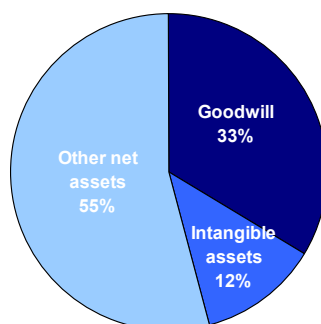
9. Limitations of IFRS 3

It appears that IFRS 3 is not being properly applied. In addition there is no explanation of limitations inherent within IFRS 3 even when it is being applied. The key limitations when reporting under IFRS 3 relating to intangible assets and goodwill are:

Brought forward value

Goodwill brought forward at the date of adoption of IFRS 3 (which is often significant) has been frozen at its brought forward value in all these reports and accounts. This figure represents historic goodwill capitalised (including intangible asset values not required pre IFRS3), less pre IFRS3 amortisation. To this is added post IFRS3 goodwill at the dates of acquisitions less impairment charges. This is such a complicated combination of concepts that the goodwill figures cannot be readily understood, yet the goodwill reported in the post IFRS accounts is highly significant:

FTSE 100 reported net assets after IFRS



Impairment charge avoidance

There could be charges for impairment where the carrying value of an intangible asset is higher than its value. Impairment charges are a highly sensitive area. However there have not generally been significant impairment charges in the accounts reviewed and the impairment charges such as there are have been ascribed to issues such as a change in strategy.

Value differences

Some intangible assets will be stated at their historic valuations, and some intangible asset values will be after charges for amortisation and impairment.

Out of date values

Values of goodwill and intangible assets are stated at historic amounts and not revalued.

Only acquired intangibles

Internally generated goodwill and intangible assets will not be shown on the balance sheet under IFRS 3.

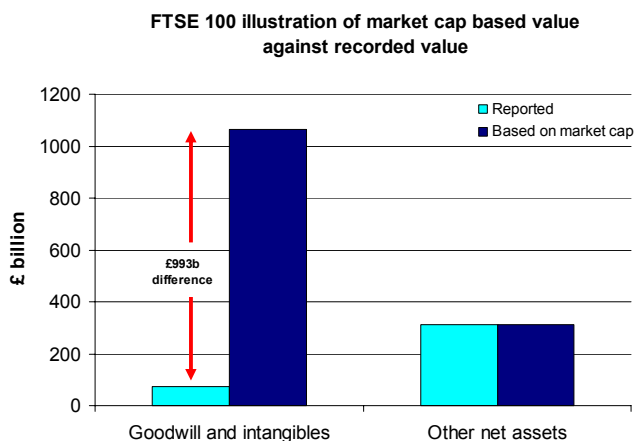


IFRS 3: The First Year. The FTSE 100's reporting of acquired intangible assets

Value overlap

In revaluing assets there is the question where such values overlap, as they may be double counted when valued separately (such as brand and customer relationship values). None of the accounts reviewed refer to this.

So not all intangible assets and goodwill are recorded, what is recorded is at historic cost using inconsistent policies and not revalued. It makes it all very difficult or impossible to understand even if you are a specialist in IFRS 3, and yet the issue is huge, as illustrated by the following:



“...the discrepancy between reported intangible asset value and their market value is enormous; reported value is only 7% of that based on market cap.”

This highlights a huge discrepancy between the value of intangibles given by the market and the value of intangibles reported in balance sheets. There is no difference between the values of net assets but the difference between intangibles and goodwill is nearly £1,000 billion. One of the purposes of IFRS 3 was to reduce this gap and this has clearly not happened.



IFRS 3: The First Year. The FTSE 100's reporting of acquired intangible assets

10. Conclusion

IFRS 3 was intended to make accounting for acquisitions more transparent. Such significant investments need rationales justifying the cost.

However IFRS 3 has not been followed, through undervaluing intangible assets acquired with a corresponding exaggeration of goodwill. Throughout there is a lack of disclosure. So the rationale justifying acquisitions is inadequate and £21 billion has been lost in an accounting black hole called goodwill.

1. Intangible assets are undervalued
2. Goodwill is too high
3. Goodwill is unexplained
4. Intangible assets are poorly described
5. No insight given to shareholders as to the success of acquisitions
6. £80m of wasted cost

Intangible Business

Intangible Business is the world's largest independent brand valuation consultancy, specialising in valuing intangible assets, such as brands, for financial, management and litigation purposes.

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