MERGERMARKET

DUFF & PHELPS

November 2014

2014 European Goodwill Impairment Study

Introduction

In 2013, Duff & Phelps launched its inaugural study of goodwill impairments recognised by European companies. Now in its second edition, the *2014 European Goodwill Impairment Study* (2014 Study) continues to examine general goodwill impairment trends across countries and industries within the European market.

The 2014 Study continues to analyse companies in the STOXX® Europe 600 Index, which is comprised of large, mid and small capitalisation companies across 18 countries of the European region.

The 2014 Study also continues to include a survey of financial executives of European companies, focusing on the challenges faced when performing goodwill impairment tests in accordance with IAS 36 *Impairment of Assets*.

Lastly, the 2014 Study summarises some of the latest developments in the standard setting and regulatory arena that could have a significant impact on the future accounting for goodwill in accordance with International Financial Reporting Standards (IFRS).

The 2014 Study covers financial results for the 2010 through 2013 calendar years. This period was characterised by continued economic uncertainty within Europe, although with noticeable improvements shown in the latter half of 2013. Concerns about the possibility of a global sovereign debt crisis first surfaced in late 2009 and early 2010

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Introduction (continued)

due to investors' reactions to increasing budget deficits in several Eurozone member states, especially Greece. The debt crisis escalated to other countries, with Greece, Ireland and Portugal all forced to request financial aid during 2010 and 2011. Markets reacted negatively to a second Greek bailout agreement in mid-2011 and the crisis spread further to Spain and Italy. Various policy measures undertaken by European institutions and the International Monetary Fund throughout the crisis finally resulted in a late-2012 stabilisation of financial markets and significant declines in sovereign yield spreads of the affected countries. Notwithstanding these improvements, events during 2013 (e.g. the Cyprus bail-in package), as well as the September 2014 announcement of unprecedented quantitative easing measures by the European Central Bank (ECB), have demonstrated that the effects of the European sovereign crisis are still lingering.

Growth prospects during the crisis weakened significantly, with economies in several European countries contracting during this period. Despite the 18-month recession finally coming to an end in the second quarter of 2013, companies located in Eurozone member states still faced a challenging environment during the year. The recovery was originally led by the northern European economies, but economic growth has been very modest. Still more troubling is the fact that the momentum seen in the early part of 2014 seems to have stalled for a number of Eurozone countries. The unexpected ECB measures are an attempt to counter deflation fears and disappointing real GDP growth. If this trend is not reversed, it might be a trigger for future impairments by 2014 year end.

During periods of economic uncertainty, a company's expectations about the future cash flows to be generated by its assets may decrease, leading to a greater likelihood of impairment, all else being equal. Furthermore, a decrease in the market capitalisation of a company below its book value is an indicator that goodwill (if recognised on the balance sheet) might be impaired.

This is in part why standard setters and regulators have increasingly focused on goodwill and goodwill impairments in recent years. The International Accounting Standards Board (IASB), responsible for developing IFRSs, is currently evaluating feedback from constituents on the current model of accounting for goodwill, as part of its post-implementation review (PiR) of IFRS 3 *Business Combinations*. This topic is discussed in more detail later under "Latest Developments Impacting Goodwill Accounting".

In addition, in June 2014, the European Securities and Markets Authority (ESMA) published a report, *Review on the application of accounting requirements for business combinations in IFRS financial statements*, which evaluates the consistency in application of IFRS 3 (including related disclosures) by European companies in their 2012 financial statements.[1] ESMA indicated that part of its objective was to assist the IASB in identifying areas of potential divergence in practice, thereby contributing to its IFRS 3 PiR analysis. While primarily focused on IFRS 3, this report specifically highlighted the following items regarding goodwill:

- Of the business combinations reviewed, goodwill was recognised in 86% of transactions, with the recorded goodwill balance representing an average of 54% of the consideration paid and 45% of the total intangibles balance.
- Despite the magnitude of goodwill recognised, companies continue to provide disclosures about components of goodwill that are often "boilerplate". Some companies provide no disclosures whatsoever regarding the elements that make up goodwill.
- Synergies are often mentioned as one of the factors creating goodwill, but details on how these synergies are expected to be achieved are often absent.
- Bargain purchases appear to be more frequent than the IASB originally expected. Yet, a significant number of companies do not disclose the reason why a bargain gain (sometimes informally referred as "negative" goodwill) has occurred.

Highlights of the 2014 Study

The 2014 Study focused on financial data for companies comprising the STOXX® Europe 600 Index in each of the years from 2010 through 2013.[2] The procedures described in Appendix 1 were undertaken to arrive at the final data set, which was used to calculate all ratios and summary statistics throughout the 2014 Study.

Some highlights of the 2014 Study include:

- European companies in the STOXX® Europe 600 Index recognised a total of €49.6 billion of goodwill impairments in calendar year 2013, representing a decrease of approximately 25% from the €66.4 billion of aggregate goodwill

1 The report is available at http://www.esma.europa.eu/system/files/2014-643_esma_report_on_the_ifrs_3.pdf.

2 The STOXX® Europe 600 Index is derived from the STOXX® Europe Total Market Index and is a subset of the STOXX® Global 1800 Index. The index is weighted according to free-float market capitalisation. For more information, see http://www.stoxx.com/indices/index_information.html?symbol=SXXP.

3 The 2012 aggregate goodwilll impairment figure was revised from €65.5 billion in the 2013 Study to €66.4 billion in the 2014 Study, as a source database error was uncovered subsequent to publishing.

impaired in 2012.[3] While impairments of goodwill declined significantly in 2013, this is still far above the level of €15.2 billion seen in 2010, at the onset of the Euro sovereign debt crisis.

- In terms of geography, Italy recorded the largest goodwill impairment amount overall in 2013, recognising aggregate impairments of €16.0 billion.[4] The United Kingdom had the second highest level of goodwill impairment at €15.0 billion (£12.5 billion), followed by companies in France at €12.0 billion.

- In terms of industry, Financials recorded the highest goodwill impairment amount overall in 2013, with aggregate goodwill impairments of €17.2 billion. Utilities and Telecommunication Services were the next two industries most affected, with aggregate goodwill impairments of €9.0 billion and €8.2 billion, respectively.

In 2013, the median market-to-book ratio was 1.7x for companies that recognised a goodwill impairment, compared with 2.2x for all companies in the 2014 Study. This is a marked improvement from the 2012 market-to-book ratios of 1.2x and 1.7x, respectively. This trend is also consistent with the strong performance exhibited by the STOXX® Europe 600 Index during 2013, which achieved total returns of around 22%. Nevertheless, the performance of individual companies in particular industries and specific countries within the index has varied significantly.

Highlights of the 2014 Survey

The 2014 Survey was carried out by Mergermarket in the summer of 2014 through telephone interviews with 240 European financial executives across a variety of industries in the following geographic regions:

- Benelux (Belgium, the Netherlands, Luxembourg)
- DACH (Germany, Austria, Switzerland)
- France
- Nordics (Denmark, Norway, Sweden, Finland)
- Southern Europe (Italy, Portugal, Spain)
- United Kingdom

Appendix 2 summarises the 2014 Survey methodology and the number of survey respondents by industry and region.

Key findings from the survey include:

- Close to three-quarters (72%) of European companies responding to the survey recognised a goodwill impairment in 2013. This is in stark contrast with the overall results seen for companies with goodwill within the STOXX® Europe 600, where only 31.3% of those recorded goodwill impairments in 2013.

- Geographically, impairments were concentrated in surveyed companies located in Southern Europe, followed by the DACH region, United Kingdom, and France.

- The magnitude of goodwill impairments has declined dramatically from last year's survey: 78% of the companies surveyed in the 2014 Survey impaired less than 20% of their goodwill balance in 2013, while 62% of company respondents had reported write-downs of 20% to 50% in 2012.

- In last year's survey, about two-thirds (68%) of respondents believed that IFRS 13 *Fair Value Measurement* would change the way they measure *fair value less costs of disposal* in determining the recoverable amounts under IAS 36. A year later, this prediction proved accurate, as 69% of those surveyed indicated that their impairment process had indeed changed as a result of implementing IFRS 13.

- The proportion of respondents estimating both *value in use* and *fair value less costs of disposal* when determining the recoverable amount of cash-generating units increased dramatically from the 19% seen in last year's survey to 56% in the 2014 Survey. This might be a sign that management was less certain as to which method would result in a higher value indication (by definition the recoverable amount is the highest of both methods).

Note that some of the results of the 2014 Survey may differ from those in the 2014 Study because of the different samples used and metrics analysed.

4 From a geography standpoint, differences in aggregate impairment amounts may be driven in part by the composition of the index. For example, in 2013 the United Kingdom had a significant weighting in the STOXX® Europe 600 Index, with U.K.-based companies representing approximately 31% of the index members.

Latest Developments Impacting Goodwill Accounting

Post-Implementation Review of IFRS 3

In July 2013, the IASB commenced work on the PiR of IFRS 3 *Business Combinations*. In January 2014, the IASB issued a public consultation document requesting comments on certain aspects of IFRS 3. Notably, in addition to questions about various aspects of the current accounting model for business combinations and intangibles, this *Request for Information* included questions on the accounting treatment of goodwill and asked constituents about their views on:

- The usefulness of the information obtained through the annual goodwill impairment test;
- Whether improvements were needed regarding the information provided by the impairment test; and
- The main implementation, auditing or enforcement challenges related to testing goodwill for impairment.

The comment period ended 30 May 2014 and the IASB staff are still in the process of analysing all the feedback received from a variety of constituents. In fact, this PiR elicited a significant number of comments from a wide range of stakeholders.

In the balance is not only the future direction of goodwill accounting under IFRS, but also a potential impact on other financial reporting standards, such as U.S. GAAP. Specifically, the Financial Accounting Standards Board (FASB), responsible for developing U.S. GAAP, has indicated that it will be considering the results of the IASB's PiR of IFRS 3, before revisiting the accounting for goodwill by listed companies following U.S. GAAP.

Feedback on the IFRS 3 PiR

The information being considered falls into two categories:

- Academic literature review
- Comment letters feedback

In a staff paper presented at the September 2014 IASB meeting (Agenda Paper 12G), the IASB staff provided an overview of the academic literature relevant to the IFRS 3 PiR.[5] According to Agenda Paper 12G, academic research shows that goodwill impairment expense under IFRS 3 and IAS 36 is "value relevant", which is consistent with impairments providing useful information for investors. This agenda paper acknowledges that impairment testing under IAS 36 involves management's judgements and estimates. In that regard, some studies raised questions about the timeliness of recognition of impairments, particularly around 2008-2009, concluding that the timeliness of impairment recognition varies between countries. Specifically, companies in countries characterised as having less stringent accounting or general legal enforcement were more likely to be less timely in recognising impairments. Finally, research showed that IFRS 3 and IAS 36 disclosures have improved, but questions were raised about the boilerplate nature of the disclosures.

In a separate paper presented at the same September 2014 IASB meeting (Agenda Paper 12F), the IASB staff prepared a summary of comment letters and other information received in response to the IFRS 3 PiR.[6]

With regard to goodwill impairment, some respondents supported the current requirements for the subsequent measurement of goodwill including non-amortisation of goodwill. These constituents think that the information provided by the goodwill impairment test is useful, because it has a confirmatory value, even though impairment losses are often recognised with a lag.

Some other users expressed the desire to return to a goodwill amortisation model, with some suggesting a combined amortisation and impairment testing approach.

Next Steps

The staff concluded Agenda Paper 12F by stating that sufficient information had been received to prepare a Feedback Statement, including staff recommendations on areas for which agenda proposals should be prepared. The staff's intent was to bring these to the IASB for discussion at a subsequent meeting.

5 "Agenda Paper 12G: Post-implementation review: IFRS 3 Business Combinations – Academic literature review" can be found at: http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/September/AP12G-PIR%20IFRS%203.pdf.

6 The "Agenda Paper 12F: Post-implementation review: IFRS 3 Business Combinations – Summary of comments received" can be found at: http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/September/AP12F-IFRS%20IC%20Issues-PIR%20IFRS%203.pdf.

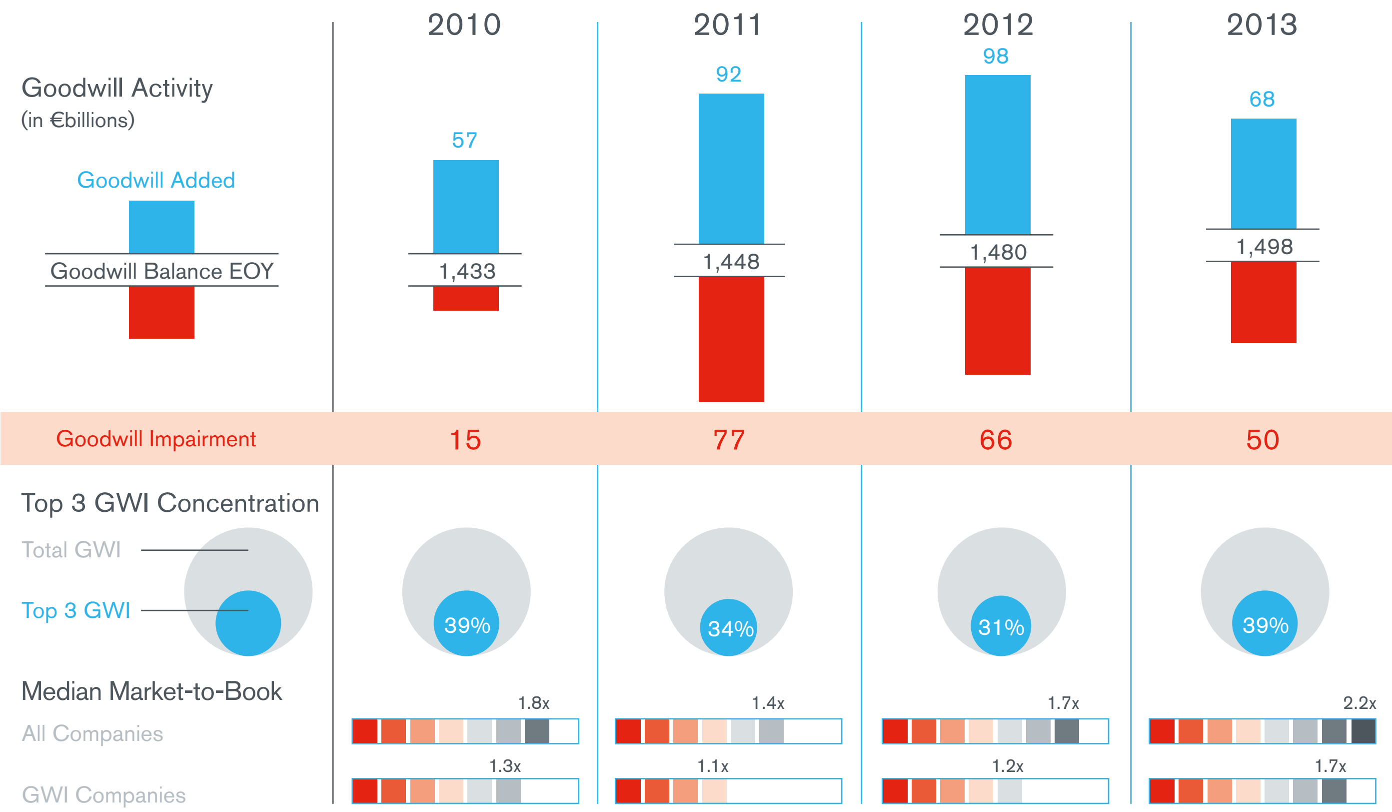
Goodwill Landscape

The graphic below captures the evolution of goodwill from 2010-2013 for the companies within the STOXX® Europe 600 Index used in the 2014 Study.

The top panel of the graphic shows European goodwill activity, comparing the aggregate amount of goodwill added to the balance sheets during the year (amounts in blue font) compared with goodwill impairments (GWI) taken during the year (amounts in red font). The end-of-year (EOY) aggregate goodwill balance is shown on the sliding scale. Overall, more goodwill has been added by European companies than has been impaired over the four-year period. For example, in 2013, €68 billion of goodwill was added to the balance sheets of companies included in the 2014 Study and €50 billion of goodwill was impaired, resulting in a net increase in goodwill of €18 billion. Over the four-year period, aggregate goodwill impairments were highest in 2011 at €77 billion.

A limited number of events can have a dramatic effect on the annual impairment amounts. This is highlighted by the concentration of goodwill impairment amounts recorded in the top three impairment events, as shown in the middle panel. The top three events accounted for 30-40% of all goodwill impairments across the four years studied.

Lastly, although not a sole or definitive indicator of impairment, market capitalisation should not be ignored during a goodwill impairment test. Median market-to-book ratios for all companies included in the 2014 Study, as well as for those companies that recorded a goodwill impairment, are shown in the bottom panel of the graphic. Intuitively, companies recognising goodwill impairments during each year will exhibit lower market-to-book ratios relative to the overall group of companies. Market-to-book ratios have improved since 2011, and are now approaching 2.0 even for companies recognising goodwill impairments. This is consistent with trends seen in European economies, especially in the latter half of 2013.[7]



7 The market-to-book ratio is calculated as a company's market capitalisation divided by its reported book value of equity.

Overview of IAS 36 Requirements

Recognising Goodwill

Goodwill is defined in IFRS 3 as "an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised". Internally generated goodwill cannot be recognised. In a business combination goodwill is measured as follows:[8]

Purchase price for acquired equity interest

+

Amount of any non-controlling interest in the acquire

+

Fair value of any previously held equity interest in the acquiree

–

Fair value of the acquiree's identifiable net assets acquired

=

Goodwill

Allocating Goodwill to Cash-Generating Units

Goodwill acquired in a business combination is allocated at the acquisition date to an entity's cash-generating units that are expected to benefit from the synergies of the combination. Goodwill is allocated at the lowest level within the entity at which goodwill is monitored for internal management purposes. A cash-generating unit cannot be larger than an operating segment as defined in IFRS 8 *Operating Segments*.

Recognising a Goodwill Impairment Loss

Goodwill is impaired if the recoverable amount of a cash-generating unit is less than its carrying amount. The recoverable amount of a cash-generating unit is the higher of its (i) fair value less costs of disposal; and (ii) value in use.[9]

IFRS 13 provides guidance for measuring fair value and IAS 36 provides guidance for measuring value in use.

Any impairment loss is allocated first to reduce the carrying amount of goodwill to zero. Any remaining impairment loss is allocated to the other assets of the cash-generating unit on a pro-rata basis. Once a goodwill impairment has been recognised it cannot be reversed.

Timing of Goodwill Impairment Tests

Goodwill must be tested for impairment at least annually, or more frequently if there are indicators that it may be impaired. Factors indicating that a cash-generating unit may be impaired include, for example:

- Significant adverse changes have occurred during the period in the technological, market, economic or legal environment that have an effect on the entity, indicating that economic performance is or will be worse than expected.
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to decrease the asset's recoverable amount materially.
- The carrying amount of the net assets of the entity is greater than its market capitalisation.

The annual goodwill impairment test for a cash-generating unit to which goodwill has been allocated can be performed at any point throughout the annual period. However, the test must be performed at the same time each year.

8 Goodwill is calculated as a residual and is subject to a number of accounting adjustments, such as the recognition of deferred tax liabilities. Non-controlling interests in the acquiree can be measured at fair value or as the proportionate share of the acquiree's identifiable net assets.

9 From a practical standpoint, it is not necessary to determine both an asset's or cash-generating unit's fair value less costs of disposal and its value in use. If either of these amounts exceeds the carrying amount, the entity may conclude that the asset is not impaired.

2014 Survey Results

The 2014 Survey was carried out by Mergermarket in the summer of 2014 through telephone interviews with 240 European financial executives across a variety of industries and the following geographic regions:

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- United Kingdom

Appendix 2 [page 53] summarises the 2014 Survey methodology and the number of survey respondents by industry and region. Some totals in the survey graphs for which respondents were asked to select only one response may not add to 100% due to rounding.

The number of respondents polled increased from 150 in the 2013 Survey to 240 in this 2014 Survey. Comparisons made between the two reports are based on percentages of respondents only.

Mergermarket conducted the survey outreach on a broad industry and geographic basis, but respondents could elect whether or not to participate. As a result, while the survey responses are quite informative, they are not drawn from a statistically valid sample, which means the results are not necessarily statistically significant. Having this in mind, one notable change in this year's survey is the significant increase in the percentage of respondents that reported a goodwill impairment, from 41% in the 2013 Study to 72% in the 2014 Study. This increase is not consistent with the overall trend for members of the STOXX® Europe 600, where the proportion of companies recording a goodwill impairment declined from 30.4% in the 2013 Study to 27.4% in the 2014 Study. Focusing strictly on those companies that carry goodwill on their balance sheets, the proportion of companies recording a goodwill impairment decreased from 34.8% to 31.8% over the same period.

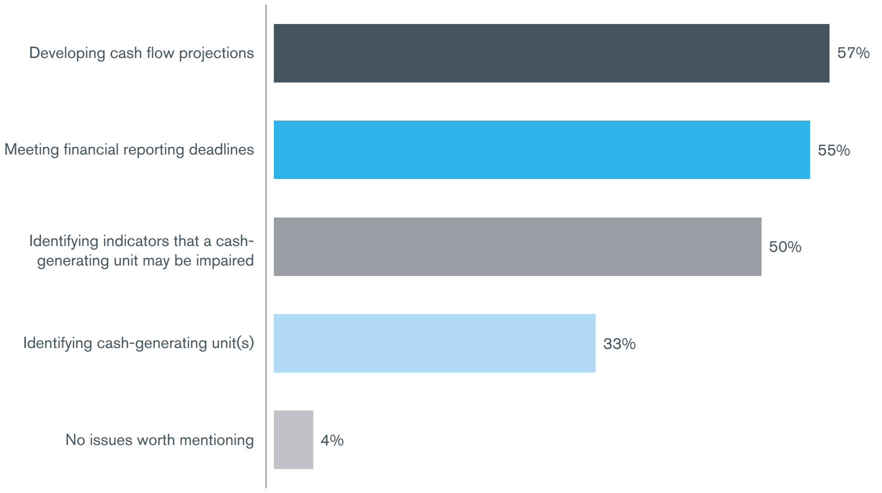
Several factors could explain the trend seen in the surveys between 2013 and 2014 versus that observed for STOXX® Europe 600 members. First of all, the STOXX® Europe 600 members are a subsection of all the companies publicly listed in European stock exchanges. As a result, they may not be fully representative of the overall population of European listed companies. In addition, the membership of the STOXX® Europe itself changes every year, with an average annual turnover rate of about 40 companies. Accordingly, comparisons across years for the STOXX® Europe 600 members may be somewhat skewed.

Secondly, the composition of survey respondents is, by definition, different. To be able to perform a fully consistent comparison, the 2014 Survey would have to focus on exactly the same participants as those in the 2013 Survey. Therefore, regardless of what STOXX® Europe 600 members might have done, contrasting results across surveys could have still resulted in a potentially meaningless comparison. Taking into consideration these caveats, it appears there was a much greater propensity for companies participating in the 2014 Survey to have recognised a goodwill impairment relative to those responding to the 2013 Survey.

Recognising the potential for lack of comparability between this and last year's survey due to the different proportion of respondents "with" and "without" goodwill impairment – which might lead to some divergence in the responses to other survey questions – we have performed an additional cross-tabulation analysis of these two respondent groups. We have flagged instances in which the responses to questions differed between the two groups, providing further insights into this year's survey.

Developing cash flow projections and meeting financial reporting deadlines are the most challenging aspects of the goodwill impairment testing process

In general, what are your most significant challenges related to goodwill impairment testing?



Note: Respondents were allowed to select more than one response

"Developing cash flow projections is a challenge not only for impairment testing but also when operating the business. When cash-generating units (CGUs) are aligned with operations the challenges are shared among both purposes, which was the intent of the CGU construct in the first place."
Jan Jaap Snel, Managing Director, Amsterdam office

Most respondents selected on average two significant challenges associated with the goodwill impairment testing process, out of the options provided. The most frequent responses were a combination of two of the following areas: developing cash flow projections, meeting financial reporting deadlines, and identifying indicators that a cash-generating unit may be impaired. An additional one-third of respondents describe the process of identifying cash-generating units as a challenge in itself, with those recording goodwill impairments being twice as likely to do so (40% vs. 18%). Only 4% of respondents say there were no challenges worth mentioning.

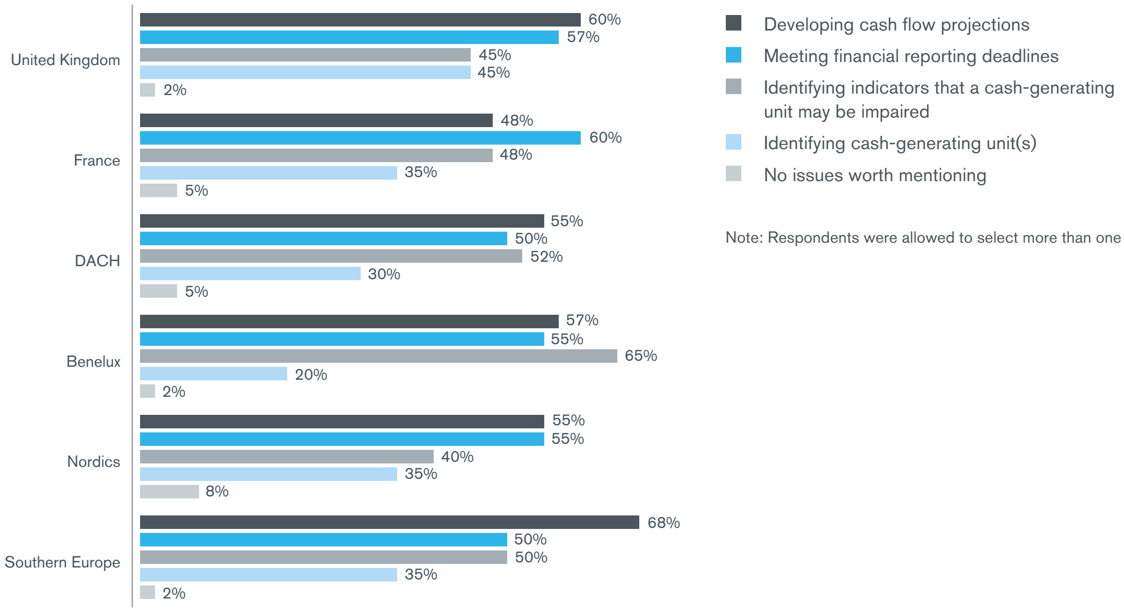
Half of respondents say that identifying indicators of goodwill impairment is a difficult task in the testing process. While this marks a decrease from the almost two-thirds of respondents who identified the same issue last year, this year's commentary makes it clear that challenges related to the impact of uncertainty and unpredictability were also common in fiscal 2013. One respondent based in Germany says his company has multiple cash-generating units that do not respond in the same manner to local market conditions, making the impairment testing more nuanced and complex: "Cash-generating units are small and they react differently to market stimuli and have different outcomes on several occasions. We cannot be very sure about whether the business will be able to meet our expectations."

The finance director of a Spanish information technology company adds that the unpredictability of investor sentiment adds another layer of complexity to the process: "Market participants change their point of view and preferences on the basis of market situations that are uncontrollable. It is important not to make too many assumptions during the impairment testing process as this leads to miscalculations."

However, to be fair, these are just part of the same challenges of running a business in a volatile environment. The greater the uncertainty about economic conditions, the greater the variability around projected cash flows, thereby increasing risk and the potential for not meeting budgets.

Goodwill impairment testing challenges vary by region

In general, what are your most significant challenges related to goodwill impairment testing?



Note: Respondents were allowed to select more than one response

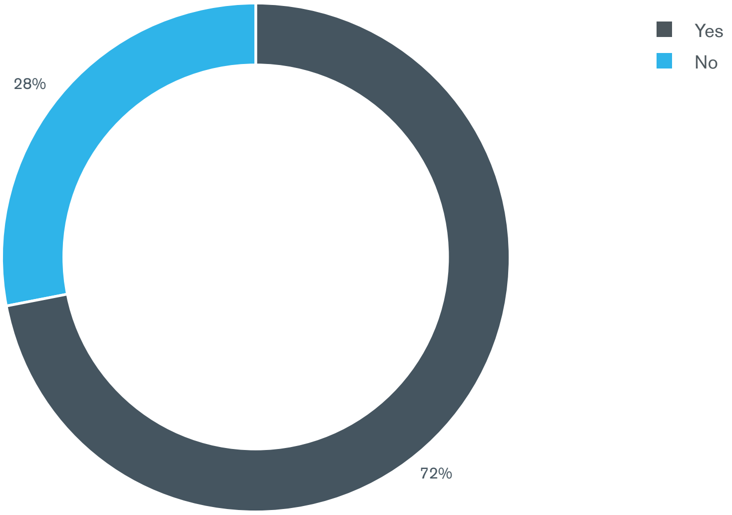
Despite the 18-month recession finally coming to an end in the second quarter of 2013, companies located in Eurozone member states still faced a challenging environment during the year. The recovery is being led by the northern European economies, but economic growth is still very modest. Countries in the Eurozone periphery (including Italy, Spain, and Portugal) have been especially hit by the Euro sovereign crisis.

With this backdrop, it is not surprising that developing cash flow projections was especially problematic for Southern European respondents (68%). This likely relates to Southern Europe also having the highest impairment rate (see graph on page 11) and highlights the difficulties faced in these regional economies, adding to, or possibly underlying, the uncertainty of developing projections. Other regions also rank this issue highly, though not by the same margin.

Benelux and DACH respondents find it difficult to identify signs that a cash-generating unit may be impaired. Some respondents in these groups comment specifically on the difficulty of predicting the way businesses will be impacted by broader economic developments: a respondent based in Luxembourg, for example, states that in the current environment it is hard to predict “how the crowd will react to newly formed strategies”, and several others refer to the difficulty of factoring political decisions or policy changes into the impairment testing process.

72% of respondents, compared to 41% in the 2013 Survey, reported impairment of goodwill in fiscal year 2013

Did your company recognise an impairment of goodwill in fiscal year 2013?



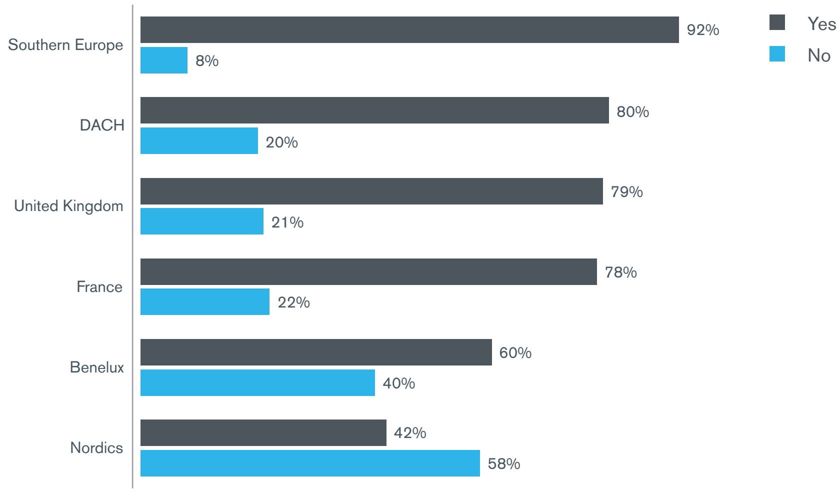
Close to three-quarters (72%) of respondents to this survey recognised impairment of goodwill in fiscal year 2013. This represents an increase from the previous edition of this survey, in which only 41% of respondents reported impairment of goodwill for fiscal year 2012.

While the recession started receding in mid-2013 for the Eurozone, the recovery is slow and growth is very modest. During 2013, many firms had to carefully review their portfolio of assets and activities, to identify the path for their best long-term potential. This may have led to the recognition of additional goodwill impairments. For example, several of the STOXX® Europe 600 divested non-core businesses or classified them as held for sale. This frequently led to the recognition of goodwill and other asset impairments.

"There was a surge in the proportion of companies recording a goodwill impairment from last to this year's survey. However, this should not be interpreted to mean that there was significant increase in the rate of goodwill impairment in general. STOXX® Europe 600 companies showed a decline in the aggregate amount of goodwill impairments from €66 billion in 2012 to €50 billion in 2013."
Marc Melou, Managing Director, Paris office

Southern European respondents report the highest rate of goodwill impairments while Nordic respondents have the lowest

Did your company recognise an impairment of goodwill in fiscal year 2013?



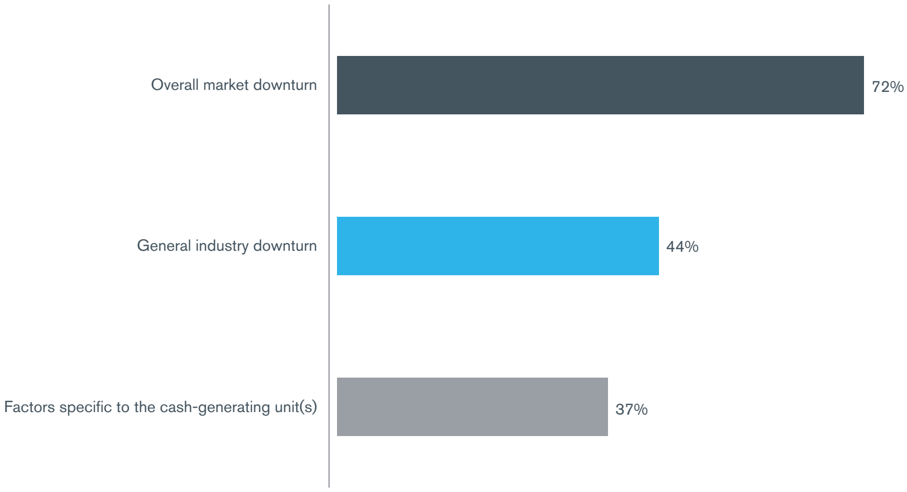
Not surprisingly, respondents from Southern European countries – including Spain and Portugal, two focal points of the Eurozone sovereign crisis – report higher rates of goodwill impairment than their peers for fiscal year 2013. The majority of respondents from DACH, United Kingdom and France also experienced goodwill impairments during that period, but none of these groups surpass the level seen by Southern European respondents (92%).

Nordic and Benelux respondents report the lowest rate of goodwill impairments in fiscal year 2013, but some respondents in this group say goodwill impairment is still one of the areas they are closely focused on.

Yet, the goodwill impairment process is not without its benefits. As the CFO of a Finnish consumer group points out, businesses that actively look for symptoms of goodwill impairment throughout the year can take preventative measures to curb its effects: "Our Board decided to reduce the manpower and other expenses so that the business could function and continue to get good results."

Overall market downturn remains the most common reason for goodwill impairment

What was the reason for the impairment? (Select all that apply)



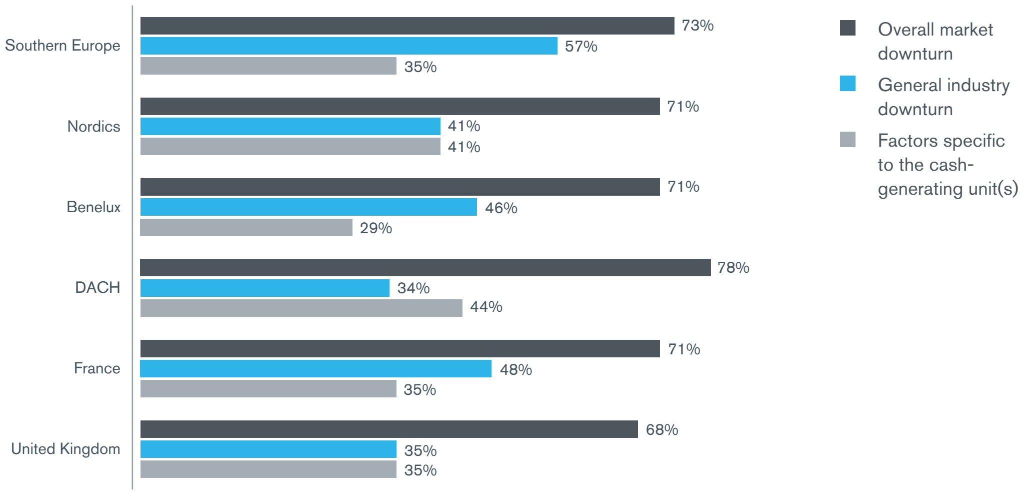
Note: Respondents were allowed to select more than one response

On the whole, factors contributing to goodwill impairments tend to be external rather than company-specific. Seventy-two percent of respondents cite the overall market downturn as the underlying reason for impaired goodwill during fiscal year 2013, while 44% cite a sector-wide downturn. A smaller proportion (37%) of respondents cite reasons specific to their company's and cash-generating units' situation.

> **"Until economic conditions improve significantly, external factors will continue to be the main drivers of goodwill impairments. This is also consistent with what we have seen with our clients."**
> James Palmer, Managing Director, London office

Overall market downturn is cited by far as the primary reason for impaired goodwill across all regions

What was the reason for the impairment? (Select all that apply)



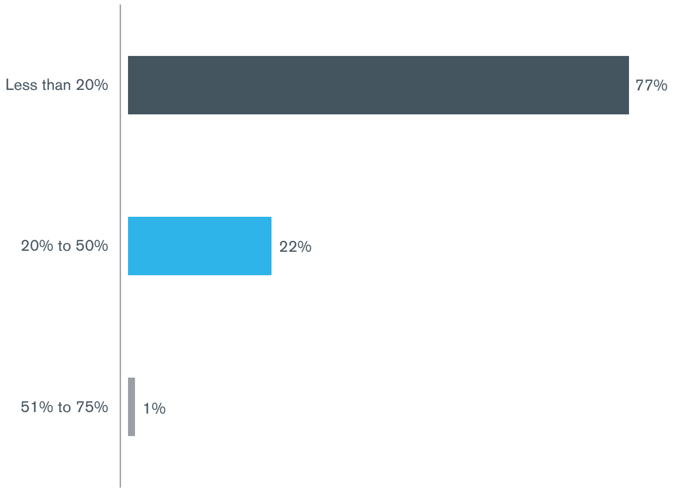
Note: Respondents were allowed to select more than one response

The majority of respondents in every region cite the overall market downturn as the reason for impaired goodwill in fiscal year 2013. In Southern Europe, respondents are most likely to cite a combination of economic and sector-wide conditions.

Many respondents note that all of these factors are interconnected. The finance director of a Spanish telecom company says his company has been initiating the goodwill impairment testing process every year for the last two years with the intent of monitoring the effects of economic and industry-specific developments on asset values: “The overall market downturn got us worried about further depreciation of assets we own, and we had to show not only accurate amounts on our balance sheets but also highlight components of the sector environment that are of great interest to us and other parties.”

Percentage write-down from the goodwill carrying amount is typically below 20%

What was the percentage write-down from its carrying amount?



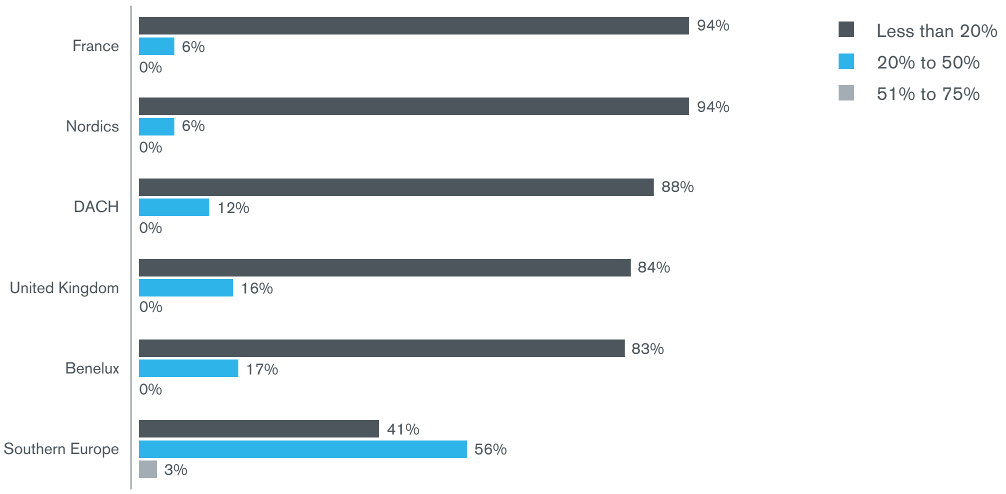
Most respondents (77%) experienced write-downs of less than 20% of their companies' goodwill balance in fiscal year 2013, marking an overall decrease from the typical percentage write-downs in the last edition of this survey. Last year, the majority of respondents (62%) reported 20% to 50% write-downs of the goodwill carrying amount for 2012.

Part of this trend could be attributable to the improvement seen in the latter half of 2013 in the economic environment of several of the countries included in the 2014 Survey. This decrease could also be partially the result of some respondents' enhanced monitoring of the performance of individual businesses. One respondent based in the Netherlands explains that his company is continually assessing individual units' performance, collecting information, taking action and adapting forecasts accordingly: "We were vigilant in identifying market indicators and our staff worked on improvement strategies." This same executive indicates that measures were taken to address underperformance on some of the businesses: "A few cash-generating units were not performing very well, and we had to reduce the capacity to make the best use of retained units…"

"The ultimate goal of goodwill impairment testing is to provide investors with timely and relevant information. There are also side benefits, whereby management can get feedback on the operational performance of its business and underlying assets on a timely basis."
Henk Oosterhout, Managing Director, Amsterdam office

Southern European respondents report higher write-downs than other groups

What was the percentage write-down from its carrying amount?

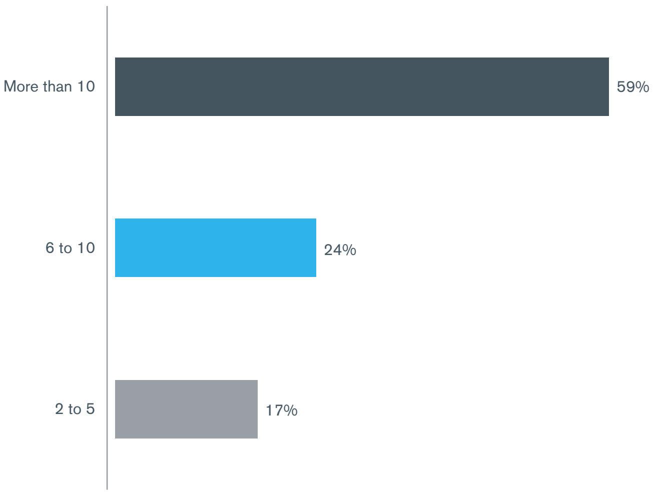


Write-downs from the carrying amount of goodwill vary by region, with Southern European respondents being more likely than others to report write-downs on the higher end of the spectrum. Southern Europeans are the only group in which the majority (56%) of respondents experienced write-downs of 20% to 50%; in all other regions, the majority experienced write-downs of less than 20%. Southern Europeans were also the only respondent group to report write-downs in the 51% to 75% range. As indicated earlier, the Eurozone periphery countries in Southern Europe have been particularly stricken by the Euro sovereign crisis, so these responses come as no surprise.

Some respondents in Southern Europe attribute write-downs to broader industry trends. The finance director of an Italian utilities group says the overall market downturn “affected the whole industry” directly, while a Portugal-based respondent from the energy sector similarly says that political decisions affecting his sector are simply “uncontrollable”.

Most respondents' companies have more than ten cash-generating units

How many cash-generating units do you have as of the most recent reporting period?



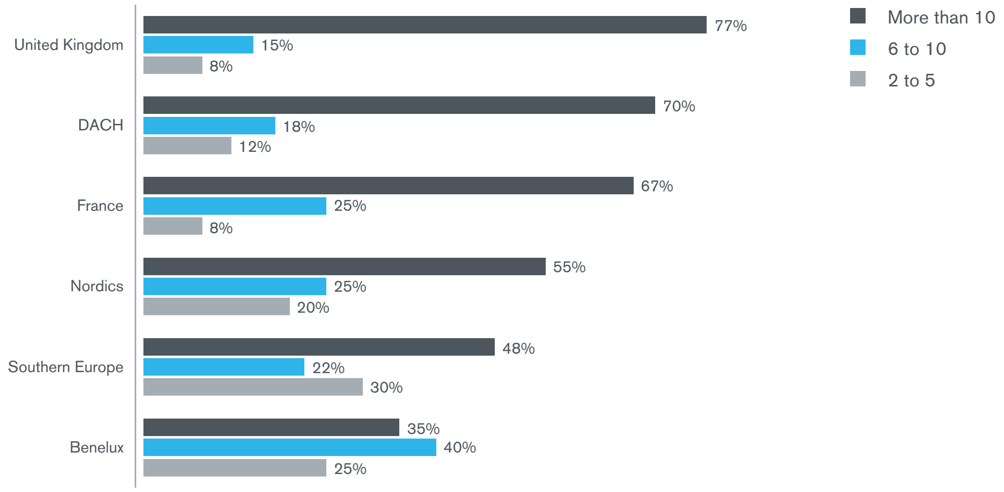
The majority of respondents to this survey (59%) have more than ten cash-generating units at their company. The remaining respondents have between six and ten cash-generating units (24%) or between two and five cash-generating units (17%).

This marks a stark difference from last year's survey where the majority (55%) disclosed having just two to five cash-generating units. This is likely linked with the high proportion of respondents recognising a goodwill impairment: in general, the more disaggregated the cash-generating unit structure, the higher the impairment risk. Of the respondents that recognised a goodwill impairment, nearly two-thirds have in excess of ten cash-generating units. In contrast, of the respondents that did not record a goodwill impairment, only 39% have more than ten cash-generating units.

> **"It comes as no surprise that those respondents with more CGUs tended to have a greater likelihood of recording a goodwill impairment. As the number of CGUs increases, the ability to shield the poor performance of one CGU with that of other operations is diminished."**
> Javier Zoido, Managing Director, Madrid office

Highest number of CGUs found in United Kingdom and DACH companies

How many cash-generating units do you have as of the most recent reporting period?



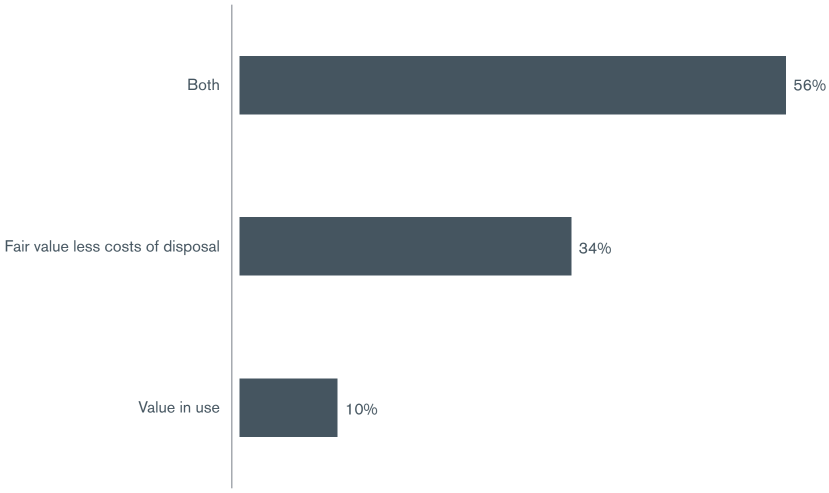
A closer look at individual regions shows that respondents from the United Kingdom (77%), DACH (70%), France (67%) and Nordics (55%) regions tend to have at least ten cash-generating units at their companies. Southern European and Benelux respondents tend to have fewer. Notably, goodwill impairments were so pervasive for Southern European respondents (92%, see graph on page 11), that having fewer cash-generating units did not help them avert an impairment.

The high volume of cash-generating units found in DACH and the United Kingdom is not necessarily surprising, as these markets tend to contain large, international conglomerates in mainstay sectors like industrials and materials. Understandably, many respondents from these regions stress the importance of assessing units individually and understanding the unique jurisdictions of each one. The finance director of a United Kingdom utilities group says of his company: “We have multiple cash-generating units, and each one is monitored by a team that focuses solely on that unit’s reaction to market conditions.”

> **“A more detailed focus on the operating performance at a CGU level can often carry with it operational and strategic benefits for management, outside of financial reporting.”**
> Carine Tourneur, Managing Director, Paris office

Respondents rely on a combination of fair value less costs of disposal and value in use when determining recoverable amounts

When determining the recoverable amount of a cash-generating unit, do you estimate:



When determining the recoverable amount of a cash-generating unit, most respondents (56%) base their calculations on both fair value less costs of disposal and value in use. Those respondents who rely on only one of the two value indications are more likely to rely on fair value less costs of disposal.

The number of respondents that applied both methods increased dramatically from the 19% seen in last year's survey. However, the method selected in the 2014 Survey varied dramatically whether or not a goodwill impairment was recognised. In other words, the higher likelihood of combining the use of both methods appears to be linked to the higher rate of goodwill impairments of this year's survey group. Over two-thirds of the respondents recognising a goodwill impairment used both methods, whereas respondents without goodwill impairments only used both 22% of the time. Those respondents relying solely on fair value less costs of disposal were equally likely to record a goodwill impairment (vs. not having an impairment event). However, among the population of respondents without goodwill impairments, the use of fair value less costs of disposal was far more prevalent (61%) vs. the proportion of respondents with goodwill impairments, where only 24% relied exclusively on such metric.

"While the survey did not specifically probe into the reason for this disparity in usage, one might consider whether or not respondents facing a goodwill impairment were less confident on which method would result in a higher value indication. By design, the recoverable amount is the higher of value in use and fair value less costs of disposal."
Daniel Kittlauss, Managing Director, Frankfurt office

In instances where value in use exceeds fair value less costs of disposal, this fact is most commonly attributed to unpublicised expected synergies or underpricing of their companies' shares

If in your latest analysis the recoverable amount of a cash-generating unit was based on value in use, what factor(s) led to value in use being higher than fair value less costs of disposal? (Select all that apply)

Note: Respondents were allowed to select more than one response

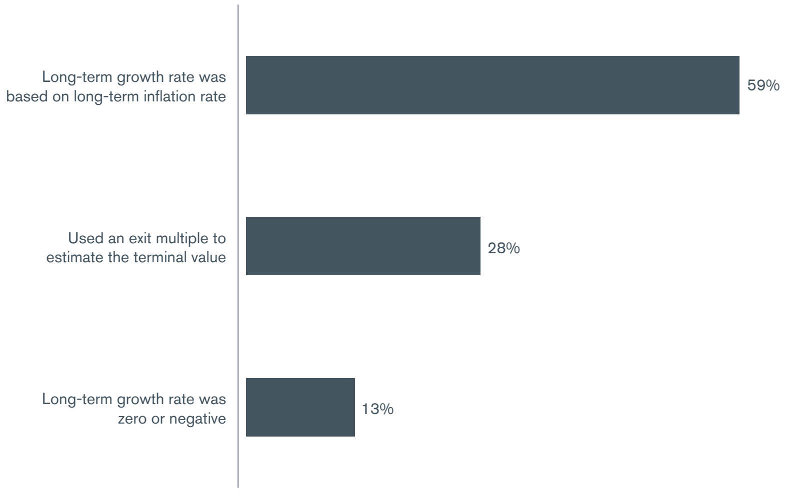
For those respondents using both value in use and fair value less costs of disposal, there will be instances when the value in use indication is higher. The factors that lead to value in use exceeding fair value less costs of disposal vary in nature. More than half of respondents say they expect to access synergies not available to other market participants, or that the market undervalues their company. Respondents were less likely to say that unpublicised events within their company contributed to value in use exceeding fair value.

Many respondents point out that fair value calculations can be highly sensitive to investor sentiment and unanticipated changes in financial markets. One respondent, the CFO of a French consumer company, says: "Market volatility affected the valuation and meant that fair value less costs of disposal came in lower than value in use in our latest analysis."

Another respondent, the CFO of a Nordic healthcare company, goes into more detail on the types of conflict that his company has encountered: "We have enough information to prove that the assets will have a better value than the value calculated by auditors. But even though we have substantial evidence to prove this point, the market is still underpricing the company."

Long-term growth rates are based on long-term inflation rates in most estimations of value in use

When estimating value in use in your latest analysis, what was your terminal year growth assumption?



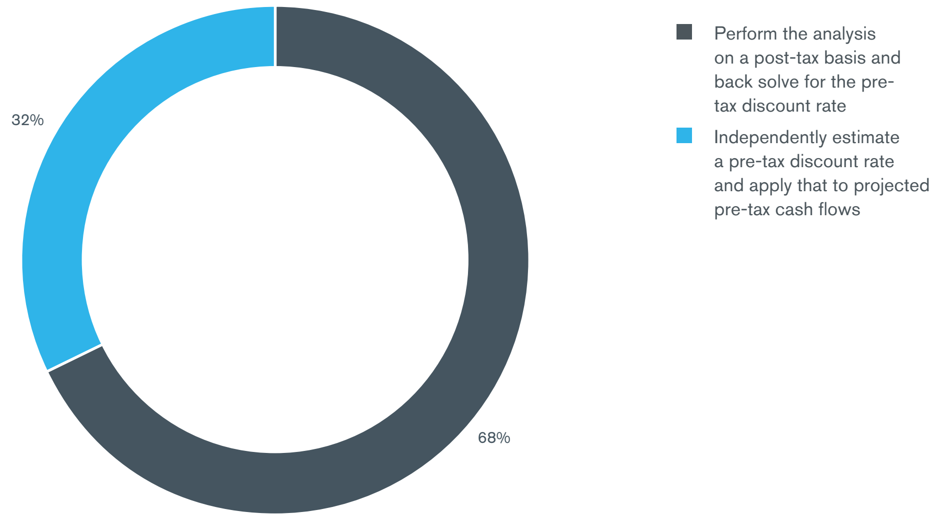
When estimating value in use, respondents' terminal year growth assumptions are most likely to be based on the premise that long-term inflation rates will dictate long-term growth rates. This presumption is more widely relied upon than exit multiples (28%) or zero or negative growth rates (13%).

These responses are broadly in line with the responses to the same question in last year's survey – though it is worth noting that the percentage of respondents who base terminal growth rates on long-term inflation rates has increased from 48% last year to 59% this year. Respondents not recognising goodwill impairment were almost three times more likely to use lower terminal year growth rates, with 27% assuming zero or negative growth, while only 10% of the respondents recognising an impairment did so.

The finance director of a French materials company says, "a business is unlikely to do better than the economy", in support of using long-term inflation-based growth rates. Meanwhile, the finance director of a German materials group says her company has stopped taking low inflation rates for granted: "Our latest terminal growth assumption is that, sooner or later, most economies are going to face a rise in inflation rates."

The majority of respondents perform a post-tax analysis and back solve for pre-tax discount rates when estimating value in use

When estimating value in use do you independently estimate a pre-tax discount rate and apply that to projected pre-tax cash flows or perform the analysis on a post-tax basis and back solve for the pre-tax discount rate?

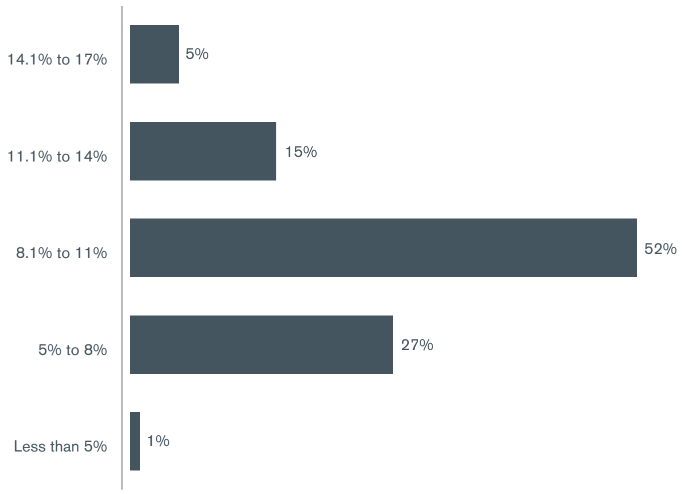


Respondents are more likely to perform the value in use analysis on a post-tax basis and back solve for the pre-tax discount rate (68%) than to estimate pre-tax discount rates independently and apply that estimation to projected pre-tax cash flows (32%). These responses are almost exactly in line with responses to last year's survey and the majority of respondents that performed the analysis consistent with the implementation guidance provided by IAS 36.

> **"These findings are consistent with our experience. As valuation professionals, we typically perform value in use calculations on a post-tax basis rather than a pre-tax basis. Because finance theory is based on post-tax calculations, we believe that the results from the post-tax analysis are more sound and supportable. The pre-tax 'back solving' is interesting, though, because it enables unbiased (from a tax standpoint) comparisons from one company to another."**
> Yann Magnan, Managing Director, Paris office

The majority of respondents conclude that their WACC is between 8.1% and 11% in the most recent goodwill impairment analysis

In your latest goodwill impairment analysis, what was the after-tax weighted average cost of capital (WACC) for your company?

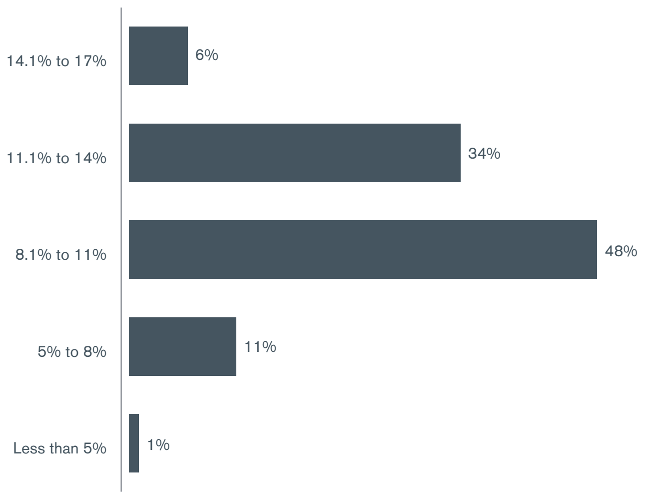


Out of the entire population of respondents, most (52%) say that the after-tax weighted average cost of capital (WACC) ranged between 8.1% and 11% in their most recent goodwill impairment analysis; an additional 27% cited a range of 5% to 8%.

Some respondents draw attention to the importance of incorporating risks into WACC calculations. One respondent who selected the 11.1% to 14% range says his company's WACC for fiscal year 2013 reflected the fact that their "projects involved moderate risks as the market conditions are not stable".

The most widely used average pre-tax discount rates are in the range 8.1% to 14%

When estimating value in use in your latest analysis, what was the weighted average pre-tax discount rate used?

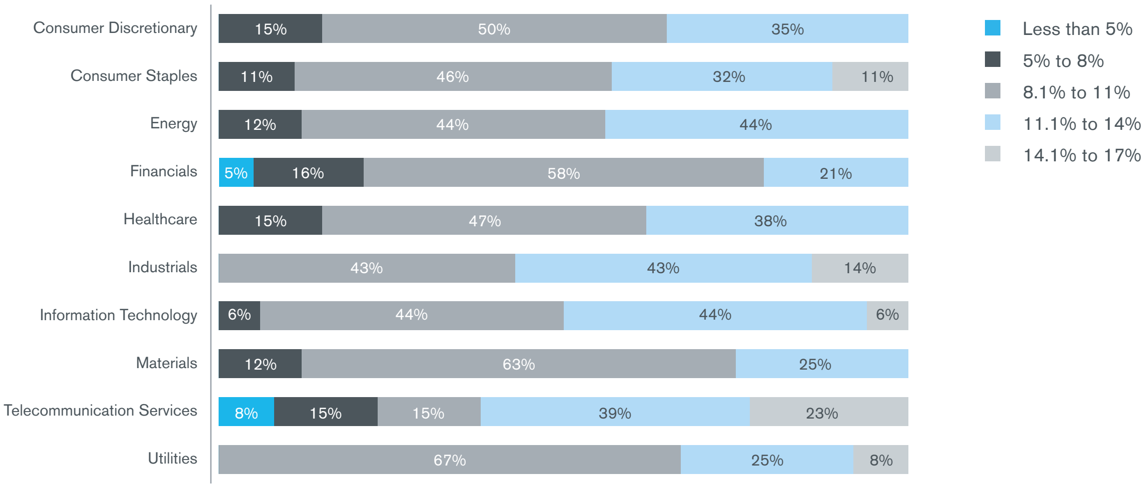


For those respondents who estimated value in use, the largest group (48%) cite a weighted average pre-tax discount rate in the 8.1% to 11% range, whilst the second largest group (34%) cite a rate in the 11.1% to 14% range.

When assessing the discount rates used, it is important to note that the survey respondents come from different countries and the data may come from different currency areas and valuation dates.

Telecommunication services respondents use a wider range of pre-tax discount rates than other respondents when estimating value in use

When estimating value in use in your latest analysis, what was the weighted average pre-tax discount rate used?

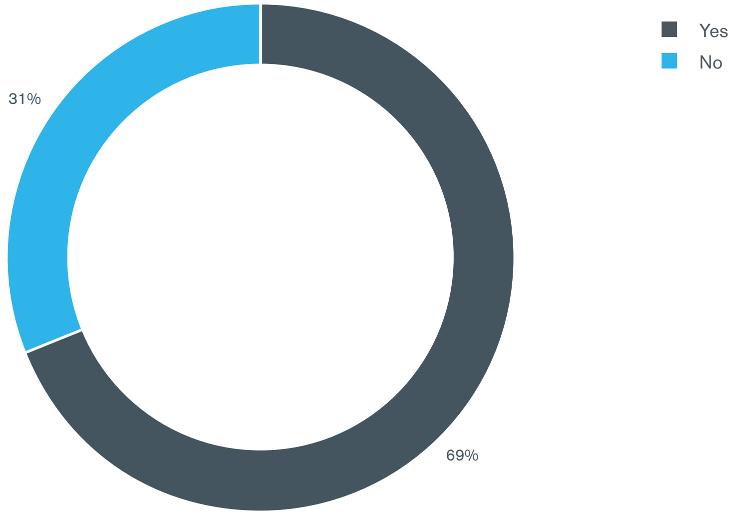


Respondents' pre-tax discount rates in value in use calculations vary somewhat depending on industry sector. Respondents working in the industrials and telecommunication sectors are noticeably more likely than their peers to use a weighted average pre-tax discount rate exceeding 11.1%.

Nevertheless, despite this tendency toward higher pre-tax discount rates, telecommunications industry respondents report a wider range of discount rates: close to one-tenth cited the below 5% range (the highest proportion of all industries), while nearly a quarter of respondents cited the 14.1% to 17% range, also the highest portion of all respondent groups to select this category. Other industries, such as financials and materials, seem to cluster around a narrower band of pre-tax discount rates.

The majority of respondents see direct effects of the new fair value guidance (IFRS 13) on impairment testing

When estimating fair value less costs of disposal, did your impairment testing process change as a result of implementing IFRS 13?



The implementation of IFRS 13 had an impact on 69% of respondents' impairment testing processes in this year's survey – almost exactly matching the 68% of respondents who said last year they expected the process to change as a result of IFRS 13.

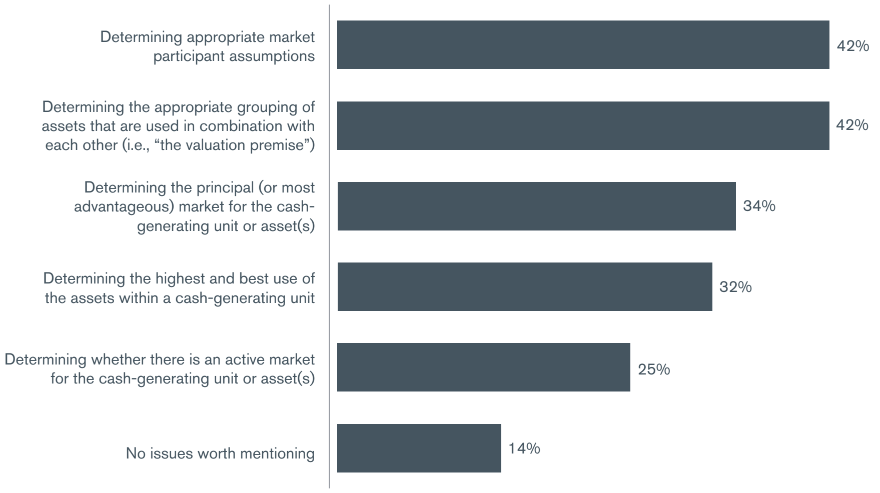
For many respondents, the implementation of IFRS 13 means taking on a new mindset. As a Denmark-based respondent explains: "There were essential factors missing in our current evaluation methods. We had to check on the mandatory features of IFRS 13 evaluations and fit those aspects into our portfolio in order to meet IFRS requirements."

Other respondents say that IFRS 13 has required their company to share results and expectations with investors in a different way: efforts to improve transparency, says one respondent, mean companies need to be more "descriptive" and "specific" than they have been in the past when sharing information with investors.

There are those who see net benefits from implementing IFRS 13. As one Benelux-based executive states: "The impairment testing process changed as the IFRS standards restructured the entire methodology of the process, but it was certainly helpful for the business and the investors."

Assessing market conditions and grouping of assets are the most significant challenges posed by IFRS 13

What were your greatest challenges as a result of applying IFRS 13 when testing goodwill and other (non-financial) assets for impairment? (Select all that apply)



Note: Respondents were allowed to select more than one response

IFRS 13 presents the respondents to this year's survey with a wide range of challenges, led by a difficulty in determining appropriate market participant assumptions, as well as some trouble determining the appropriate grouping of assets used in combination with each other. About one-third of respondents also report that the process of determining the principal market for cash-generating units has been an implementation issue introduced by IFRS 13.

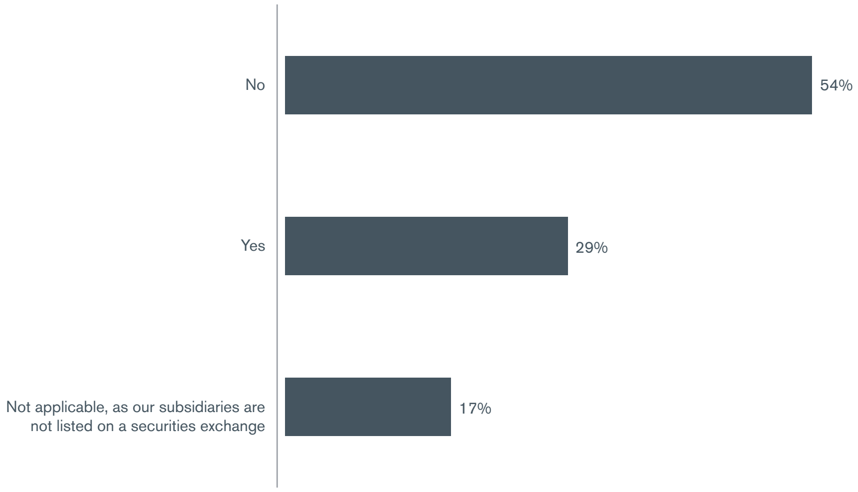
Several respondents note that lingering economic uncertainty makes it hard to assess the market in the manner IFRS requires. One respondent, the CFO of a United Kingdom consumer group, explains: "It is difficult to assume market events and predict the behaviour of market participants. These processes are subjective." An executive based in France added that "based on the economic weakness and uncertainty, market participant assumptions could not be accurately predicted."

Given the many novel aspects introduced by the IFRS 13 framework, some hurdles are to be expected when first implementing this (or any other new) standard. Nonetheless, it is notable that 14% of respondents indicate they have no issues worth mentioning. As one respondent highlights: "Initially we faced some minor challenges; but the overall application of IFRS 13 standards was a success."

> **"Determining an appropriate grouping of assets and market participant assumptions may require a learning curve. Companies will need to think about how to apply IFRS 13's concept of valuation premise in the context of a cash-generating unit. And, as with all fair value measurements, they will need to determine how their internal forecasts may differ from the assumptions that market participants would make."**
> Dr. Timo Willershausen, Managing Director, Frankfurt office

Most respondents do not expect new IASB unit of account proposals to impact the impairment testing process

The IASB has tentatively decided (subject to a public consultation) that if a subsidiary is listed and its shares are actively traded, the fair value less costs of disposal of this cash-generating unit would be determined using the product of the quoted share price times the number of shares held by the parent (PxQ). Do you expect this to affect how you measure fair value less costs of disposal when testing for goodwill impairment?



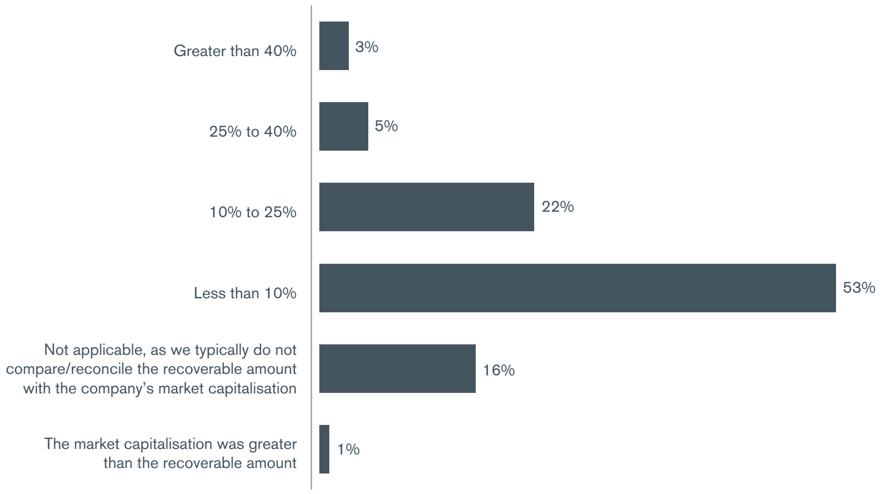
Some 29% of respondents expect that the testing of goodwill for impairment will be influenced by certain tentative IASB decisions on the use of trading prices for listed cash-generating units. However, more than half of those polled (54%) do not expect their measurements of fair value to be affected by this proposal.

Since the time this survey was administered, the IASB has issued an Exposure Draft for comment on the above topic (published 16 September 2014). The proposed amendments clarify that an entity should measure the fair value of quoted investments and quoted cash-generating units as the product of the quoted price for the individual financial instruments that make up the investments and the quantity of financial instruments held by the entity (PxQ).

> **"The principles of IFRS 13 call for the price that would be received in a sale for an entire cash-generating unit (the unit of account in IAS 36) in a transaction between market participants. Although having a price for actively traded shares is an input that must be considered, this is only the beginning of the analysis, as the price indicates the value of a minority position. Additional value may arise from the ability to optimise the business in a change of control transaction and from market participant synergies if they result in increased cash flows or reduced risk for the cash-generating unit (or the combined entity). The IASB proposal homes in on the fact that this value does not automatically exist."**
> Marianna Todorova, Director, Office of Professional Practice

Over half of respondents report a difference between aggregate recoverable amount and market cap lower than 10%

If you compared or reconciled the aggregate recoverable amount (on a net asset basis) with the company's market capitalisation in your latest analysis, what was the implied difference (i.e., implied control premium) between the aggregate recoverable amount and your company's market capitalisation?



Respondents who reconcile the aggregate recoverable amount with their company's market capitalisation are most likely (53%) to see an implied difference of less than 10%. Interestingly, less than a third of participants in last year's survey reported a control premium lower than 10%.

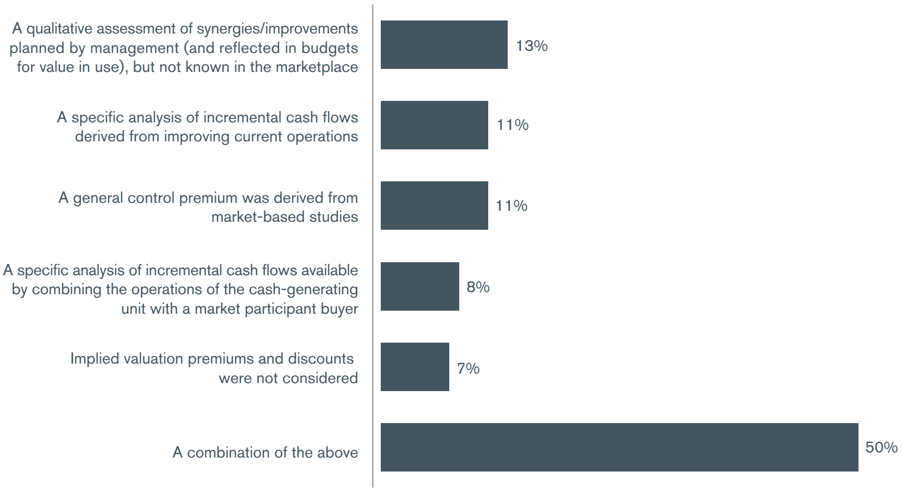
A more significant implied control premium (10% to 25%) is cited by an additional 22% of respondents, down from a third in last year's survey. Less than one-tenth of respondents (in total) report control premiums exceeding 25%. Overall, this trend suggests that aggregate recoverable amounts appear to be more aligned with companies' market capitalisations.

While 16% of respondents elect not to reconcile aggregate recoverable amounts to market capitalisation, it is interesting to note that some others view this as an integral step of the impairment test. As one finance executive in the United Kingdom articulates: "Harmonising the aggregate recoverable amount with the company's market capitalisation is an essential and a fair step; it would not be rational to avoid this step, as avoiding this will not reflect a fair value."

> **"Although not a sole or definitive indicator of impairment, a company's market capitalisation should not be ignored during a goodwill impairment test. Understanding the dynamics of market-to-book ratios is informative, but the fact that an individual company has a ratio below 1.0 does *not* by default result in failing an impairment test. Cash-generating unit structures, their respective performance and where the goodwill resides are a few of the critical factors that must be considered in the impairment testing process."**
>
> Jochem Quaak, Managing Director, Amsterdam office

Most employ a combination of approaches in supporting implied control premiums

Which approach was used to support that difference?

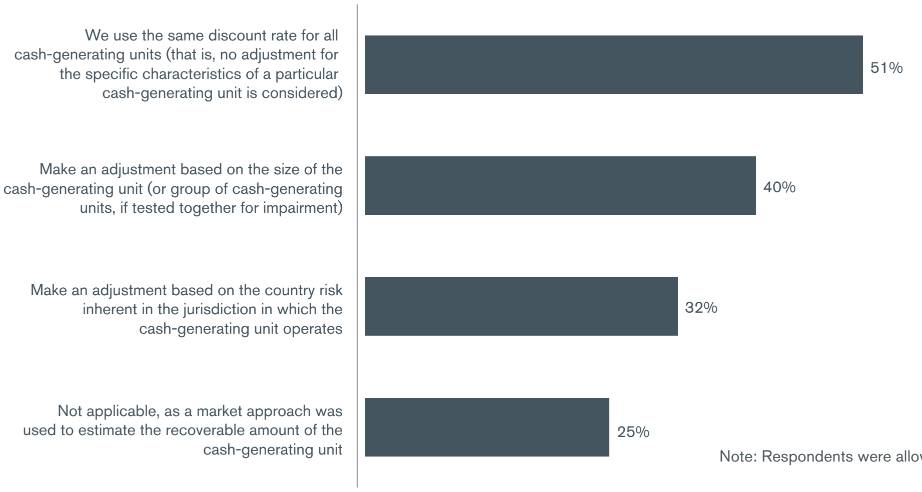


Respondents use a range of different approaches to reconcile the difference between their market capitalisation and the aggregate recoverable amount calculated during their analysis. Forty-three percent of respondents rely on one specific approach in isolation – for example, a qualitative assessment of planned improvements or synergies (13%) or an analysis of cash flows derived from enhancing existing operations (11%). However, 50% of respondents use a combination of approaches.

> **"This year's group of respondents showed a much greater propensity to consider a combination of factors to support implied control premiums, compared to last year when only 22% considered the effects of two or more factors together. This is a significant improvement in the goodwill impairment testing process, as it increases the depth and defensibility of the analysis."**
> Mathias Schumacher, Managing Director, London office

Approximately one-half of respondents apply the same discount rate to all cash-generating units; but a significant number differentiate for country risk and size

How do you incorporate the specific characteristics of a cash-generating unit when determining the discount rate to apply in the Discounted Cash Flow method? (Select all that apply)



Note: Respondents were allowed to select more than one response

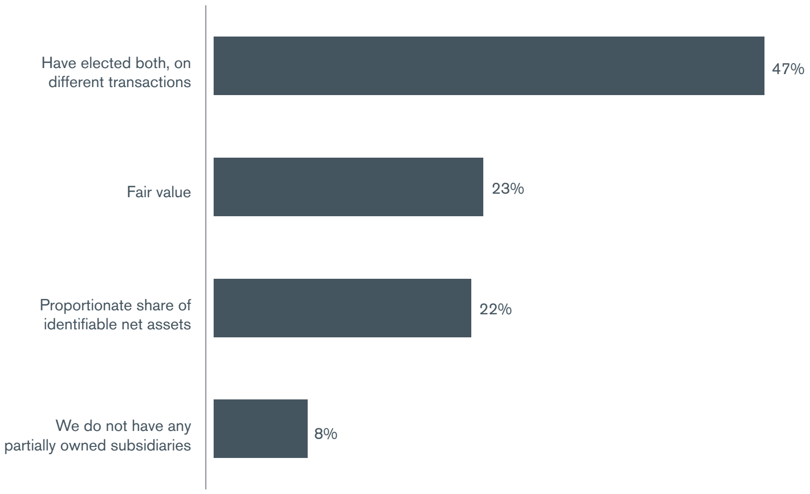
About half of respondents say that they do not differentiate for the specific characteristics of individual cash-generating units when determining what discount rate to apply in the Discounted Cash Flow method. However, 40% say they make adjustments based on the size of the cash-generating unit, while 32% make country risk premium adjustments based on the unit's geographical location.

A quarter of respondents use the market approach to estimate the recoverable amount of the cash-generating unit. The CFO of a consumer staples company elaborates on their choice: "We use a market approach to estimate the recoverable amount of the CGU to avoid making faulty assumptions about future success, as external factors beyond our control can have an adverse effect on our business."

"When estimating a discount rate for a cash-generating unit, the key word is 'consistency'. We often see discount rates calculated in a very mechanical manner, where incremental risk factors are included without much thought to the underlying risk already reflected in the projected cash flows. This may lead to a significant overstatement (and in some cases, understatement) of risk, thereby impacting the valuation conclusion."
Carla Nunes, Director, Office of Professional Practice

Measurement of non-controlling business interests varies widely

How do you measure non-controlling interests in a business combination?



Respondents use different measurement options when valuing non-controlling interests in a business combination. The largest portion of respondents (47%) say they use either fair value or a proportionate share of identifiable net assets, elected on a transaction-by-transaction basis. The remaining respondents are almost evenly split between using fair value and using a proportionate share of each business's identifiable net assets. This marks a stark contrast with last year's survey, where almost one-third relied exclusively on the proportionate share method, and only 29% elected methods on a transaction-by-transaction basis.

Among those that decide on a case-by-case basis is a respondent who says his team decides which calculations to use "based on the target region", while another says his company develops "an approach that is based on the homework we do on the target and deal."

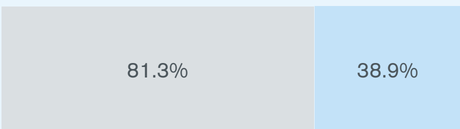
Summary Statistics by Industry and Country

Tables 1 and 2 on the following pages summarise the annual amount of goodwill impairments and the number of goodwill impairment events by industry and country, respectively occurring between 2010 and 2013.[10] The tables also provide the proportion of companies within each industry or country that carry goodwill and which of those recorded a goodwill impairment.[11] This format allows for a ready comparison of data across industries and countries over time.

Industries and countries are listed in descending order of their total goodwill impairment amounts for 2013. For example, in Table 1, Financials tops the industry list with its €17.2 billion aggregate goodwill impairment, whereas in Table 2 Italian-based companies recorded the top aggregate goodwill impairment of €16.0 billion.

Additionally, the graphs on the right of Tables 1 and 2 provide for a quick comparison of (i) the percentage of companies in 2013 with goodwill within each industry or country and (ii) the proportion of those companies that recorded a goodwill impairment. For example, the top row of Table 1 shows:

81.3% of Financial companies carried goodwill in 2013.



38.9% of those companies recorded a goodwill impairment.

Goodwill Impairments

In Tables 1 and 2, the first row of data for each industry or country presents the annual amounts of goodwill impairments (in € billions), immediately followed by the number of impairment events (shown in brackets). In general, 2013 saw an approximate 25% decrease in the aggregate amount of goodwill impairments, from €66.4 billion in 2012 to €49.6 billion in 2013. The aggregate number of impairment events also decreased from 179 in 2012 to 162 in 2013.[12]

From an industry viewpoint, Financials and Industrials saw the greatest number of impairment events in 2013 at 44 and 32, respectively. Financials also climbed up to first place in terms of the aggregate amount of goodwill impairments recorded in 2013, followed by Utilities at €9.0 billion. Notably, Telecommunication Services (the top industry in 2012) saw a nearly two-thirds decline (or €15.2 billion) in aggregate amount of goodwill impairments relative to 2012.

From a geographical perspective, companies based in the United Kingdom and France had the greatest number of impairment events in 2013 at 48 and 32, respectively. However, Italy displaced the United Kingdom as the country with the highest amount of goodwill impairments (€16.0 billion). In fact, while it still holds the second spot, the United Kingdom saw the greatest drop in aggregate goodwill impairment amount from 2012 to 2013 (a decline of €8.7 billion or 36.7%).[13]

Percentage of Companies that Recorded a Goodwill Impairment

The second row in Tables 1 and 2 indicates the proportion of all companies within each industry or country that recorded a goodwill impairment. Across the entire 2014 Study (displayed in the Total section of Tables 1 and 2), the average proportion of companies recording an impairment loss increased significantly from 20.0% in 2010 to 30.4% in 2012, with 2013 showing a small decline to 27.4%. In 2013, Utilities had the largest percentage of companies that recorded impaired goodwill (48.0%), followed by Telecommunication Services (36.0%) and Consumer Staples (32.0%). From a geographic standpoint, France had the largest percentage of companies that recorded impaired goodwill (40.0%), followed by Spain (30.8%) and the Netherlands (30.3%).

Percentage of Companies with Goodwill

Obviously, companies that do not carry goodwill on their balance sheets are not exposed to a goodwill impairment. The third row of Tables 1 and 2 provides the

10 The information covering the period between 2010 and 2012 was carried forward from the 2013 Study. One exception pertains to the aggregate goodwill impairment in the United Kingdom (and Financials), which was adjusted upwards in 2012 by €1.0 billion (or £782 million) to correct a database error.

11 Appendix 1 describes the company base set selection and methodology used to generate the data in Tables 1-4 of this report.

12 The number of events is broadly defined in this study: it captures whether or not a company has recorded goodwill impairments in any given year (i.e., a binary "yes" or "no" decision). Thus, while a company could have recorded multiple goodwill impairments during a calendar year, it will still be considered a single event for purposes of this study.

13 In 2013, 20 companies (out of a total of 95) based in the "Other" country category recognised aggregate goodwill impairments of €1.4 billion (see Table 2). In particular, the top four impairments recorded by companies based in Austria, Belgium, Ireland and Norway comprised almost 80% (€1.1 billion) of the total. The countries aggregated within the "Other" category throughout the period covered in the 2014 Study are Austria, Belgium, Czech Republic, Cyprus, Denmark, Finland, Greece, Ireland, Luxembourg, Portugal, and Norway.

proportion of companies with goodwill within each respective industry or country. In 2013, 87.6% of all the companies included in the 2014 Study carried some amount of goodwill on their balance sheets. The percentage of companies with goodwill remained relatively constant between 2010 and 2013. From an industry perspective, Industrials had the highest percentage of companies with goodwill in any given year over the 2010-2013 period (around 95% to 97%), whereas Consumer Staples had the lowest average proportion (but still hovering around a relatively high level of 80%). Geographically, France had the highest percentage of companies with goodwill (97.5%) in 2013, closely followed by the Netherlands and Italy (97.0% and 96.3%, respectively), whereas the United Kingdom had the lowest percentage (78.7%).

Percentage with Goodwill Recording a Goodwill Impairment

The final row in Tables 1 and 2 indicates the percentage of companies with goodwill that recorded a goodwill impairment. Overall, the average impairment percentages across all companies in the 2014 Study increased significantly from 23.0% in 2010 to 34.8% in 2012, with 2013 seeing a small decline to 31.3%. In 2013, Utilities had the largest percentage of companies with goodwill on their balance sheets that recorded impaired goodwill (52.2%), followed by Consumer Staples (40.0%) and Telecommunication Services (39.1%). Similarly, France had the largest percentage of companies with goodwill that recorded impaired goodwill (41.0%), followed by Spain (36.4%) and the United Kingdom (33.3%). Looking at trends over time, Telecommunication Services had the highest overall percentage during the four-year period at 63.2% in 2012. From a geographic perspective Italy had the highest overall percentage of companies recording impaired goodwill at 50.0% in 2011.

2013 Goodwill Impairment

(Table 1)

Goodwill Impairments: €billions (number of events)
Percentage of Total Companies that Recorded GWI
Percentage of Companies with Goodwill
Percentage of Companies with Goodwill that Recorded a GWI

(Companies)	2010	2011	2012	2013	2013 Companies with GW	2013 Percentage Recording GWI
Financials†	4.2 (38)	38.7 (52)	16.1 (57)	17.2 (44)	81.3%	38.9%
	26.6%	38.2%	42.5%	31.7%		
	85.3%	84.6%	81.3%	81.3%		
(139)	31.1%	45.2%	52.3%	38.9%		
Utilities	1.7 (6)	2.2 (10)	3.2 (6)	9.0 (12)	92.0%	52.2%
	20.0%	35.7%	24.0%	48.0%		
	90.0%	85.7%	92.0%	92.0%		
(25)	22.2%	41.7%	26.1%	52.2%		
Telecomm. Services	4.5 (8)	20.4 (11)	23.4 (12)	8.2 (9)	92.0%	39.1%
	40.0%	52.4%	57.1%	36.0%		
	95.0%	95.2%	90.5%	92.0%		
(25)	42.1%	55.0%	63.2%	39.1%		
Materials	0.1 (7)	6.4 (10)	14.2 (17)	7.5 (17)	83.9%	36.2%
	12.5%	17.5%	29.8%	30.4%		
	80.4%	80.7%	82.5%	83.9%		
(56)	15.6%	21.7%	36.2%	36.2%		
Industrials	2.4 (24)	3.5 (30)	3.1 (32)	2.7 (32)	94.9%	28.6%
	21.2%	26.8%	28.1%	27.1%		
	95.6%	97.3%	96.5%	94.9%		
(118)	22.2%	27.5%	29.1%	28.6%		
Consumer Discretionary	0.7 (15)	1.7 (17)	1.2 (23)	1.7 (19)	85.9%	26.0%
	19.2%	20.7%	28.0%	22.4%		
	84.6%	87.8%	90.2%	85.9%		
(85)	22.7%	23.6%	31.1%	26.0%		
Consumer Staples	0.9 (10)	2.7 (11)	2.2 (16)	1.3 (16)	80.0%	40.0%
	22.2%	23.4%	32.0%	32.0%		
	80.0%	83.0%	82.0%	80.0%		
(50)	27.8%	28.2%	39.0%	40.0%		
Energy	0.6 (4)	0.6 (5)	1.4 (6)	1.1 (5)	93.9%	16.1%
	11.1%	15.2%	17.1%	15.2%		
	77.8%	81.8%	88.6%	93.9%		
(33)	14.3%	18.5%	19.4%	16.1%		
Information Technology	0.0 (4)	1.1 (3)	1.4 (5)	0.6 (5)	92.6%	20.0%
	12.9%	8.8%	14.7%	18.5%		
	87.1%	88.2%	82.4%	92.6%		
(27)	14.8%	10.0%	17.9%	20.0%		
Healthcare	0.0 (2)	0.0 (2)	0.2 (5)	0.4 (3)	93.9%	9.7%
	5.3%	5.4%	13.9%	9.1%		
	89.5%	91.9%	91.7%	93.9%		
(33)	5.9%	5.9%	15.2%	9.7%		
Total*	15.2 (118)	77.2 (151)	66.4 (179)	49.6 (162)	87.6%	31.3%
	20.0%	25.7%	30.4%	27.4%		
	86.8%	87.9%	87.6%	87.6%		
(591)	23.0%	29.3%	34.8%	31.3%		

† Aggregate goodwill impairment in the United Kingdom and Financials were both adjusted upwards in 2012 by €1.0 billion (or £782 million), to correct a database error.

* Amounts shown are aggregates. Differences due to rounding.

2013 Goodwill Impairment

(Table 2)

Goodwill Impairments: €billions (number of events)
Percentage of Total Companies that Recorded GWI
Percentage of Companies with Goodwill
Percentage of Companies with Goodwill that Recorded a GWI

(Companies)	2010	2011	2012	2013	2013 Companies with GW	2013 Percentage Recording GWI
Italy (27)	1.2 (12)	36.9 (15)	11.2 (11)	16.0 (8)	96.3%	30.8%
	37.5%	50.0%	37.9%	29.6%		
	100.0%	100.0%	96.6%	96.3%		
	37.5%	50.0%	39.3%	30.8%		
United Kingdom† (183)	5.0 (28)	16.0 (35)	23.7 (38)	15.0 (48)	78.7%	33.3%
	16.6%	20.8%	22.5%	26.2%		
	77.5%	78.6%	78.1%	78.7%		
	21.4%	26.5%	28.8%	33.3%		
France (80)	3.2 (28)	9.9 (32)	9.6 (39)	12.0 (32)	97.5%	41.0%
	35.0%	40.0%	46.4%	40.0%		
	98.8%	98.8%	97.6%	97.5%		
	35.4%	40.5%	47.6%	41.0%		
Germany (59)	2.9 (10)	4.1 (15)	6.0 (18)	2.9 (17)	89.8%	32.1%
	18.2%	26.8%	30.5%	28.8%		
	81.8%	83.9%	84.7%	89.8%		
	22.2%	31.9%	36.0%	32.1%		
Netherlands (33)	0.6 (4)	1.9 (6)	4.0 (12)	0.9 (10)	97.0%	31.3%
	12.9%	19.4%	37.5%	30.3%		
	93.5%	90.3%	93.8%	97.0%		
	13.8%	21.4%	40.0%	31.3%		
Switzerland (48)	0.4 (5)	1.5 (7)	3.3 (12)	0.5 (9)	83.3%	22.5%
	11.1%	15.6%	25.5%	18.8%		
	86.7%	91.1%	89.4%	83.3%		
	12.8%	17.1%	28.6%	22.5%		
Sweden (40)	0.0 (5)	0.7 (6)	1.0 (9)	0.5 (10)	85.0%	29.4%
	14.7%	16.7%	24.3%	25.0%		
	82.4%	83.3%	81.1%	85.0%		
	17.9%	20.0%	30.0%	29.4%		
Spain (26)	0.4 (9)	2.4 (7)	1.0 (7)	0.5 (8)	84.6%	36.4%
	29.0%	23.3%	23.3%	30.8%		
	87.1%	93.3%	90.0%	84.6%		
	33.3%	25.0%	25.9%	36.4%		
Other (95)	1.5 (17)	3.8 (28)	6.6 (33)	1.4 (20)	93.7%	22.5%
	15.0%	25.2%	32.7%	21.1%		
	90.3%	91.0%	93.1%	93.7%		
	16.7%	27.7%	35.1%	22.5%		
Total* (591)	15.2 (118)	77.2 (151)	66.4 (179)	49.6 (162)	87.6%	31.3%
	20.0%	25.7%	30.4%	27.4%		
	86.8%	87.9%	87.6%	87.6%		
	23.0%	29.3%	34.8%	31.3%		

† Aggregate goodwill impairment in the United Kingdom and Financials were both adjusted upwards in 2012 by €1.0 billion (or £782 million), to correct a database error.

* Amounts shown are aggregates. Differences due to rounding.

Summary Statistics by Industry and Country (continued)

Tables 1 and 2 captured the total amount of goodwill impairment and the frequency of events by industry and country. In Tables 3 and 4, the focus shifts to the industries' and countries' (i) relative importance of goodwill to the overall asset base (goodwill intensity); (ii) the magnitude of annual impairment relative to the carrying amount of goodwill; and (iii) the magnitude of such impairment in relation to total assets (the latter two being measures of loss intensity).

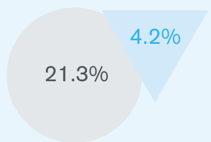
Goodwill intensity, defined here as goodwill as a percentage of total assets (GW/TA), measures the proportion of an industry's total assets represented by goodwill.[14] Because goodwill arises as a result of a business combination, goodwill intensity is greater in industries and countries with significant merger and acquisition (M&A) activity.

The first loss intensity measure, goodwill impairment as a percentage of goodwill (GWI/GW), indicates the magnitude of goodwill impairments. In other words, it measures the proportion of an industry's or country's goodwill that is impaired each year.

Goodwill impairments as a percentage of total assets (GWI/TA), the second loss intensity measure, quantifies the percentage of an industry's or a country's total asset base that was impaired.

The graphs on the right of Tables 3 and 4 provide for a quick comparison of (i) goodwill as a percentage of total assets; and (ii) goodwill impairments as a percentage of goodwill. For example:

Goodwill of Telecommunication Services companies represents 21.3% of total assets.



Goodwill impairments in 2013 made up 4.2% of the goodwill carrying amount.

		Intensity Measure	How?	Why?
Goodwill Intensity	Extent to which the asset base includes goodwill	GW/TA	Goodwill as a percentage of total assets, measured at year end	Indicates how significant goodwill is in relation to total assets
Loss Intensity (1)	Extent to which goodwill is affected by impairment	GWI/GW	Goodwill impairments (total) as a percentage of the prior year's total goodwill	Indicates how impairments impacted goodwill
Loss Intensity (2)	Extent to which the asset base is affected by impairment	GWI/TA	Goodwill impairments (total) as a percentage of the prior year's total assets	Indicates how impairments impacted total assets

Goodwill Intensity

The first row in Tables 3 and 4 illustrates goodwill as a percentage of total assets (GW/TA) reported over time for each industry and country, with 2013 being highlighted specifically in the grey circle of the graphics on the right.

Aggregate goodwill as a percentage of total assets for all companies in the 2014 Study (across all industries and countries) averaged approximately 3.5% over the 2010-2013 period. However, this ratio can vary significantly by industry. For example, in 2013 it ranged from 0.8% for Financial companies to 25.4% for Healthcare companies.[15] From a geographic perspective, 2013 goodwill intensity ranged from 2.3% in the United Kingdom to 4.7% in Germany.

Healthcare[16] and Telecommunication Services were the top two industries exhibiting the highest average goodwill intensity during the four-year period. For these industries, contributing factors include continued transaction activity (despite the region's ongoing economic challenges) as well as high growth expectations from future (yet-to-be-identified) technologies, which may make goodwill a significant component of the purchase price.

Although goodwill intensity, measured by GW/TA, has been fairly stable over time, some industries and countries have recently shown a downward or upward trend. For example, goodwill intensity in Telecommunication Services decreased over the period (partially due to significant impairments in 2012), whereas it increased for Information Technology.

14 Although the companies in the index may measure non-controlling interests associated with their partially owned subsidiaries on different bases (i.e. either at fair value or as the proportionate share of the acquiree's identifiable net assets), this analysis does not make adjustments for such differences.

15 In fact, the impact of companies in the Financials industry is substantial because those companies comprise a significant proportion of the STOXX® Europe 600 Index. Excluding Financials from the 2013 total would result in an average GW/TA ratio of 13.1%, rather than 3.5%. The effect is similar in other years.

16 As defined in the Global Industry Classification Standard (GICS), the Healthcare industry includes, among others, biotechnology and pharmaceutical companies.

In contrast to the wide variance in goodwill intensity seen across industries, Table 4 shows a much narrower range across countries. France exhibited the highest average goodwill intensity over the four-year period at 4.3%. However, from a trend perspective, Germany showed the largest expansion over the same period, increasing from 3.8% to 4.7%, while Spain saw the steepest drop, from 3.6% to 2.8%.

Goodwill Impairment to Goodwill

The second row in Tables 3 and 4 represent the first measure of loss intensity (GWI/GW) recognised for each industry and country over the four-year period, with 2013 being highlighted specifically in the blue triangle of the graphic on the right.

The total amount of impairment decreased from €66.4 billion in 2012 to €49.6 billion in 2013, a decrease of €16.8 billion (as previously shown in Tables 1 and 2). But 2011 marked a dramatic fivefold increase over the aggregate impairment of €15.2 billion in the previous year. The first loss intensity measure (GWI/GW) portrays a similar trend. While the overall loss intensity for companies in the 2014 Study rose almost fivefold from 1.1% in 2010 to 5.4% in 2011, at the height of the European sovereign debt crisis, this loss intensity metric has steadily declined since then (to 3.4% in 2013), as European financial market conditions have somewhat stabilised.

Loss intensity for seven of the ten industry groups profiled was either flat or down from the preceding year. Telecommunication Services saw the most notable change, dropping from 11.1% in 2012 to 4.2% in 2013, which is consistent with the decline in aggregate amount of goodwill impairments observed in Table 1. This helped offset an above-trend rise in Utilities, which leapt from 2.5% in 2012 to 7.3% in 2013.

From a geographic perspective, Italian companies saw the biggest swings in loss intensity measure over the period. The Italian GWI/GW loss intensity factor soared from 0.7% in 2010 to 23.5% in 2011, by far the largest increase of all countries in the 2014 Study. While seeing a decline in 2012, Italy also had the largest increase in 2013 (from 8.9% in 2012 to 12.5% in 2013). During 2013, only French companies also showed a rise in the GWI/GW ratio, with all other countries seeing a decline. This latest trend is consistent with improvements seen in economic conditions in the latter half of 2013 for countries such as the United Kingdom, Germany, and a few others within the European Union.

Goodwill Impairments to Total Assets

This second measure of loss intensity is presented in the third row in Tables 3 and 4 for each industry and country.

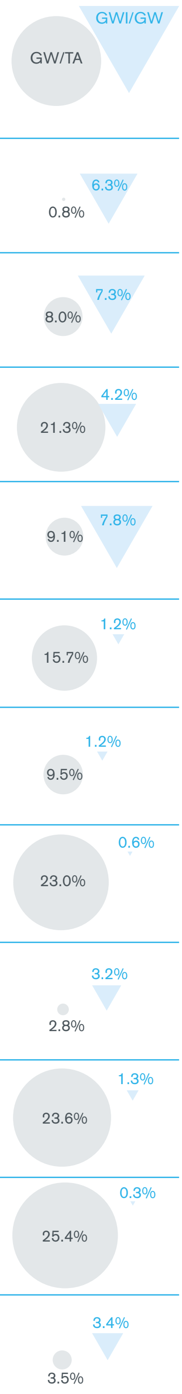
Goodwill impairment charges typically represent a relatively small proportion of a company's total asset base. Telecommunication Services had the largest GWI/TA ratio in 2013 at 1.0%, which is ten times larger than the overall average of 0.1% in that year. Financials, Healthcare, Consumer Discretionary, and Energy had the lowest GWI/TA ratio in 2013 at 0.1%. The significant size of balance sheets of financial services companies within the STOXX® Europe 600 Index partially explains why goodwill impairments represent such a small proportion of the asset base in the Financials industry.

From a geographic perspective, Italy continued to lead the country table in this GW/TA measure, marking the third consecutive year in which it had the highest loss intensity in terms of asset base. However, all other countries in the 2014 Study had a GWI/TA ratio not exceeding 0.2% during the entire 2010-2013 period. This demonstrates that this loss intensity measure is more informative in making distinctions between industries, rather than countries.

2013 Goodwill Impairment

(Table 3)

Sector (Companies)	Measure	2010	2011	2012	2013
Financials (139)	Goodwill Intensity (GW/TA)	0.9%	0.8%	0.8%	0.8%
	Loss Intensity (1) (GWI/GW)	1.4%	12.5%	6.3%	6.3%
	Loss Intensity (2) (GWI/TA)	0.0%	0.1%	0.0%	0.1%
Utilities (25)	Goodwill Intensity (GW/TA)	9.1%	9.2%	8.8%	8.0%
	Loss Intensity (1) (GWI/GW)	1.3%	1.7%	2.5%	7.3%
	Loss Intensity (2) (GWI/TA)	0.1%	0.2%	0.2%	0.6%
Telecomm. Services (25)	Goodwill Intensity (GW/TA)	27.2%	25.1%	23.1%	21.3%
	Loss Intensity (1) (GWI/GW)	2.0%	8.8%	11.1%	4.2%
	Loss Intensity (2) (GWI/TA)	0.5%	2.4%	2.8%	1.0%
Materials (56)	Goodwill Intensity (GW/TA)	11.1%	10.1%	8.8%	9.1%
	Loss Intensity (1) (GWI/GW)	0.1%	6.2%	13.9%	7.8%
	Loss Intensity (2) (GWI/TA)	0.0%	0.7%	1.4%	0.7%
Industrials (118)	Goodwill Intensity (GW/TA)	15.1%	15.7%	15.8%	15.7%
	Loss Intensity (1) (GWI/GW)	1.3%	1.8%	1.5%	1.2%
	Loss Intensity (2) (GWI/TA)	0.2%	0.3%	0.2%	0.2%
Consumer Discretionary (85)	Goodwill Intensity (GW/TA)	8.2%	9.2%	9.7%	9.5%
	Loss Intensity (1) (GWI/GW)	0.7%	1.8%	0.9%	1.2%
	Loss Intensity (2) (GWI/TA)	0.1%	0.1%	0.1%	0.1%
Consumer Staples (50)	Goodwill Intensity (GW/TA)	20.7%	22.6%	22.2%	23.0%
	Loss Intensity (1) (GWI/GW)	0.5%	1.5%	1.1%	0.6%
	Loss Intensity (2) (GWI/TA)	0.1%	0.3%	0.2%	0.1%
Energy (33)	Goodwill Intensity (GW/TA)	3.0%	3.2%	2.8%	2.8%
	Loss Intensity (1) (GWI/GW)	2.1%	1.8%	3.7%	3.2%
	Loss Intensity (2) (GWI/TA)	0.1%	0.1%	0.1%	0.1%
Information Technology (27)	Goodwill Intensity (GW/TA)	20.6%	21.2%	23.4%	23.6%
	Loss Intensity (1) (GWI/GW)	0.1%	2.7%	3.3%	1.3%
	Loss Intensity (2) (GWI/TA)	0.0%	0.6%	0.7%	0.3%
Healthcare (33)	Goodwill Intensity (GW/TA)	23.6%	24.9%	25.0%	25.4%
	Loss Intensity (1) (GWI/GW)	0.0%	0.0%	0.1%	0.3%
	Loss Intensity (2) (GWI/TA)	0.0%	0.0%	0.0%	0.1%
Total* (591)	Goodwill Intensity (GW/TA)	3.5%	3.4%	3.4%	3.5%
	Loss Intensity (1) (GWI/GW)	1.1%	5.4%	4.6%	3.4%
	Loss Intensity (2) (GWI/TA)	0.0%	0.2%	0.2%	0.1%



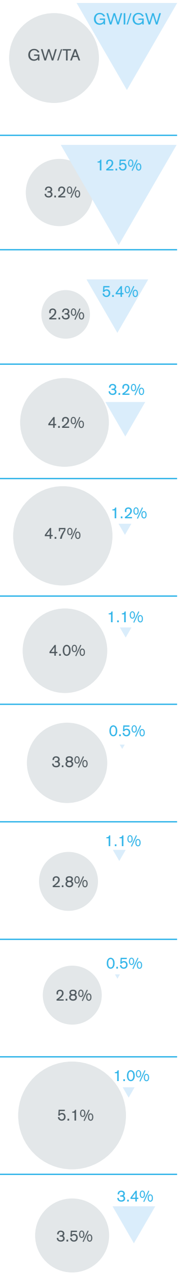
* Amounts shown are aggregates. Differences due to rounding.

2013 Goodwill Impairment

(Table 4)

Goodwill Intensity (GW/TA)
Loss Intensity (1) (GWI/GW)
Loss Intensity (2) (GWI/TA)

(Companies)		2010	2011	2012	2013
Italy (27)	GW/TA	4.5%	3.7%	3.5%	3.2%
	GWI/GW	0.7%	23.5%	8.9%	12.5%
	GWI/TA	0.0%	1.1%	0.3%	0.4%
United Kingdom (183)	GW/TA	2.5%	2.4%	2.4%	2.3%
	GWI/GW	1.7%	6.0%	8.7%	5.4%
	GWI/TA	0.0%	0.1%	0.2%	0.1%
France (80)	GW/TA	4.5%	4.4%	4.2%	4.2%
	GWI/GW	0.9%	2.7%	2.5%	3.2%
	GWI/TA	0.0%	0.1%	0.1%	0.1%
Germany (59)	GW/TA	3.8%	3.7%	4.2%	4.7%
	GWI/GW	1.6%	2.1%	2.9%	1.2%
	GWI/TA	0.1%	0.1%	0.1%	0.1%
Netherlands (33)	GW/TA	3.7%	3.6%	3.9%	4.0%
	GWI/GW	0.8%	2.7%	5.4%	1.1%
	GWI/TA	0.0%	0.1%	0.2%	0.0%
Switzerland (48)	GW/TA	3.3%	3.3%	3.4%	3.8%
	GWI/GW	0.5%	1.6%	3.3%	0.5%
	GWI/TA	0.0%	0.1%	0.1%	0.0%
Sweden (40)	GW/TA	2.9%	2.7%	2.7%	2.8%
	GWI/GW	0.1%	1.6%	2.2%	1.1%
	GWI/TA	0.0%	0.0%	0.1%	0.0%
Spain (26)	GW/TA	3.6%	3.3%	2.8%	2.8%
	GWI/GW	0.4%	2.4%	1.0%	0.5%
	GWI/TA	0.0%	0.1%	0.0%	0.0%
Other (95)	GW/TA	3.2%	3.8%	4.4%	5.1%
	GWI/GW	1.1%	2.8%	4.6%	1.0%
	GWI/TA	0.0%	0.1%	0.2%	0.0%
Total* (591)	GW/TA	3.5%	3.4%	3.4%	3.5%
	GWI/GW	1.1%	5.4%	4.6%	3.4%
	GWI/TA	0.0%	0.2%	0.2%	0.1%



* Amounts shown are aggregates. Differences due to rounding.

Industry Spotlights

Industry Spotlights cover ten industries, providing an in-depth focus on their relevant metrics and statistics. Each Spotlight displays a variety of data, including the top three companies in the 2014 Study that recognised the highest amount of goodwill impairment for calendar year 2013.

The guide below provides a brief description of the components of the Industry Spotlights.

Goodwill Trends

Provides goodwill amounts at the beginning and end of the four-year period, as well as the aggregate goodwill additions and impairments over that period for companies in the index.[17]

Impairment History

Annual amounts and number of goodwill impairment events over the last four years. The industry market-to-book ratio (blue line) provides some context for the annual impairment measures.

Market-to-Book Ratio Distribution

Highlights the number of companies in the industry (shown in percentage terms) with a market-to-book ratio below and above 1.0. The blue shaded area to the left of the needle further separates the number of companies with a ratio above and below 0.5. Although not predictive on its own, companies with a low market-to-book ratio may be at a greater risk of impairment.

Summary Statistics

Goodwill Intensity (GW/TA), Goodwill Impairment to Goodwill (GWI/GW), Companies with Goodwill and Percentage of Companies that Recorded a Goodwill Impairment in 2013.

Size of Industry

Represents the size of the industry relative to the combined size of all companies included in the 2014 Study sample, measured in terms of market capitalisation.

Index

Shows the four-year returns of the industry sector sub-index and the STOXX® Europe 600 Index overall.[18] Summarises the relative performance of the industry, reflecting what a €1 investment at the end of 2009 would be worth at the end of 2013.

Top 3 Industry Goodwill Impairments

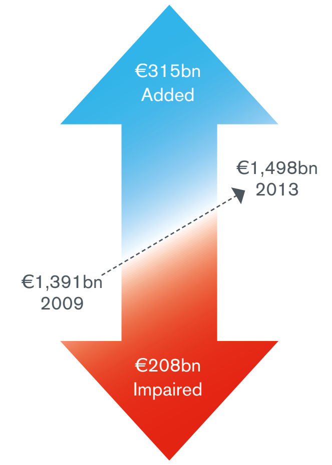
Highlights the concentration of the top three impairments recorded in the industry in 2013.

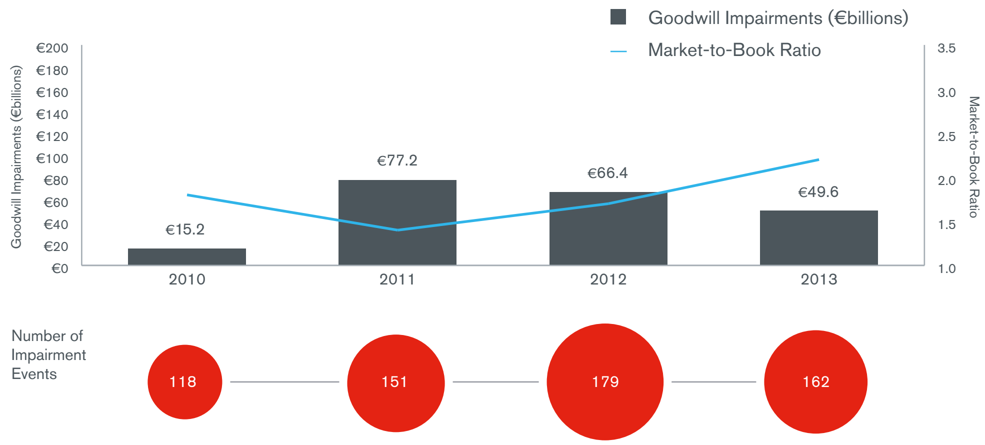
17 Because companies regularly move into and out of the STOXX® Europe 600 Index (the annual churn rate is typically around 40 companies), this comparison does not include the same set of companies every year. This explains, for example, why Utilities appear to have a negative goodwill addition of €16 billion over the 2010-2013 period (see Utilities Spotlight).

18 STOXX® Europe 600 industry sub-indices are constructed by the index provider for ten industries based on the Industry Classification Benchmark. This is a different industry classification from that used throughout the 2014 Study, which is based on GICS codes. Although the industry definitions are broadly similar, the naming convention is slightly different. For example, in the Energy spotlight we show the performance of the STOXX® Europe 600 Oil & Gas sub-index.

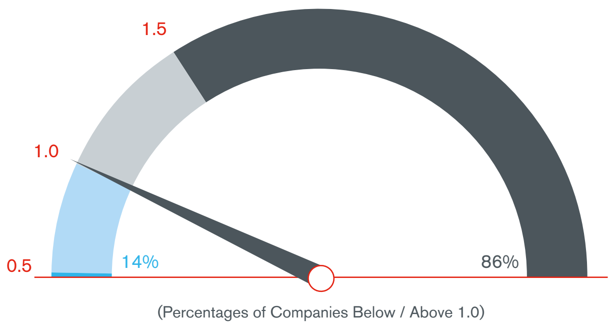
2013 Composite Industry Spotlight

Goodwill Trends 2009 – 2013





Market-to-Book Ratio Distribution (Based on Number of Companies)



591
Companies

3.5%
Goodwill to Total Assets (GW/TA)

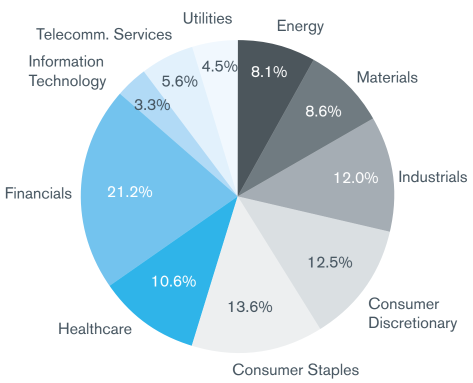
3.4%
Percentage of Goodwill Impaired (GWI/GW ratio)

87.6%
Companies with Goodwill

31.3%
Percentage of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

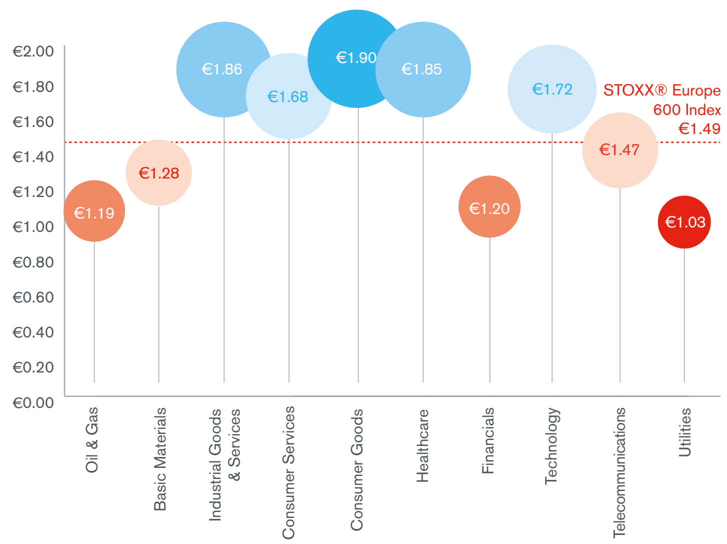
2.2
Market-to-Book Ratio (median)

Size of Sector (Relative to Study's Total Market Cap)



Top 3 Industry Goodwill Impairments	**(in millions)**
UniCredit SpA	€ 7,990
GDF SUEZ SA	€ 5,775
Glencore PLC	€ 5,432 (US$7,480)

Cumulative 3-year Terminal Index Value by Industry from 2010 to 2013 Index (Year End 2009 = €1)

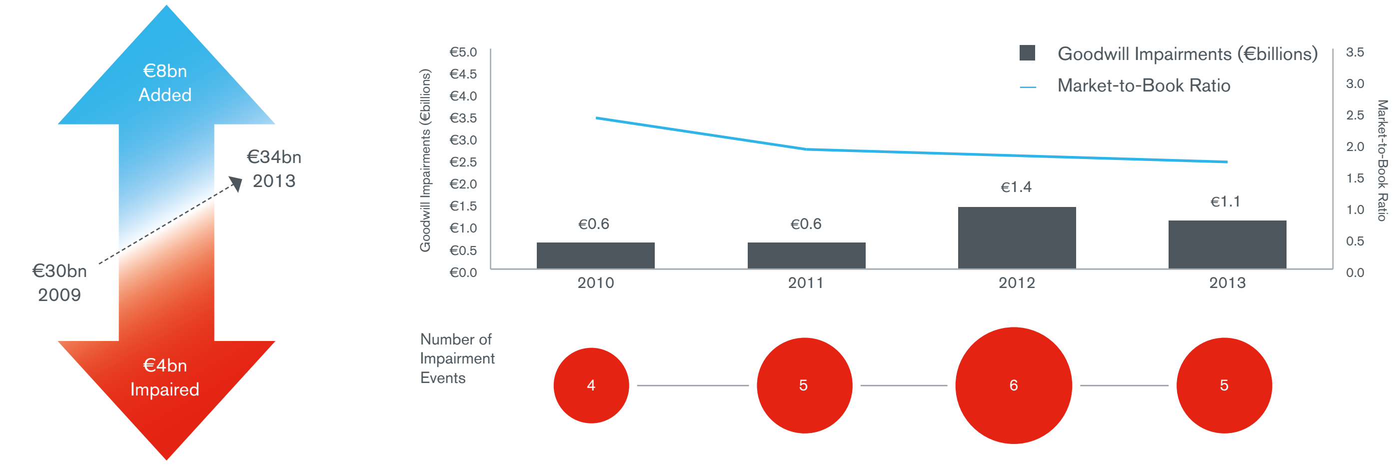


2013 Industry Spotlight

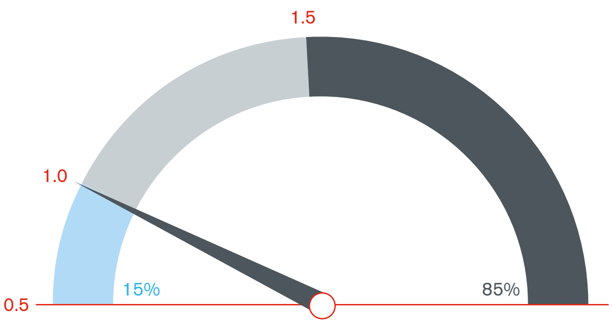
Energy

GICS Code 10

Goodwill Trends 2009 – 2013



Market-to-Book Ratio Distribution (Based on Number of Companies)



(Percentages of Companies Below / Above 1.0)

33
Companies

2.8%
Goodwill to Total Assets (GW/TA)

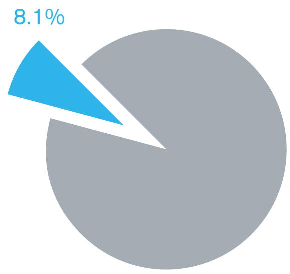
3.2%
Percentage of Goodwill Impaired (GWI/GW ratio)

93.9%
Companies with Goodwill

16.1%
Percentage of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

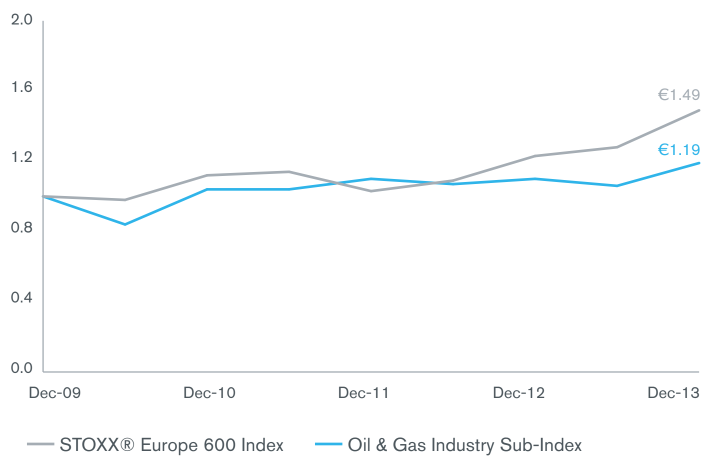
1.7
Market-to-Book Ratio (median)

Size of Sector (Relative to Study's Total Market Cap)



Top 3 Industry Goodwill Impairments	(in millions)
CGG	€465 (US$640)
Eni SpA	€333
Cairn Energy PLC	€235 (US$324)

Index (Year End 2009 = €1)

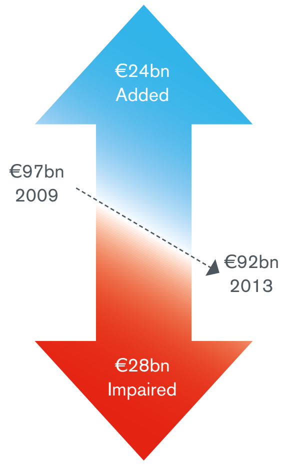


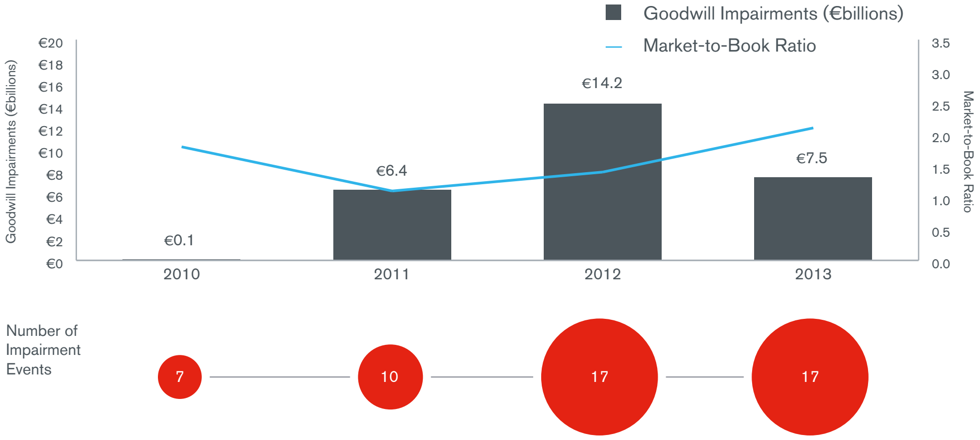
2013 Industry Spotlight

Materials

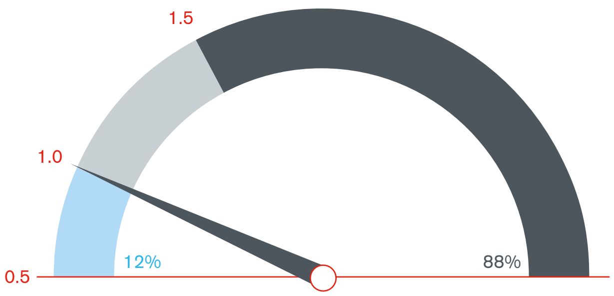
GICS Code 15

Goodwill Trends 2009 – 2013





Market-to-Book Ratio Distribution (Based on Number of Companies)



(Percentages of Companies Below / Above 1.0)

56 Companies

9.1% Goodwill to Total Assets (GW/TA)

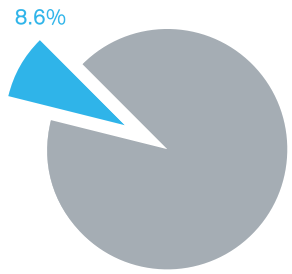
7.8% Percentage of Goodwill Impaired (GWI/GW ratio)

83.9% Companies with Goodwill

36.2% Percentage of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

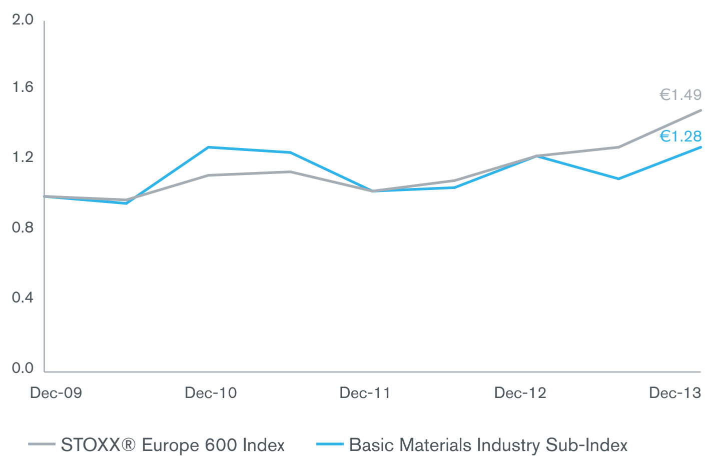
2.1 Market-to-Book Ratio (median)

Size of Sector (Relative to Study's Total Market Cap)



Top 3 Industry Goodwill Impairments	(in millions)
Glencore PLC	€5,432 (US$7,480)
Rio Tinto PLC	€834 (US$1,149)
CRH PLC	€373

Index (Year End 2009 = €1)

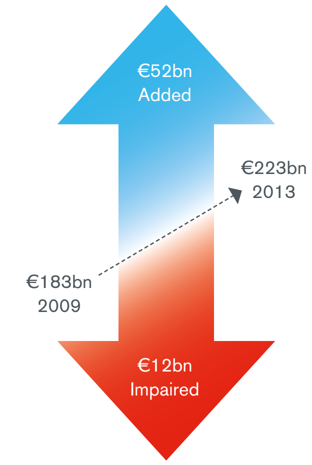


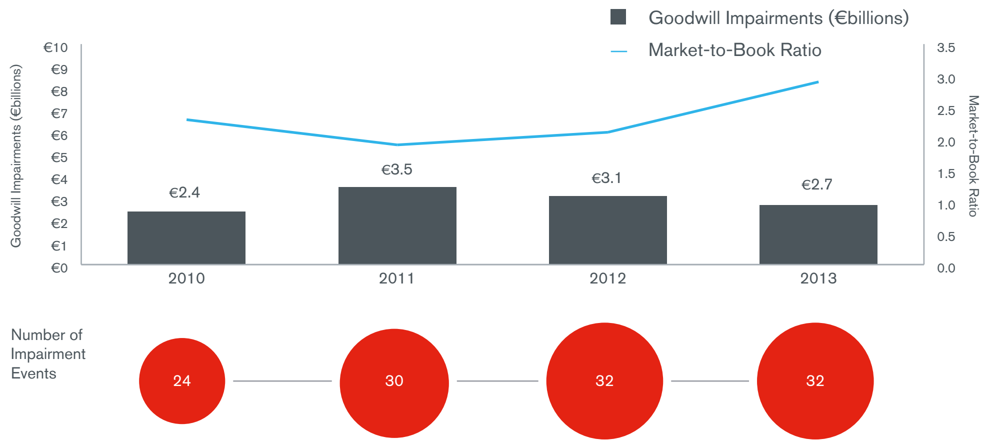
2013 Industry Spotlight

Industrials

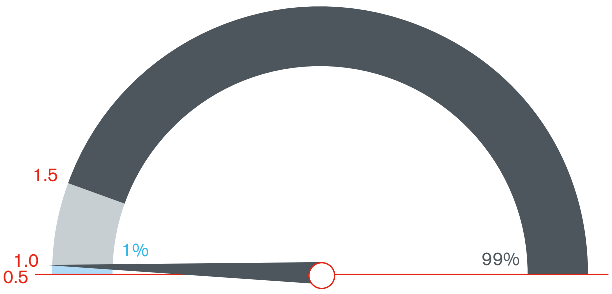
GICS Code 20

Goodwill Trends 2009 – 2013





Market-to-Book Ratio Distribution (Based on Number of Companies)



(Percentages of Companies Below / Above 1.0)

118 Companies

15.7% Goodwill to Total Assets (GW/TA)

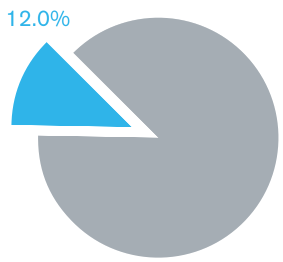
1.2% Percentage of Goodwill Impaired (GWI/GW ratio)

94.9% Companies with Goodwill

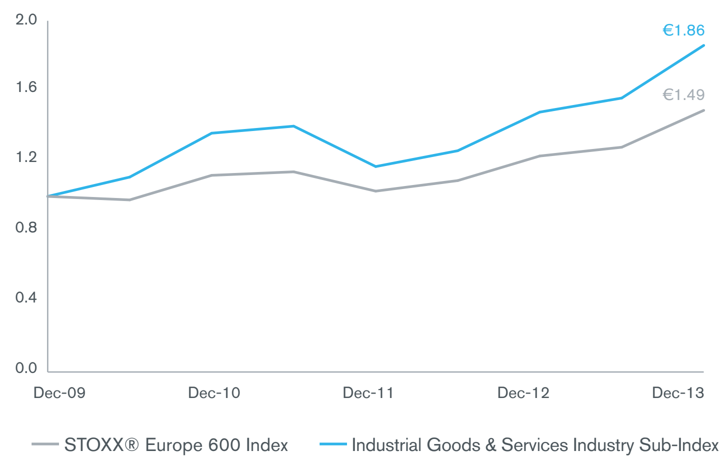
28.6% Percentage of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

2.9 Market-to-Book Ratio (median)

Size of Sector (Relative to Study's Total Market Cap)



Index (Year End 2009 = €1)



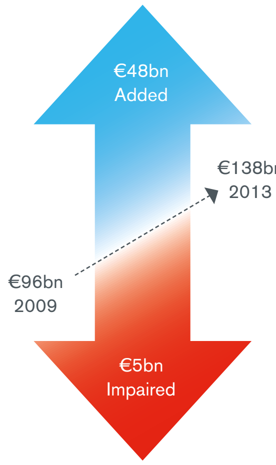
Top 3 Industry Goodwill Impairments	(in millions)
BAE Systems PLC	€1,041 (£865)
QinetiQ Group PLC	€303 (£256)
TNT Express NV	€296

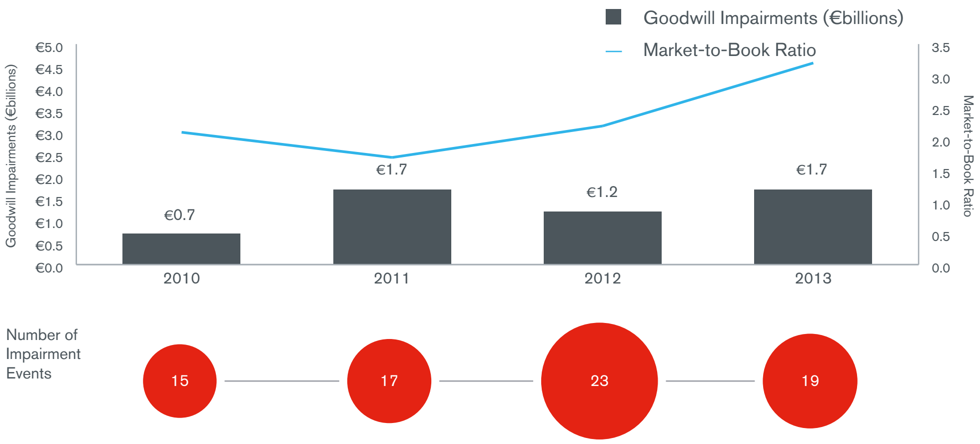
2013 Industry Spotlight

Consumer Discretionary

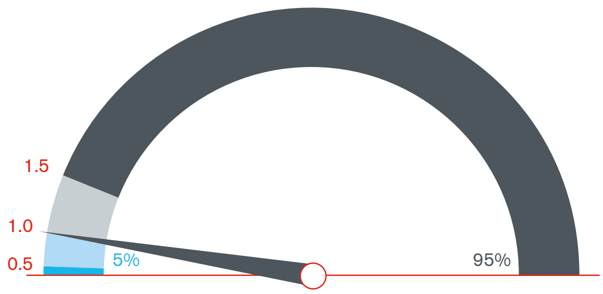
GICS Code 25

Goodwill Trends 2009 – 2013





Market-to-Book Ratio Distribution (Based on Number of Companies)



(Percentages of Companies Below / Above 1.0)

85
Companies

9.5%
Goodwill to Total Assets (GW/TA)

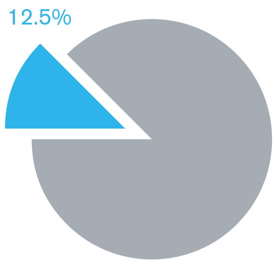
1.2%
Percentage of Goodwill Impaired (GWI/GW ratio)

85.9%
Companies with Goodwill

26.0%
Percentage of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

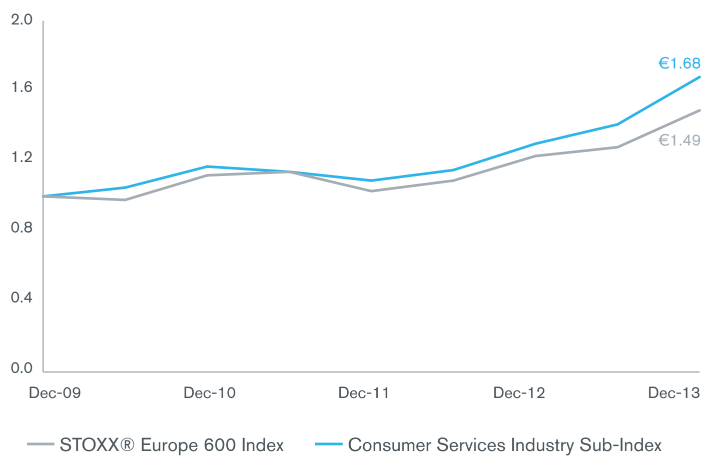
3.2
Market-to-Book Ratio (median)

Size of Sector (Relative to Study's Total Market Cap)



Top 3 Industry Goodwill Impairments	(in millions)
Compass Group PLC	€454 (£377)
Kering SA	€280
TUI Travel PLC	€225 (£188)

Index (Year End 2009 = €1)

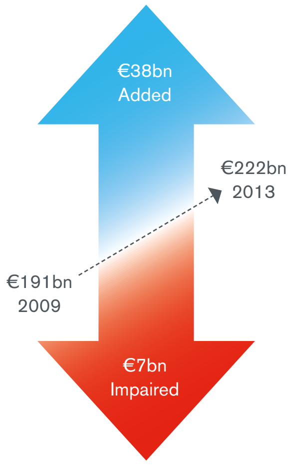


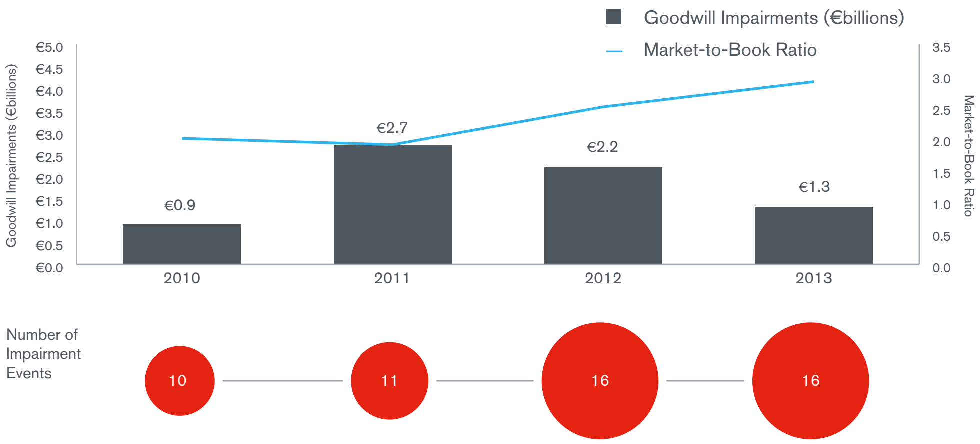
2013 Industry Spotlight

Consumer Staples

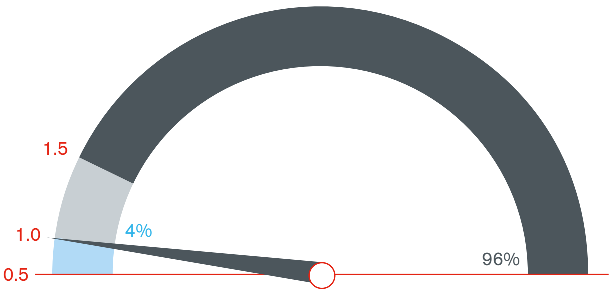
GICS Code 30

Goodwill Trends 2009 – 2013





Market-to-Book Ratio Distribution (Based on Number of Companies)



(Percentages of Companies Below / Above 1.0)

50
Companies

23.0%
Goodwill to Total Assets (GW/TA)

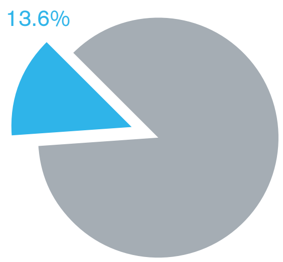
0.6%
Percentage of Goodwill Impaired (GWI/GW ratio)

80.0%
Companies with Goodwill

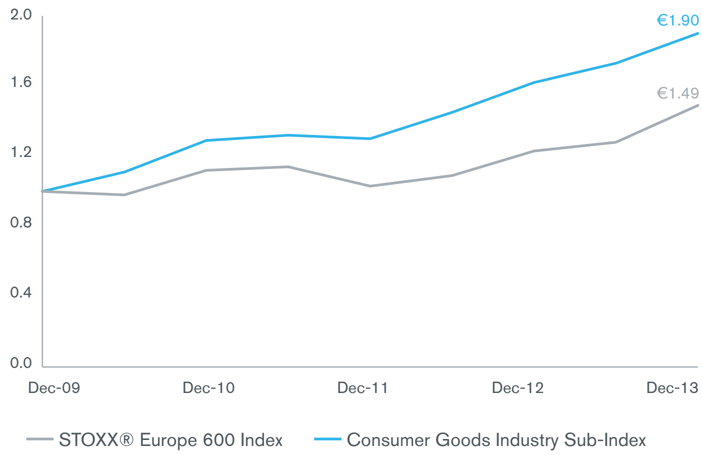
40.0%
Percentage of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

2.9
Market-to-Book Ratio (median)

Size of Sector (Relative to Study's Total Market Cap)



Index (Year End 2009 = €1)



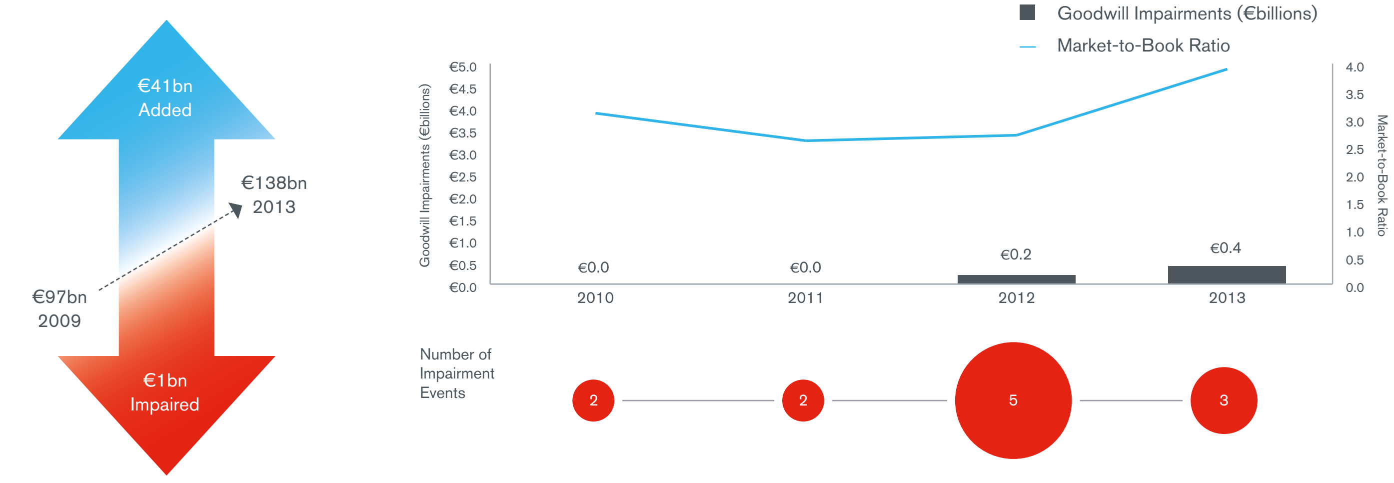
Top 3 Industry Goodwill Impairments	(in millions)
Tesco PLC	€667 (£575)
Orkla ASA	€175 (NOK 1,467)
Groupe Delhaize SA	€124

2013 Industry Spotlight

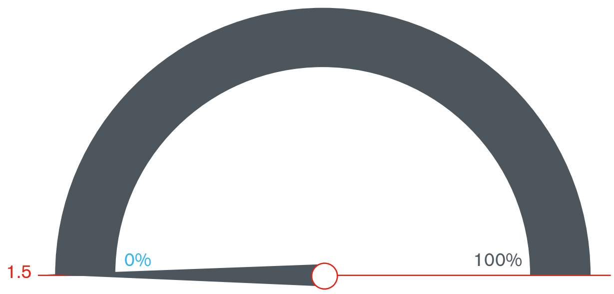
Healthcare

GICS Code 35

Goodwill Trends 2009 – 2013



Market-to-Book Ratio Distribution (Based on Number of Companies)



(Percentages of Companies Below / Above 1.0)

33
Companies

25.4%
Goodwill to Total Assets (GW/TA)

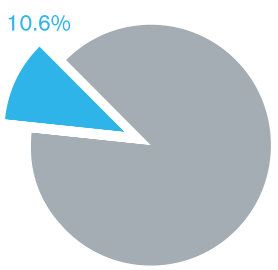
0.3%
Percentage of Goodwill Impaired (GWI/GW ratio)

93.9%
Companies with Goodwill

9.7%
Percentage of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

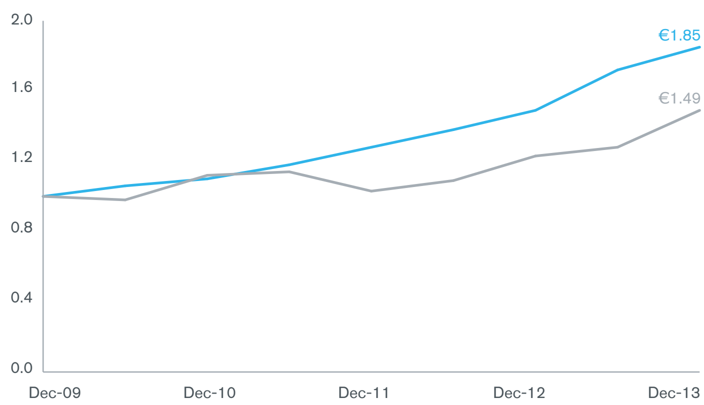
3.9
Market-to-Book Ratio (median)

Size of Sector (Relative to Study's Total Market Cap)



Top 3 Industry Goodwill Impairments	(in millions)
Roche Holding AG	€235 (CHF 288)
Shire PLC	€144 (US$199)
Merck KGaA	€17

Index (Year End 2009 = €1)

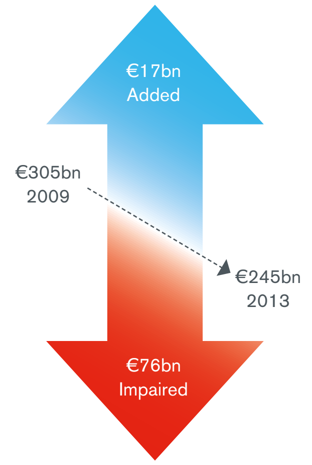


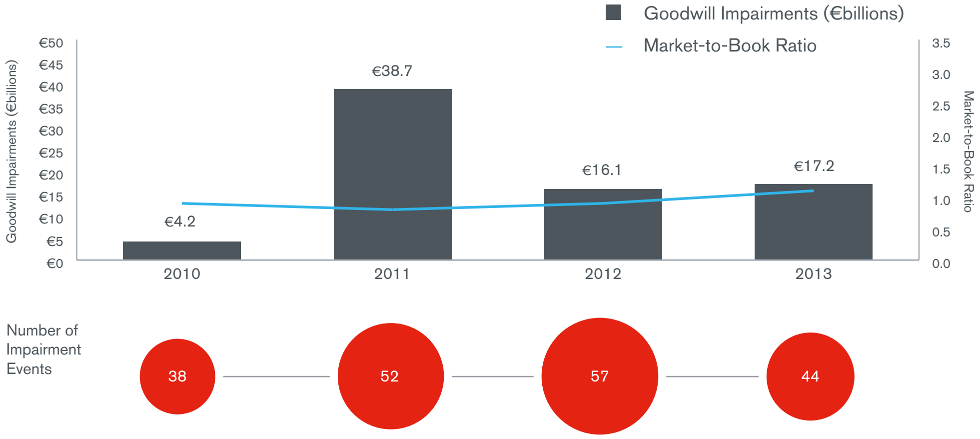
2013 Industry Spotlight

Financials

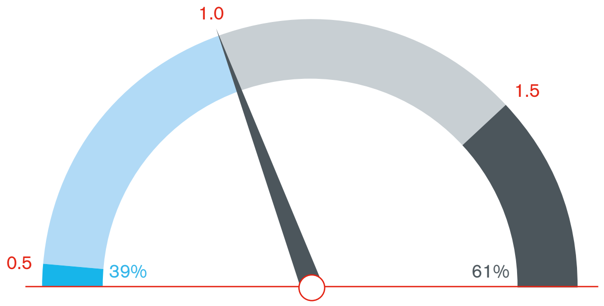
GICS Code 40

Goodwill Trends 2009 – 2013





Market-to-Book Ratio Distribution (Based on Number of Companies)



(Percentages of Companies Below / Above 1.0)

139
Companies

0.8%
Goodwill to Total Assets (GW/TA)

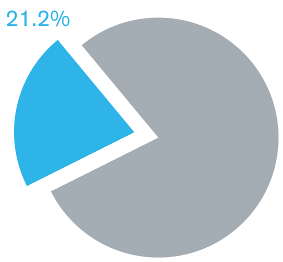
6.3%
Percentage of Goodwill Impaired (GWI/GW ratio)

81.3%
Companies with Goodwill

38.9%
Percentage of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

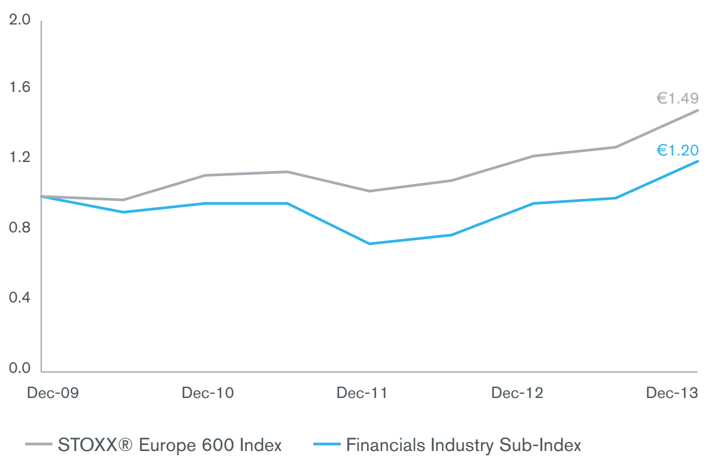
1.1
Market-to-Book Ratio (median)

Size of Sector (Relative to Study's Total Market Cap)



Top 3 Industry Goodwill Impairments	**(in millions)**
UniCredit SpA	€7,990
Intesa Sanpaolo SpA	€4,676
The Royal Bank of Scotland Group PLC	€1,274 (£1,059)

Index (Year End 2009 = €1)

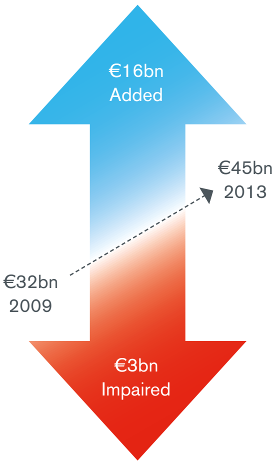


2013 Industry Spotlight

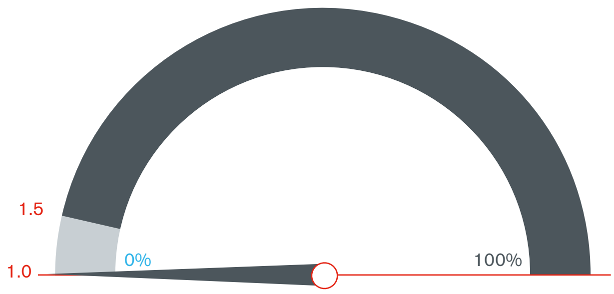
Information Technology

GICS Code 45

Goodwill Trends 2009 – 2013



Market-to-Book Ratio Distribution (Based on Number of Companies)



(Percentages of Companies Below / Above 1.0)

27
Companies

23.6%
Goodwill to Total Assets (GW/TA)

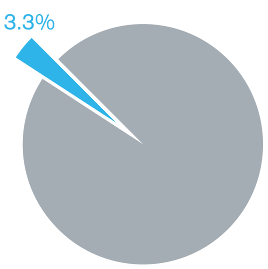
1.3%
Percentage of Goodwill Impaired (GWI/GW ratio)

92.6%
Companies with Goodwill

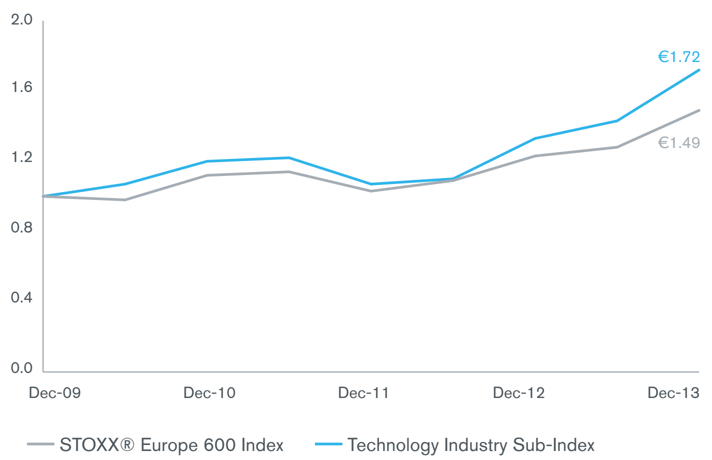
20.0%
Percentage of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

3.6
Market-to-Book Ratio (median)

Size of Sector (Relative to Study's Total Market Cap)



Index (Year End 2009 = €1)

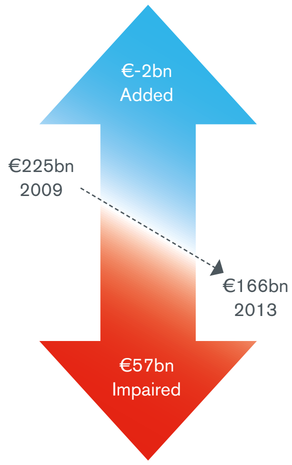


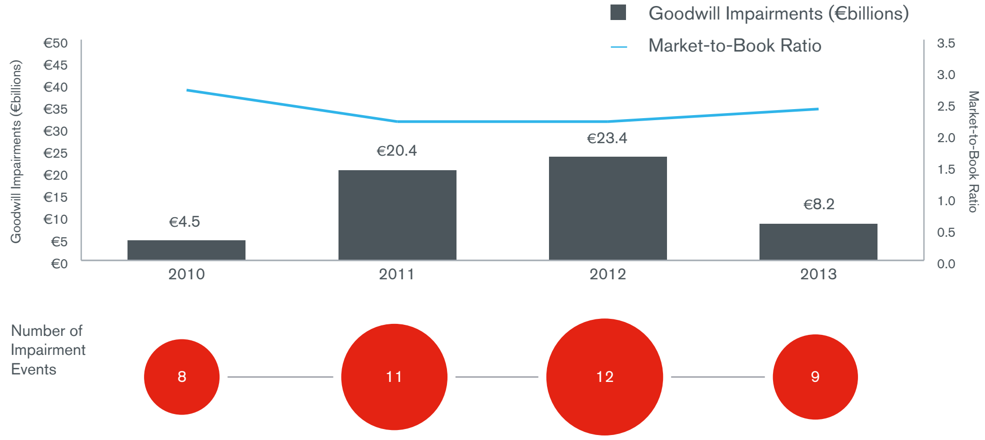
Top 3 Industry Goodwill Impairments	(in millions)
Alcatel-Lucent	€568
STMicroelectronics NV	€20 (US$27)
Ingenico SA	€8

2013 Industry Spotlight   Telecommunication Services

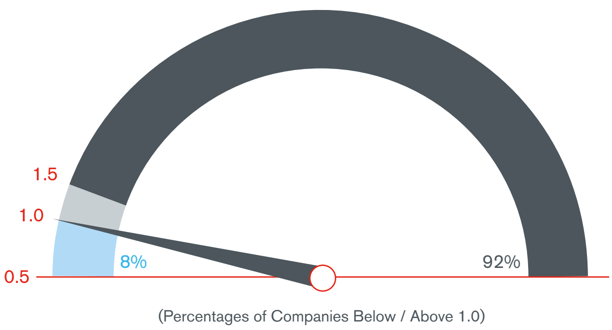
GICS Code 50

Goodwill Trends 2009 – 2013*





Market-to-Book Ratio Distribution (Based on Number of Companies)



25
Companies

21.3%
Goodwill to Total Assets (GW/TA)

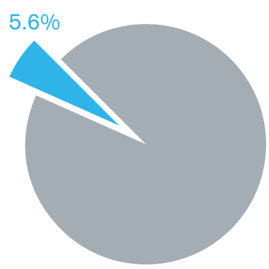
4.2%
Percentage of Goodwill Impaired (GWI/GW ratio)

92.0%
Companies with Goodwill

39.1%
Percentage of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

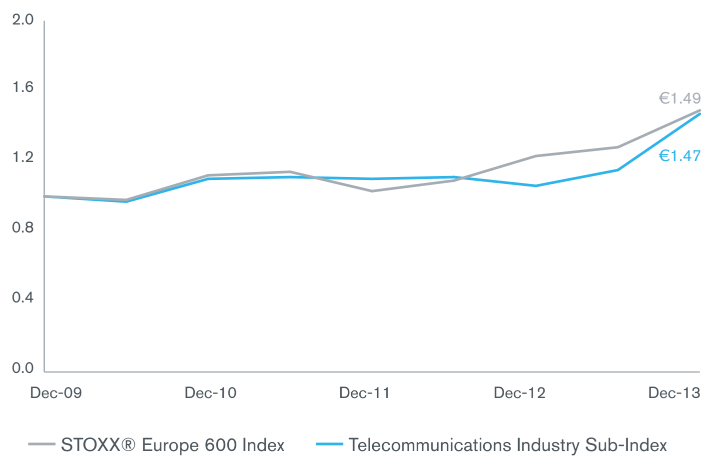
2.4
Market-to-Book Ratio (median)

Size of Sector (Relative to Study's Total Market Cap)



Top 3 Industry Goodwill Impairments	(in millions)
Vivendi Société Anonyme	€2,436
Telecom Italia SpA	€2,187
Vodafone Group Public Limited Company	€2,133 (£1,800)

Index (Year End 2009 = €1)



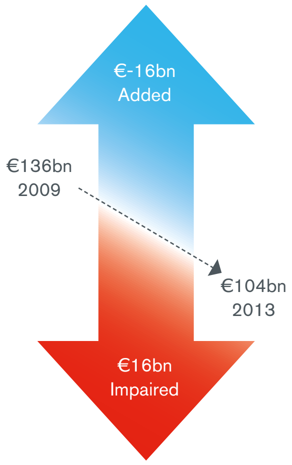
* The decrease in the amount of goodwill added is due to the change in the composition of the index over the period.

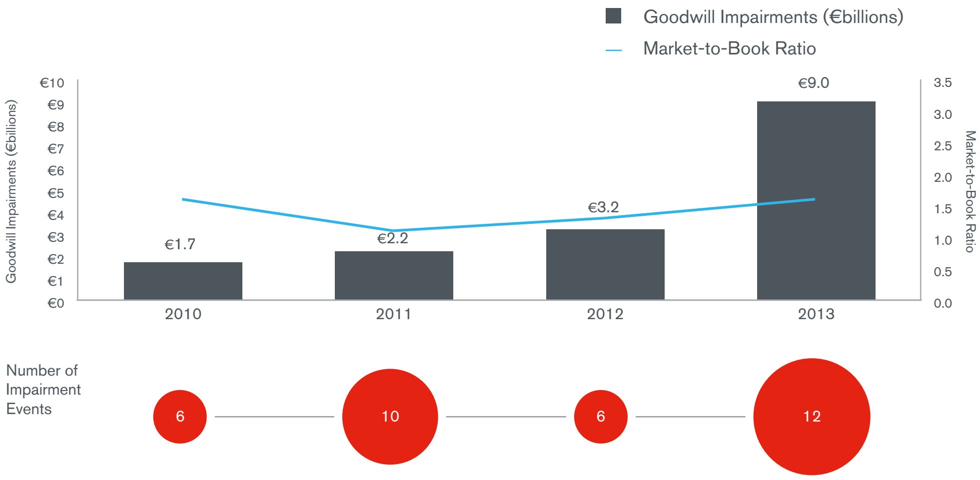
2013 Industry Spotlight

Utilities

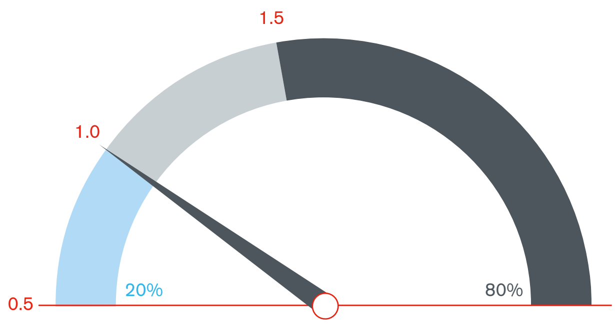
GICS Code 55

Goodwill Trends 2009 – 2013*





Market-to-Book Ratio Distribution (Based on Number of Companies)



(Percentages of Companies Below / Above 1.0)

25
Companies

8.0%
Goodwill to Total Assets (GW/TA)

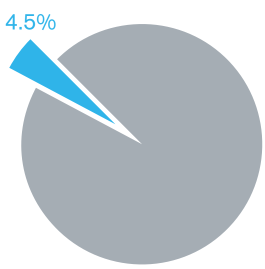
7.3%
Percentage of Goodwill Impaired (GWI/GW ratio)

92.0%
Companies with Goodwill

52.2%
Percentage of Companies with Goodwill that Recorded a Goodwill Impairment in 2013

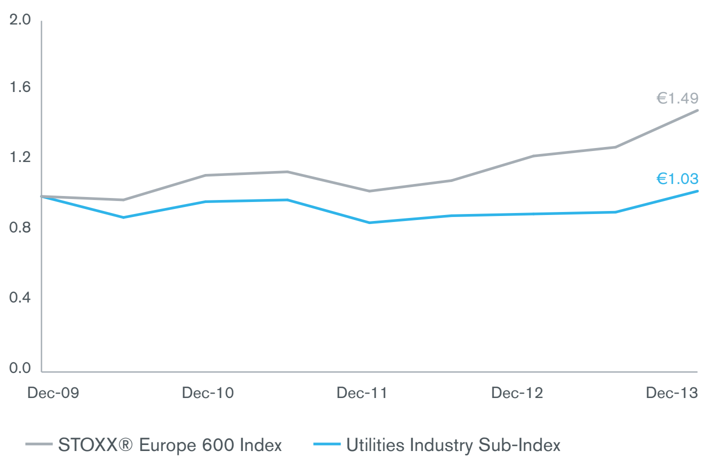
1.6
Market-to-Book Ratio (median)

Size of Sector (Relative to Study's Total Market Cap)



Top 3 Industry Goodwill Impairments	(in millions)
GDF SUEZ SA	€5,775
RWE AG	€1,404
Enel SpA	€745

Index (Year End 2009 = €1)



* The decrease in the amount of goodwill added is due to the change in the composition of the index over the period.

Goodwill Impairments by Industry Group

Calendar Year 2013

Goodwill Intensity
- Goodwill to Total Assets (GW/TA)

Loss Intensity
- Goodwill Impairment to Goodwill (GWI/GW)

List of Industries by Industry Group, as defined by Global Industry Classification Standard (GICS)

GICS Code	GICS Industry Group Name	Number Cos.	% of Cos. with GW	GW/TA	GWI/GW	% of Cos. with GW that Recorded GWI	Goodwill Impairment (in €billions)	Market-to-Book Ratio
	Energy						**€1.1 (sector total)**	
1010	Energy	33	93.9%	2.8%	3.2%	16.1%	€1.1	1.7
	Materials						**€ 7.5 (sector total)**	
1510	Materials	56	83.9%	9.1%	7.8%	36.2%	€7.5	2.1
	Industrials						**€2.7 (sector total)**	
2010	Capital Goods	73	97.3%	16.6%	1.4%	32.4%	€2.3	2.9
2020	Commercial and Professional Services	24	91.7%	28.6%	0.4%	27.3%	€0.1	3.7
2030	Transportation	21	90.5%	9.4%	1.1%	15.8%	€0.3	2.1
	Consumer Discretionary						**€1.7 (sector total)**	
2510	Automobiles and Components	12	100.0%	4.9%	0.2%	16.7%	€0.1	1.6
2520	Consumer Durables and Apparel	22	77.3%	9.8%	2.0%	29.4%	€0.4	2.8
2530	Consumer Services	13	84.6%	17.9%	4.8%	36.4%	€0.8	3.6
2540	Media	26	92.3%	31.1%	0.9%	33.3%	€0.4	3.9
2550	Retailing	12	75.0%	11.3%	0.0%	0.0%	€0.0	3.2
	Consumer Staples						**€1.3 (sector total)**	
3010	Food and Staples Retailing	14	100.0%	12.4%	2.6%	57.1%	€ 0.8	1.9
3020	Food, Beverage and Tobacco	31	67.7%	27.8%	0.3%	33.3%	€ 0.4	3.2
3030	Household and Personal Products	5	100.0%	20.2%	0.2%	20.0%	€ 0.0	3.4
	Healthcare						**€0.4 (sector total)**	
3510	Healthcare Equipment and Services	12	91.7%	38.6%	0.0%	0.0%	€0.0	3.6
3520	Pharmaceuticals, Biotechnology and Life Sciences	21	95.2%	22.9%	0.4%	15.0%	€0.4	3.9
	Financials						**€17.2 (sector total)**	
4010	Banks	41	85.4%	0.6%	9.9%	48.6%	€15.5	0.9
4020	Diversified Financials	38	89.5%	1.2%	1.3%	29.4%	€0.7	1.5
4030	Insurance	36	91.7%	1.0%	1.6%	42.4%	€0.9	1.3
4040	Real Estate	24	45.8%	0.8%	4.2%	27.3%	€0.0	1.0
	Information Technology						**€0.6 (sector total)**	
4510	Software and Services	12	100.0%	40.1%	0.0%	16.7%	€ 0.0	4.5
4520	Technology Hardware and Equipment	10	90.0%	16.9%	3.1%	22.2%	€ 0.6	3.4
4530	Semiconductors and Semiconductor Equipment	5	80.0%	8.9%	2.0%	25.0%	€ 0.0	2.2
	Telecommunication Services						**€8.2 (sector total)**	
5010	Telecommunication Services	25	92.0%	21.3%	4.2%	39.1%	€ 8.2	2.4
	Utilities						**€9.0 (sector total)**	
5510	Utilities	25	92.0%	8.0%	7.3%	52.2%	€9.0	1.6

Appendix 1: Company Base Set Selection and Methodology

The 2014 Study focused on financial data for companies in the STOXX® Europe 600 Index for the period 2010-2013. The primary sources of data for the 2014 Study were Standard & Poor's S&P Capital IQ™ database and individual company annual and interim financial reports.[19] The following procedures were used to arrive at the 2014 Study data set, which was used to calculate all ratios and summary statistics throughout the 2014 Study:

- The 2014 Study used index constituents at the end of calendar year 2013 to form the annual data set.[20]
- The data set was assessed each year to identify any index constituents with a controlling interest in another constituent company, because in such cases the controlling investor (the parent) would have consolidated the underlying entity's (the subsidiary's) financial results. To avoid double-counting the parent's and the subsidiary's reported financial information, we excluded the financial results of any subsidiary companies in the index that met this criterion. We also excluded duplicates within the index that are dual listed on European exchanges.[21]
- Financial data for all companies in the 2014 Study was adjusted, when applicable, to a calendar year end (rather than the most recent fiscal year end) to examine impairments over a specific period of time, regardless of company-specific choices of fiscal year.
- Finally, to allow for comparison of goodwill impairment amounts across companies, countries and industries, the financial data for each company in the index with a non-euro reporting currency was translated into euros using the foreign exchange rate assumptions listed in Appendix 3 to this report. Regardless of fiscal year-end choices, for simplicity and comparability reasons, goodwill impairments (and other financial metrics) were translated into euros using the applicable spot foreign exchange rate as of 31 December of the applicable year, with a few exceptions.[22]

The resulting data set was used to calculate all ratios and summary statistics throughout the 2014 Study.

Appendix 2: 2014 Survey Methodology

In the third quarter of 2014, Mergermarket interviewed 240 CFOs and Finance Directors of publicly listed European companies regarding their experiences in applying the IAS 36 goodwill impairment test in 2013. Respondents were split evenly across a range of industries and geographic regions, as shown below. All interviews were conducted by telephone and are reported anonymously with the results presented in aggregate. Some totals in the survey graphs may not add to 100% due to rounding.

Survey Respondents by Region and Industry

Number of Companies by Industry	Benelux	DACH	France	Nordics	Southern Europe	United Kingdom	Total
Energy	4	2	2	6	5	5	24
Materials	7	6	5	2	3	1	24
Industrials	4	2	6	2	4	6	24
Consumer Discretionary	3	3	7	3	5	3	24
Consumer Staples	6	6	3	4	2	3	24
Healthcare	2	10	1	9	1	1	24
Financials	5	1	1	7	6	4	24
Information Technology	3	5	8	0	1	7	24
Telecommunication Services	6	2	2	6	4	4	24
Utilities	0	3	5	1	9	6	24
Total	40	40	40	40	40	40	240

19 Although most of the companies in the STOXX® Europe 600 Index prepare financial statements in accordance with IFRS, some use other accounting standards, such as Swiss GAAP or U.S. GAAP. The 2014 Study did not make adjustments for any differences in accounting standards applied by companies within the index. However, because only a small proportion of the companies in the index do not use IFRS, we do not expect the inclusion of those companies to have a material impact on the statistics reported in the 2014 Study. For example, in 2013 there were 17 companies filing under either U.S. or Swiss GAAP. However, non-IFRS filers accounted for only 0.4% of the 2013 aggregate amount of goodwill impairments for the entire universe of companies.

20 Source: Bloomberg. The index is reviewed regularly for component changes and is typically adjusted on a quarterly basis. For 2013, the methodology was enhanced to utilise index members as of the end of the year. To keep the information consistent with the 2013 Study, the information for 2010-2012 was still collected based on index members at the beginning of each calendar year (e.g. 1 January 2010 for the 2010 list).

21 This analysis resulted in the elimination of 10, 13, 12, and 9 companies from the data set in 2010, 2011, 2012, and 2013, respectively. Consequently, Tables 1-4 show that 2013 statistics were computed for 591 companies (600 companies in the index, less the 9 that were eliminated from the data set).

22 Because of the fiscal year-end to calendar year-end adjustment goodwill impairment amounts for some companies were calculated using financial results across different fiscal years. In such cases, spot foreign exchange rates corresponding to the appropriate fiscal year-end dates were used to convert the impairment amounts into euros.

Appendix 3: Foreign Exchange Rate Assumptions

Year	Currency	Per €1
2013	CHF	1.226
	DKK	7.460
	GBP	0.831
	NOK	8.364
	SEK	8.853
	USD	1.377
2012	CHF	1.207
	DKK	7.461
	GBP	0.811
	NOK	7.341
	SEK	8.585
	USD	1.319
2011	CHF	1.214
	DKK	7.433
	GBP	0.835
	NOK	7.746
	SEK	8.918
	USD	1.299
2010	CHF	1.253
	DKK	7.454
	GBP	0.859
	NOK	7.802
	SEK	9.011
	USD	1.341

Other Dates	Currency	Per €1
03/11/2013	GBP	0.847
14/09/2013	GBP	0.837
30/09/2013	GBP	0.836
31/08/2013	GBP	0.853
30/04/2013	GBP	0.846
31/03/2013	GBP	0.844
23/02/2013	GBP	0.862
31/01/2013	GBP	0.857
31/03/2012	GBP	0.834
30/09/2011	GBP	0.860
30/04/2011	GBP	0.889
31/03/2011	GBP	0.884
31/01/2011	GBP	0.855
30/09/2010	GBP	0.865
31/07/2010	GBP	0.831
30/04/2010	GBP	0.868
31/03/2010	GBP	0.891

Source: S&P Capital IQ

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