

Ernst & Young

Assurance | Tax | Transactions |
Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, accountancy, transaction and advisory services. Worldwide, our 135,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com/be or www.ey.com/nl.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

www.ey.com/be
www.ey.com/nl

© 2009 Ernst & Young
All rights reserved

About Ernst & Young's Valuation & Business Modelling Services

Our market-leading valuation and business modelling team will focus on your needs to improve growth, profitability or competitiveness, whether you are acquiring, divesting, restructuring or embarking on a joint venture. We have assisted some of the largest companies in the global market with our responsive, objective advice on valuing businesses, shares and assets. Our business modelling professionals help you to carry out the model review, model support and model build services you need to make strategic decisions. Our professionals can apply their commercial judgments and technical skills to a wide range of complex valuation and business modelling situations, wherever you are in the world. Our clients see us as a vital part of the team, valuing the deep sector-specific experience and industry understanding our professionals bring to the deal. It's how Ernst & Young makes a difference.

Why choose Ernst & Young?

1. One global, integrated team
2. Cross-border experience, in-country resources
3. Proven global methodologies and the latest, high-quality tools and perspectives
4. Collaborative approach
5. Objective and independent advice

Contact

Would you like to receive more information on Purchase Price Allocation?
Please contact:

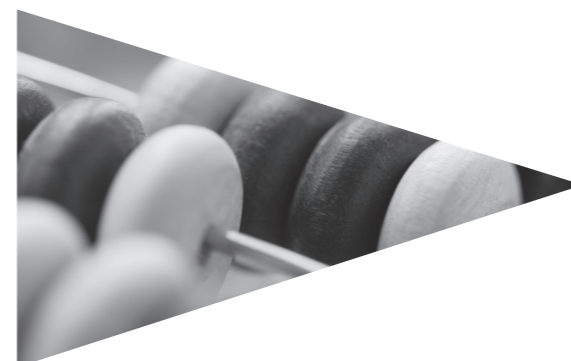
Jan van der Geest
Partner
Tel: +31 88 407 16 95
jan.van.der.geest@nl.ey.com

Frank Lapeirre
Partner
Tel: +32 2 774 90 18
frank.lapeirre@be.ey.com

Wim Veerman
Executive Director
Tel: +31 88 407 17 13
wim.veerman@nl.ey.com

Purchase Price Allocation

Have you correctly allocated the price paid for your acquisition?



The ascension of International Financial Reporting Standard (IFRS) in Europe and around the world is having an important impact on how leading companies need to express the value of assets and liabilities on their balance sheets. One important example of this is in the way companies need to allocate the purchase price of acquisitions under IFRS 3 - Business Combinations.

The European Commission's initiative to develop an effective and transparent single capital market has required listed companies in the European Union (EU) to apply IFRS in their consolidated financial statements since 2005. One of the complex issues that companies reporting under IFRS are now faced with is how the purchase price of an acquisition should be allocated to the target's net tangible assets, intangible assets and goodwill. This allocation process can be complicated, requiring identification of all of the target's tangible and intangible assets, determining these assets' fair values, taking into account deferred taxes (if necessary), and allocating goodwill.

IFRS 3 - Business combinations

IFRS 3 defines a business combination as:

"The bringing together of separate entities of businesses into one reporting entity."

IFRS 3 introduces specific rules for intangible assets, acquisition accounting and goodwill.

These rules result in mandatory non-amortization of goodwill by entities complying with IFRS. Goodwill *must*, however, be tested annually for impairment and written down to the extent it is impaired.

IFRS 3 also prescribes a more definitive approach to the identification and recognition of identifiable intangible assets acquired in a business combination. Companies applying IFRS are required to make an assessment of whether the useful life of an intangible asset is finite or indefinite. An intangible asset with a finite useful life is amortized over its useful life and tested for impairment when there is an indication that the asset is impaired. An intangible asset with an indefinite useful life is not amortized and is tested for impairment *at least* annually.

Although goodwill is no longer amortized, it is exposed to future impairment write-downs that are not permitted to be reversed. However, if the amount of the purchase price allocated to identifiable intangibles is increased, a smaller amount will be attributed to goodwill, and exposure to future goodwill impairment losses will decrease.

ERNST & YOUNG
Quality In Everything We Do



Recognition criteria for intangible assets

Definition

IAS 38 defines an intangible asset as:

“An identifiable non-monetary asset without physical substance.”

An intangible asset meets the identifiability criterion when it:

- ▶ is separable, that is, capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- ▶ arises from contractual or other legal rights regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Recognition

One of the important changes in the revised IFRS 3 (IFRS 3R) is the recognition criteria for intangible assets. IFRS 3R requires recognition and fair value measurement for any intangible asset that can be separately

identified. Intangible assets shall also be recognized irrespective of whether the asset had been recognized by the acquiree before the business combination.

Fair value measurement

The “fair value hierarchy” as described in IFRS is as follows:

- ▶ first, quoted market prices in an active market (for most intangible assets this is considered relatively uncommon);
- ▶ second, if observable prices for identical assets are not available, prices of the most recent similar transactions in similar economic circumstances;
- ▶ third, if observable prices for identical or similar assets are not available, valuation techniques consistent with the objective of estimating fair value, which reflect current transactions and practices in the industry to which the asset belongs.

Examples of intangible assets

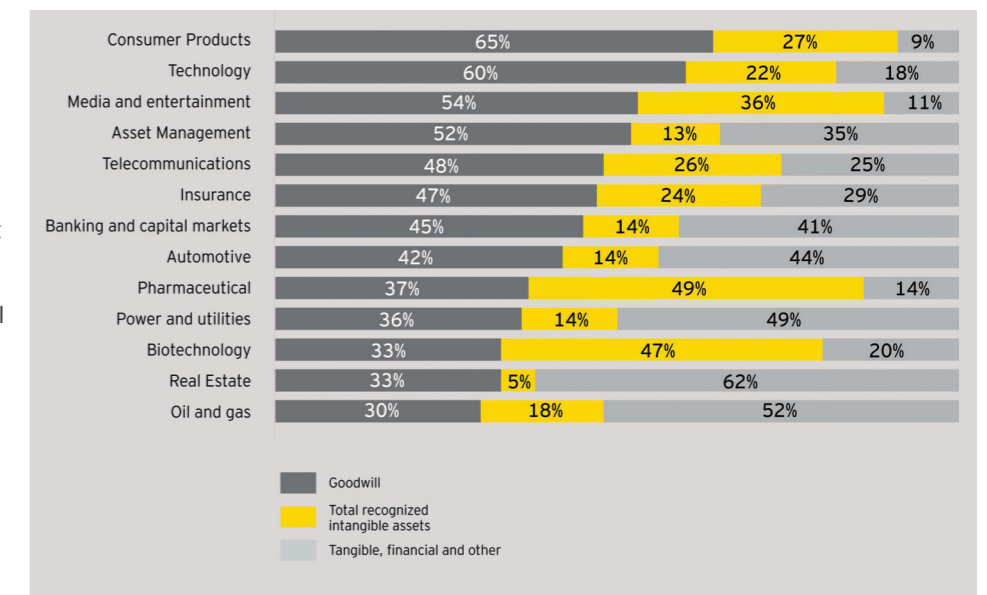
Types of intangible assets that may be recognized as part of the purchase price are summarized in the following table.

Contract-based intangibles
Licensing, royalty agreements
Advertising, service, supply contracts
Use rights such as drilling water, minerals and timber cutting
Operating and broadcasting rights
Lease or franchise agreements
Customer-related intangibles
Customer lists
Customer contracts and relationships
Non-contractual customer relationships
Technology-based intangibles
Patented and unpatented technology
Computer software and mask works
Databases
Trade secrets
Marketing-related intangibles
Trademarks, trade names, trade dress
Newspaper mastheads
Internet domain names
Non-competition agreements
Artistic-related intangibles
Plays, operas, ballets
Books, magazines, newspapers
Musical works, pictures, photographs

Results of Ernst & Young Purchase Price Allocation study

Ernst & Young conducted an international study on over 700 transactions completed by IFRS compliant companies in Europe, Americas and Asia. The graphic to the right summarizes how the acquisition price was allocated to net tangible assets, identifiable intangible assets and goodwill in 13 different sectors.

As can be seen in this graphic, while the level of allocation differs by sector, all sectors allocate at least some of the purchase price to identifiable intangible assets.



Further information about the study can be found on Ernst & Young's global website: www.ey.com/global.

What can we do for you?

Our approach is tailored to meet your specific circumstances and is dependent on:

- ▶ the nature and industry of the entity acquired;
- ▶ the risk profile of the transaction; and
- ▶ the size of the entity acquired.

Depending on the approach adopted and the nature of our relationship with you (audit or non-audit), our scope of work will vary, as indicated in the table below.

Approach	What is involved	Outputs
Diagnostic	Ernst & Young will undertake an assessment to identify assets and liabilities that need to be valued for purchase price allocation purposes.	Analysis indicating assets and/or liabilities that need to be valued and high level definition of valuation methodologies and procedures. Recommendations of next steps, for example: <ul style="list-style-type: none"> ▶ perform an internal analysis; or ▶ engage external consultants.
Valuation review	Ernst & Young will review the valuation analysis prepared by management or a third party. In this role, we can review the reasonability of: <ul style="list-style-type: none"> ▶ assets identification; ▶ valuation approach and methodology; ▶ certain or all key valuation assumptions. 	Advice on a range of issues, including: <ul style="list-style-type: none"> ▶ selection of appropriate valuation methodology; ▶ appropriate application of selected methodology; and ▶ reasonableness of key valuation assumptions.
Valuation advisory/opinion report	Ernst & Young will value tangible and intangible assets for purchase price accounting purposes.	A formal valuation report which assesses the fair values of assets, providing an independent basis to support the values at which assets will be carried in the balance sheet.