THE IMPACT OF IFRS ON REPORTING FOR BUSINESS COMBINATIONS: AN IN-DEPTH ANALYSIS USING THE TELECOMMUNICATIONS INDUSTRY

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The mandatory use of IFRS by all publicly listed companies in the European Union created challenges for accounting and reporting of business combinations, goodwill impairment and disclosures for these items. Major issues are allocation of amounts to goodwill and specific intangible assets arising from acquisition. This study presents an in-depth exploration of compliance with IFRS 3 and IAS 36 using content analysis methodology of annual reports of eight European telecommunications that were chose because the industry is well known for significant acquisitions involving intangibles. The results show only partial compliance with little change over the four year period since mandatory IFRS adoption. While results cannot be generalized outside this group, the in-depth analysis yielded important insights for continued research using broader research methods.

Key words: IFRS, business combinations, goodwill, content analysis, annual reports, listed companies

JEL codes: M41, M21, G34

Since the beginning of the corporate form of business organization, companies have found it beneficial to combine operations for several economic and business advantages. A major feature of globalization in recent years has been cross-border expansion and acquisition of subsidiaries in different countries. As such combinations become more complex, financial reporting issues become more complex and become more important for the global macro-economy (e.g. see Márquez-Ramos 2008). As a result, policy makers and standard setters have been active in developing reporting mandates, standards and guidance. One of the most significant events of recent years is the requirement of the European Union (EU) in 2002 to mandate that all companies listed on a public exchange in Europe must follow International Financial Reporting Standards (IFRS) for public financial reporting beginning in 2005. While this mandate is much broader than business combinations, virtually all publicly held companies are consolidated groups that result from business combinations and the mandate applies only for the consolidated group level reports. The European Commission was clearly motivated by a desire for consistency in financial reporting, comparability, and transparency. Article 1 of its Regulation 1606/2002 states: This Regulation has as its objective...to harmonising the financial information presented...in order to ensure a high degree of transparency and comparability of financial statements.

Approximately coinciding with the EU mandate, the IASB adopted IFRS 3 and amended IAS 36 in 2004. IFRS 3 addresses, among other things, the allocation of purchase price on acquisitions especially allocation to previously unrecorded intangible assets and residual amounts to unallocated goodwill. IAS 36 as amended focused on asset impairments, including impairment of unallocated goodwill. IFRS 3 and IAS 36 address many of the inconsistent and contentious issues of financial reporting for business combinations, attempting to provide standardization, accountability and transparency throughout all countries adopting IFRS, including the EU. Business combinations are one of the primary areas addressed by the International Accounting Standards Board (IASB) in IFRS 3 and IAS 36 in which the board seeks to provide significant and reliable information, especially for unallocated goodwill, for which there has been considerable creativity in the past (Forbes, 2007). Surveys of investors indicate the investors believe IFRS 3, especially, has a real impact on how they perceive companies and make their investment decisions because complying with IFRS 3 provides more transparency about companies (PricewaterhouseCoopers, 2006).

Despite discussions both extolling and questioning the virtues of mandatory adoption of IFRS, specifically with respect to business combinations, only recently there have begun to be research studies about whether the mandatory use of IFRS has achieved its purported objectives. The only study with which we are familiar that directly addresses issues of business combinations in Europe is Paananen (2008) who examined information provided about initial recognition of goodwill under IFRS3, although there have been other studies, discussed and cited below, about IFRS adoption in general. This study explores the extent to which European companies are complying with the mandate to report using IFRS with respect to business combinations and how the level of compliance may have changed in the years following the mandate. Thus, this study adds to this small but growing body of research literature with an in-depth examination of financial reporting of business combinations by European companies in the telecommunications industry for four years after mandatory adoption.

Telecommunication companies are used for the study because there have been several significant acquisitions in the industry and telecommunications companies have significant intangible assets that must be considered in allocation of purchase prices. The research method is content analysis in which there is an in depth review and analysis of financial reports for the companies chosen before 2005 and for the period 2005 through 2008. Remaining sections next discuss issues related to financial reporting of business combinations and subsequent impairment testing and present two research questions. Then we present prior research on the issues. Then we present the research methodology. Finally, results are presented followed with a concluding discussion.

1.0. Financial accounting and reporting for business combinations

Accounting and financial reporting issues for business combinations can be categorized in two broad general topic areas, although there are overlaps and any categorization has the risk of being over simplified: First are issues related to measurement and disclosures of items related to the combination itself. These include measurement of identifiable intangibles assets arising from the combination, i.e. intangible assets not previously recorded and unallocated goodwill arising from the acquisition. Second are issues related to measurement and disclosures of asset impairments. While impairment is not limited to business combinations, a major portion of the accounting and reporting issues are related to goodwill.

As a result, we have formulated two research questions to guide this study:

Q1. To what extent has the mandatory adoption of IFRS been followed by telecommunications companies' compliance with measurement and disclosure standards for items directly related with business combinations.

Q2. To what extent has the mandatory adoption of IFRS been followed by telecommunications companies' compliance with measurement and disclosure standards for goodwill impairments.

Prior research on these topics has been limited. There have been several studies of IFRS adoption in general, many prior to the mandatory adoption requirement of the EU (e.g. Street, Bryant and Gray 1999; Street and Bryant 2000; Street and Gray 2001 and 2002, Glaum and Street 2003; and Hodgdon et al. 2009) which all indicated a low level of compliance despite statements of the companies and their auditors that statements were in accordance with IFRS. The only study of business combinations in a European setting was that of Paananen (2008) who measured the volume of information of goodwill under IAS 36 for companies in France, Germany, and the United Kingdom and found a low level of compliance. Sevin et al. (2007) and Shalev (2009) examined goodwill disclosures for U.S. companies under U.S. GAAP, finding sporadic and limited compliance with standards. All of these studies were broad-based examining large groups of companies and thus, though, did not examine in depth the issues of individual companies.

Despite the interest in individual companies expressed above, there have been no substantial in-depth studies of companies. Therefore, this study takes a first step in the study of individual companies.

1.1. Measurement and reporting issues from business combinations

When businesses combine, many complex accounting and reporting issues arise. Prior to the mandatory adoption of IFRS in 2005, European companies were subject to local country accounting standards which varied widely. One of the primary motivations for the 2002 mandate was to eliminate the inconsistencies of the many different standards that were being used in Europe before 2005. IFRS standards are generally more stringent and in particular require substantially more disclosures than many if not most local European countries' accounting standards (Jermakowicz and Gornik-Tomaszewski 2006). The accounting standards of most individual European countries, especially on the continent of Europe, are based on the interests of many stakeholders while IFRS are motivated primarily by interests of investors. This difference in focus has major impacts on valuation methods as well as a major increase in disclosures (Jermakowicz and Gorkin-Tomaszewski 2006, Ernst & Young 2006). Some European companies voluntarily adopted accounting standards of other countries, notably U.S. GAAP, primarily because they were listed, or sought listing on stock exchanges in the U.S. Street and Bryant (2000) observed when examining IFRS compliance in general, before mandatory adoption that a listing in the U.S. did not seem to affect compliance with IFRS. In our in-depth analysis, we also examine the extent of multiple listings and the impact on compliance with IAS 36 and IFRS 3.

1.1.1. Allocating the cost of a business combination

As business combinations and the environment in which they occur have become more complex, the issue of how to allocate the acquisition cost to various items has taken on greater importance and thereby the interest of standards setters, companies and their auditors. Prior to mandatory adoption of IFRS and issuance of IFRS 3, most if not all accounting standards used by European companies involved some type of an allocation of the acquisition cost to specifically identifiable assets and liabilities of the acquired company; the remainder remained as unallocated goodwill.

Assets and liabilities of acquired companies were typically measured at fair value. In some situations, though, the full fair value of acquired assets was not recognized, but instead only the percentage of ownership was applied to the excess of fair value over book value. In some countries, the write-down of assets is viewed as conservative and goodwill along with other assets were written down to lower amounts or written-off. Accounting standards of some countries required reporting of contingent liabilities while others did not. Goodwill has been a major issue in accounting and reporting of business combinations for many years in many countries (e.g. see Ma and Hopkins, 1988; Johnson and Petrone, 1998; Fontanot, 2003; Gaughan, 2005). There is general recognition that value of a business as a whole is greater than the aggregation of individual assets less liabilities, and this difference is called goodwill in general terminology, although the term "goodwill" was not found in financial reports themselves. Two major issues are the subsequent treatment of unallocated goodwill in following years, discussed shortly, and to what extent other intangible assets must be separately identified in order to leave unallocated goodwill as truly a residual that cannot otherwise be attributed to an asset. Traditionally, little effort was made to separate unallocated goodwill from other intangibles arising from the acquisition that were not previously reported on an acquired company's financial statements, e.g. brands, customer lists, self-developed patents and the like. Because traditionally all intangible assets including unallocated goodwill were amortized or written off, there was little perceived need to make such a separation. With the adoption of IFRS 3, and a similar standard in the U.S., goodwill would no longer be amortized but instead subject to impairment testing as discussed below.

IFRS 3, paragraph 45, states that intangible assets must be recognized separately from goodwill in business combinations when they meet the definition of intangibles in IAS 38 and their fair values can be measured reliably. This requirement, contrary to much of traditional practice, provides a clear instruction for companies to reduce amounts of unallocated goodwill and increase amounts allocated to previously unrecognized intangible assets. Caldwell (2006) indicates that such increased allocation to specific intangible assets is occurring, although at a glacial pace. Not only is such allocation difficult and tedious, companies have little incentive to make such allocations because, among other reasons, increased amounts allocated to other intangibles lead to lower reported income because such intangibles must be amortized while goodwill is no longer amortized with the adoption of IFRS. (For more discussion see, for example, Jetuah , 2007; Deloitte Touche Thomatsu, 2004; PricewaterhouseCoopers, 2004, and similar professional sources). Traditionally, European companies following local accounting standards had a wide variety of approaches for accounting for unallocated goodwill after a business combination, and in some cases could choose among alternatives. Such provisions are too numerous to present here. (For a comprehensive discussion see Carrara, 2007, pg. 94.) Briefly, the most common treatment was amortization over periods not to exceed five years or 20 years. Write-off of unallocated goodwill against reserves or current year's income is permitted in some situations and various choices of impairment testing were permitted. IFRS 3 eliminated amortization of goodwill, instead requiring impairment testing (discussed shortly). Thus, IFRS 3 establishes a motivation that might be viewed as contradicting the board's desired end result to allocate amounts to specifically identifiable intangible assets arising from the acquisition. A requirement to identify as many intangible assets as can be reliably measured would lead to lower future net income as the intangible assets are amortized thus motivates companies to "err" on the side of continuing recognition of as much of the acquisition cost as unallocated goodwill which will no longer be amortized. Therefore, a major element of this study is to examine the portions of acquisition costs allocated to goodwill before and after mandatory adoption of IFRS, and over the subsequent four year period.

1.1.2. Disclosures related to business combinations

Traditionally, European companies were subject to few disclosure requirements and disclosure requirements are not consistent among countries (Jermakowicz and Gornik-Tomaszewski 2006, Ernst & Young 2006). IFRS 3 sought to achieve greater transparency and accountability by imposing extensive disclosure requirements. These are too numerous to list here, but are presented in Appendix 1 along with results of the study. Briefly, they include details about the nature of the transaction, amounts of acquired assets before and after acquisition, description of determination of goodwill and intangible assets included or recorded separately, profit impacts, and reconciliation of unallocated goodwill to evaluate changes during the year. One of the objectives of this study is an in-depth assessment of the extent of compliance of each company with respect to these disclosure requirements since 2005 and changes over time.

1.1.3. Other issues

Other issues are apparent from the mandatory adoption of IFRS and issue of IFRS 3 that cannot be addressed by this study. For example, the choice of accounting method, purchase or pooling of interests (also called uniting of interests) is now largely irrelevant because IFRS prescribe that all business combinations shall be reported using the purchase method. Identifying whether an activity is indeed a business combination for financial reporting purposes and identifying the acquiring entity also present challenges. We must assume that these issues are adequately resolved, apart from disclosures, because we do not have access to the internal documentation of the company and its auditors. Similarly, measuring the cost of a business combination also presents challenges that we cannot address apart from disclosures because of lack of access. (For more discussion of these issues see, for example, Epstein and Mirza, 2005; Deloitte Touche Tohmatsu, 2004, and similar educational and professional items published by various sources.)

1.2. Impairment testing of goodwill

The requirement for impairment testing has been a part of accounting tradition in most countries for many years, although not always formalized and traditionally often a term other than "impairment" was used. For example, a notion has existed in many countries for some time that assets should not appear on a balance sheet at greater than a recoverable amount, "recoverable amount" defined in various ways. With respect to unallocated goodwill, impairment testing could be triggered by a specific event, or be required annually. Traditionally unallocated goodwill has often been subject to impairment testing even if it was being amortized so that impairment testing and amortization are not alternatives. After considerable discussion and debate, the IASB in IFRS 3 specified impairment testing exclusively, referring to IAS 36 which was amended. IAS 36 applies to assets in addition to goodwill, but the focus of most discussion is on the impact of IAS 36 on impairment testing of unallocated goodwill. (For more discussion of impairment testing see, for example, Carrara, 2008; Carlin, Finch, and Guy, 2007; Wines, Dagwell, and Windsor, 2007; Ernst and Young, 2007; International Accounting Standards Board, 2004; and similar sources.)

1.2.1. Impairment testing based on Cash Generating Units

Traditionally, impairment testing of goodwill was based on the aggregate amount of unallocated goodwill on the balance sheet. One of the most significant elements of IAS 36 is the requirement that companies now must define cash Generating Units (CGUs) within themselves, the smallest identifiable group of assets that generate cash inflows that are largely independent of other groups of assets that generate cash inflows. Unallocated goodwill must be assigned to each CGU and impairments tests conducted for each CGU. While there are guidelines for defining CGUs, management discretion remains. In order to assess goodwill impairment, the companies must determine recoverable amounts from each CGU and compare the recoverable amount with the carrying value of the net assets of the CGU. If the recoverable amount of the CGU is less than the carrying value, any deficiency first reduce unallocated goodwill. Any remaining deficiency reduces other assets. IAS 36 specifies two approaches to determine the recoverable amount of CGUs: First, the fair value less cost to sell is based on a sale of the CGU in an existing market. Second, the value in use reflects the present value of future cash flows. IAS 36 provides specific guidance for both approaches, especially determining cash flows and appropriate discount factors. (Carrara, 2008; Carlin, Finch, and Guy, 2007; Wines, Dagwell, and Windsor, 2007; Ernst and Young, 2007; International Accounting Standards Board, 2004; and similar sources). The assignment of unallocated goodwill to CGUs and use of CGUs to assess impairment represents a significant departure from almost all accounting traditions and can be expected to represent a significant challenge for first time adopters of IAS 36 beginning in 2005. Therefore we do an in-depth analysis of annual reports to explore companies' identification of CGUs and impairment testing.

1.2.2 Disclosures related to impairment tests

Traditionally, disclosure requirements for asset impairments varied substantially among countries and in general were not extensive (Jermakowicz and Gornik-Tomaszewski 2006, Ernst & Young 2006). The IASB sought to increase transparency and accountability and allow users of financial reports to make independent reflections on the impairment process by requiring a wide range of information be disclosed for each CGU that has a substantial amount of unallocated goodwill. Disclosure requirements of IAS 36 vary depending on which approach is used to measure the recoverable amount; disclosures are more extensive for the value in use approach than for the fair value approach.

As above for disclosures of business combinations, the disclosure requirements are too extensive to list here and are presented in Appendix 1 along with results of the study. In general, the requirements require disclosure of assumptions and approaches used to determine fair values and costs to sell if the fair value approach is used; and assumptions about the amount and duration of cash flows, growth rates, and discount rates if the value in use approach rate is used. As with disclosures about measurements for business combinations, another objective of this study is to assess compliance with disclosure requirements of goodwill impairment tests for each company.

1.3 Compliance and enforcement

It is meaningless to speak about high quality financial reporting and transparency as envisioned by the IASB and the European Commission unless effective and consistent application of IASs and IFRSs in ensured (Whittington 2005, Daske et al. 2008). Positive economic consequences of IFRS adoption can occur only in countries with strict enforcement regimes (Daske et al. 2008). The level of compliance is as important as the standards themselves (Hogdon et al. 2009). Such compliance is viewed as narrowing the information gap between informed and uninformed investors and consequently increasing capital market efficiency (Healy and Pelapau 2001, Ball 2006). IFRS implementation is viewed as the "Achilles heel" of IFRS (Ball 2006) because partial compliance with IFRS may lead to uncertainty about the real economic situation of an entity. In this study we explore enforcement, or lack thereof.

2.0 Method and company selection

This study uses a pattern model of explanation that does not contain general theories in explanations but seeks to observe specific occurrences in the context of the systems in which they occur in order to provide explanations for the occurrences (Ryan, Scapens, and Theobold, 2002). Content analysis methodology is well suited for this type of pattern study because it allows in-depth examination and analysis of specific occurrences in the context of the systems in which they occur, i.e. the extent of proper application of IFRS 3 and IAS 36 in preparation of published annual reports of the eight companies studied.

2.1 Content Analysis

Content analysis involves objective and systematic analysis of communication media, in this study published annual reports, in order to extract data, count observations for further analysis including statistical analyses, and form qualitative assessments. (For more discussion of the content analysis research method see, for example, Carney 1972, Krippendorf 1980, and Steenkamp, 2007.) Content analysis is especially useful for this study because if applied properly it is:

-Systematic and covers all aspects of the issue uniformly throughout the text analyzed.

-Objective because all content is considered alike and impartially collected.

-Manifest because all content is taken at face value without interpretation.

-Informative because it reveals trends and characteristics not otherwise observable

Because of the mass, complexity, and sometimes chaotic nature of the content. Content analysis allows deeper analysis of situations than other methods.In this study we read thoroughly the content of all annual reports of the eight companies for the years 2005 through 2008, 32 annual reports total, in order first to assess for each company, to the extent possible, the compliance with measurement aspects of IFRS 3 and IAS 36. In addition we examined all disclosures in order to determine whether the companies had adequately disclosed all mandatory items required by IFRS 3 and IAS 36. Content analysis allows quantitative analysis of data extracted from the analysis. In this study we examine the level of compliance with IFRS disclosure requirements for both IFRS 3 and IAS 36 using a comprehensive disclosure index. This index includes all disclosure requirements of each standard. This index enables the quantification of the level of compliance with a compliance ratio that takes values from 0 (no compliance) to 1 (full compliance). Specifically, in order to score companies, the so called dichotomous approach is used (Cooke, 1989; Street and Bryant, 2000; Glaum and Street, 2003; Jahangir, Kamran, and Darren 2004; Akhtaruddin, 2005; Hassan et al, 2009) in which if a required item is disclosed, it is scored as 1 and if not disclosed it is scored 0; if an item is not applicable for a company, it is marked as "NA". Then, the level of compliance for each company is calculated as the ratio of the total items disclosed to the total number of applicable disclosure items as follows:

$$LC_{i,t} = \frac{D_{i,t} = \sum_{j=1}^{n} d_j}{A_{i,t} = \sum_{j=1}^{m} a_j}$$

Where,

LCi,t = The total Level of Compliance score for firm i in year t $0 \leq$ L.C. ≥ 1

Di,t = The total number n (0, m) of disclosed items d for firm i in year t

Ai,t = The total number m (3, 58) of applicable disclosure items a for firm i in year t

Following Glaum and Street (2003), the disclosure index is based on a checklist developed by the audit firm Deloitte (2008). In order to ensure the completeness of the index, items are compared with similar checklists of the other three major audit firms and with Ntzanatos (2008). During the period under examination (2005-2008) no amendments to the two standards occurred and no company adopted optionally the amendments of IFRS 3 and IAS 36 before their mandatory adoption on 1 January 2009.

2.2 Company selection

For this study, we selected eight European telecommunications companies. The telecommunications industry was chosen because companies have been active in business

combinations in recent years. In addition, telecommunications companies tend to have relatively large unrecorded intangible assets related to brand, customer lists, licenses, etc. As a result they have been reputed in the media to have paid large amounts to acquire companies in the same industry so that examining goodwill and intangible assets from the combinations allows a focus on the research objective. This group of eight companies is admittedly a convenience sample and generalizations cannot be made outside of this group. Nonetheless, the small sample permits an in-depth analysis that would not be possible otherwise. Moreover, the companies are large enough to be significant on European stock exchanges and thus provide insight into the behaviour of large European companies with respect to IFRS adoption. The companies and some descriptive data are presented in Table 1. The data as of the end of 2005, the first full year of this study is designed to give a view of the size and significance of the company with respect to total assets, equity, revenues, net income, cash flow from operations, and number of employees. The exchanges on which the shares are listed also give some indication of the significance.
[Table 1 about here]

3.0 Results of content analysis

In order to assess the two research questions, we first explored annual reports to first examine accounting and reporting treatment for combinations before 2005 and then in each of the subsequent years. After examining the materiality of goodwill, we explored the measurement issues of allocation of purchase prices to goodwill and other intangibles and then explored measurement issues related to goodwill impairments. Afterwards, we examined the disclosures about measurement issues related to both topics to determine if they comply with the requirements of IFRS 3 and IAS 6. As will become apparent, it is not possible to make a clear distinction between measurement and disclosure issues, but we have done so to the extent possible as a means to organize our findings. Finally, we explore issues about stock exchange listings and auditor choice.

3.1 Goodwill as a percentage of total assets: materiality and trends

One of the first issues to be considered in an in-depth analysis is whether the carrying amount of unallocated goodwill on companies' balance sheets is material enough to warrant concern and further in-depth analysis. Among other things, the materiality of goodwill is closely related to the volume of disclosures mandated by IFRS 3 and IAS 36. The issue of materiality is particularly broad and uncertain because there is no objective method of measuring it (Hoogendoorn, 2006). As a consequence, in many cases both Assistant Lecturers and users of financial statements use "rules of thumb" in order to determine whether an item or an event is material or not (Shalev, 2009).

In this study, we first base the materiality of goodwill on IAS 1, Paragraph 29, which specifies that an entity shall present separately items of a dissimilar nature or function unless they are immaterial. Consequently we initially assume that if companies recognize goodwill as a separate line item on their balance sheets or elsewhere in the explanations of financial report items, the amount is material and subject to the disclosure requirements of IFRS 3 and IAS 36. As a further examination of materiality we have considered reported unallocated goodwill as a percentage of total assets for each company for each of the years examined as shown in Table 2. This table shows that goodwill is material by virtually any "rule of thumb", ranging from lows of 12 percent and 14 percent to highs of 51 percent and 58 percent of total assets. For some companies, goodwill is the largest single asset. Moreover, of primary interest for this study, unallocated goodwill as a percentage of total assets is not decreasing, contrary to the objectives of the IFRS 3 that unallocated goodwill should decrease as increasing amounts are allocated to specifically identifiable intangible assets arising from acquisitions. All companies showed an increase in goodwill as a percentage of total assets from 2005 to 2008 except Vodafone which showed a decrease from 59 percent to 40 percent. Some companies showed very small year-to-year decreases, but an overall increase for the four-year period.

[Table 2 about here]

3.2 Accounting and reporting issues directly related to acquisitions

Research question 1 states:
Q1. To what extent has the mandatory adoption of IFRS been followed by telecommunications companies' compliance with measurement and disclosure standards for items directly related with business combinations.
It relates specifically to amounts allocated to specific intangible assets arising from acquisitions and the remaining unallocated goodwill. IFRS 3 clearly took a position that amounts reported as unallocated goodwill should be limited to items that cannot be identified or measured reliably while items such as brands, trademarks, customer base, etc. should be identified and reported separately. The clear expectation of IFRS 3 is that amounts reported as unallocated goodwill would decrease while amounts allocated to specifically identifiable intangible assets would increase. Therefore, our primary criterion for assessing the compliance with measurement and reporting requirements of IFRS 3 is the relative amounts allocated to specific intangible assets, amounts that remain as unallocated goodwill, and the trend over time.

3.2.1 Business combinations before 2005

Examining the annual reports of the eight companies for various different years before 2005 shows, as expected, a wide variety of practices all of which are generally sketchy and inadequate from which to make assessments and lacked transparency. In general, information presented is limited to the purchase price, the percentage of equity shares acquired, and amount of goodwill. On average 75 percent of the purchase price was remained unallocated goodwill. Only Telenor and France Telecom provided information about purchase price allocation and allocated small amounts to intangible assets that were not previously reported by the acquired company. Vodafone indicated that many of its acquisitions were driven by the aim to acquire trademarks and customer bases of other companies, but the financial statements do not show amounts allocated to such intangible assets. (For more details and illustrations see Carrara 2008.)

3.2.2 Accounting and reporting for business combinations in years beginning in 2005

The examination of annual reports for 2005 onward showed the eight companies began to present more comprehensive information about business combinations than in previous years, yet several significant failures to comply with the intentions and requirements of IFRS 3 are evident. Notably the IASB in IFRS 3 clearly expects companies to allocate more of the amounts of purchase prices to identifiable intangible assets not present on financial statements before combination and thereby reduce amounts allocated to goodwill.

3.2.3 Accounting and reporting for business combinations in 2005

As shown in Figure 1 for acquisitions in 2005, based on aggregated information for all companies there would seem to be some progress in the direction desired by the IASB: on average the amounts of unallocated goodwill at acquisition declined from the average before 2005 of 75 percent, but still remain relatively high at 60 percent. Amounts allocated to specifically intangible assets not previously reported on financial statements are 45 percent of the amounts allocated. Other amounts were allocated to assets existing before acquisition and to liabilities.

[Figure 1 about here]

As shown in Table 3, though, examining each major acquisition in 2005 individually indicates wide variation among companies in amounts allocated to goodwill. A few acquisitions with very low and negative goodwill distort the aggregate average. Amounts of unallocated goodwill by other companies remain high, often almost the entire purchase price. Percentages allocated to specifically identifiable assets remain low with two anomalies of 98 percent and 354 percent of the purchase price, the latter because large amounts were allocated to both liabilities and reduction of other assets, distorting the aggregate average. Some of the companies indicate substantial increases in customers, new market entry, etc., but do not allocate amounts to customer lists, brands, trademarks and the like. Relatively large amounts are identified merely as other intangible assets with no description. Companies give only vague comments such as future profits, synergies and growth to describe what constitutes unallocated goodwill. It is apparent that the reporting of business combinations in 2005, while providing more information than in years before mandatory adoption of IFRS, is not achieving the expectation of the IASB to increase accountability and especially increase transparency.

[Table 3 about here]

3.2.3 Accounting and reporting for business combinations in 2006

Examination of annual reports for 2006 shows, as presented in Figure 2, on average the aggregate amount of purchase prices reported as unallocated goodwill has increased to 63 percent compared to 60 percent in 2005, while the percentage allocated to specifically identifiable intangibles has decreased to 29 percent from 45 percent, the opposite direction expected by the IASB.

[Figure 2 about here]

Looking at individual companies' reporting of acquisitions in 2006, as shown in Table 4, provides additional perspective. One significant anomaly, Telefonica's acquisition of Colombia de Telecommunicaciones with percentages in hundreds of percentage points, is distorting aggregate amounts and Telefonica did not provide explanation for the anomaly. Even among other acquisitions by other companies, there are wide variations in amounts allocated to goodwill from as low as three percent to over 100 percent. Most companies seemed to report percentages of unallocated goodwill consistent with patterns in years before 2005. Amounts allocated to previously unreported intangible assets varied from a low of two percent to a high of 93 percent. Most of the allocations to previously unreported intangible assets, though, were relatively low and did not appear to reflect the objective of IFRS 3 for companies to allocate more of acquisition costs to specific previously unreported intangible assets and less to unallocated goodwill. Elisa, Telenor, and TeliaSonera notably allocated amounts to specific previously unreported intangible assets as required by IFRS 3. France Telecom allocated amounts to trademarks, licenses, and customer base for one acquisition. France Telecom, however, did not show all the allocations of purchase price and did not provide reconciliation of amounts allocated as it had in the previous year; it was not possible to analyze all of the allocations of France Telecom. Deutsche Telekom did not provide full details about its acquisition of Polska Telefonia and we were required to make educated assumptions to complete our analysis. Companies continued to give vague comments to explain unallocated goodwill, i.e. future synergies and profits. In general, there was no apparent increased compliance with measurement aspects of IFRS 3 for these eight companies from 2005 to 2006. A notable step towards accountability and transparency, though, is Telenor's aggregation of acquisitions that the company states are individually immaterial showing detailed information about the acquisitions in the aggregate.

3.2.4 Accounting and reporting for business combinations in 2007

Examining aggregate amounts for 2007 as shown in Figure 3 shows a continuing pattern of relatively large amounts on average, 68 percent, continuing to be reported as unallocated goodwill. A substantially increasing percentage being allocated to previously unreported identifiable intangible assets, increased to 44 percent in 2007 compared to 29 percent in 2007, suggesting that companies are increasing amounts allocated to other intangibles as expected by IFRS 3.

[Figure 3 about here]

When looking at details about specific acquisitions in 2007 as shown in Table 5, there was a notable absence of very large amounts allocated to specific items compared to the previous two years. It is not possible to know whether this absence of large anomalies results from a difference in the nature of the transactions or from improved financial reporting of the companies. Companies notably show more information about amounts allocated to specific intangibles with a notable decrease in amounts identified as "other intangible assets". In general, percentages allocated to intangible assets show an increase from the previous two years. With the exception of France Telecom, percentages reported as unallocaed goodwill show decreases from the previous years. These two finding suggest the companies are reporting amounts in the direction expected by IFRS 3. France Telecom notably did not provide details about allocations and amounts that were provided did not reconcile mathematically. Likewise information about one of the acquisitions of Telecom Italia did not reconcile mathematically and was sketchy. Telenor continued to report an aggregate of acquisitions that are individually immaterial. Descriptions of amounts reported as unallocated goodwill remain vague with comments about future profits and synergies. In general, we noticed a suggestion of a small trend towards compliance with measurement expectations of IFRS 3 with a continued long ways to go.

[Table 5 about here]

3.2.5 Accounting and reporting for business combinations in 2008

Looking at Figure 4 for acquisitions in 2008 shows that the aggregate of amounts reported as unallocated goodwill remains in the same percentage range as the previous years, in the 60 percent range. The percentage of amounts allocated to identifiable previously unreported intangible assets, though, has reverted to the mid 20 percent range of 2006.

[Figure 4 about here]

Looking at the details of each acquisition in 2008 suggests that some patterns may be emerging. More of the eight companies are identifying specific previously unreported items of intangibles, rather than "other intangible assets", as receiving allocations of acquisition costs. The percentage amounts allocated to intangible assets emerging from acquisitions remain low, though. France Telecom has made remarkable progress in reporting amounts allocated to specific previously unreported intangible assets as well as other details about its acquisitions. Elisa has joined Telenor in reporting aggregate information in detail for acquisitions that are individually immaterial. Amounts reported as unallocated goodwill remain relatively high with vague descriptions about future profits and synergies. In general it appears there is slow continued progress towards meeting the measurement requirements of IFRS 3 with respect to greater amounts allocated to identifiable intangible assets and lower amounts allocated to goodwill.

3.3 Accounting and reporting issues directly related to impairment testing

As discussed in detail above, the IASB made substantial changes in requirements for impairment testing of goodwill compared to its previous standards and those of almost all local countries' accounting standards. Two major elements are defining cash generating units (CGUs) and specifying methods by which the impairment of a CGU is assessed, and then any impairment of goodwill.

3.3.1 Specifying CGUs

The clear intent of the IASB in requiring impairment testing by CGU was to expose more amounts of unallocated goodwill to potential impairment by minimizing the impact of aggregation on impairment. Previously, when unreported goodwill as a whole was subject to impairment tests, the impairment of goodwill related to specific operating units could be avoided because the goodwill in the aggregate was not materially impaired. In providing guidelines on how companies should define CGUs, the clear implication was that CGUs should be small enough to represent realistic units in order to limit aggregation as a means to avoid impairment testing and write-down of unallocated goodwill with resulting negative impact on reported income. In this study, we examine annual reports to discover how companies have defined CGUs and draw inferences about the appropriateness of the definitions.

Table 7 shows CGUs by company as determined from information in 2005 and 2006 annual reports. Only Telenor and France Telecom described that the combinations of CGUs for which impairment tests were made is based on independence of cash flow generating activity. Vodafone had only four CGUs despite having nine segments, and TeliaSonera has four CGU despite having 10 segments. The standard specifies that the highest level for a CGU is business segment; therefore, Vodafone and TeliaSonera must have combined segments to determine CGUs. Telefonica did not provide information about CGUs. These results suggest at best a half-hearted attempt to comply with IAS 36 and based goodwill impairment testing to different levels from those expected by the IASB.

3.4 Compliance with disclosure requirement for business combinations and goodwill

As discussed in more detail above, one of the most important elements of IFRS 3 and IAS 36 was imposition of a substantial number of disclosure requirements. In order to examine the extent to which companies complied with disclosure requirements of each standard, we tabulated the number of companies complying with each standard as shown in Appendix 1. This analysis shows that all or nearly all companies either complied with a specific requirement or failed to comply with a requirement; there was little variation in the number of companies complying with each standard. This analysis indicates that all of the companies were having the same difficulty complying or choosing to ignore the same requirements. It is important to note that the disclosures that require merely reporting basic data that are readily available, e.g. name of acquired company and basic information about the acquisition, are those with which all companies comply. Disclosure requirements that require extensive analysis and description are those with which there is substantial non-compliance. It is important to note that we did not detect any substantial increase in the number of companies complying with specific disclosure requirements over the four year period.

As discussed in detail above, we also computed disclosure indexes and compliance ratios for each company for each year. Figures 5 through 12 show compliance ratios by company by year and by standard with line graphs for each company. Analyses of each company show that some companies have indeed improved over time, notably TeliaSonera and Telenor. Vodafone has consistently had high compliance ratios. Some companies, notably France Telecom and Telefonica show a decline in compliance and low levels of compliance. The overall picture, other than the three companies mentioned, is one of partial compliance and no indication of improvement.

3.5 Effect of stock exchange

As indicated above when we provided basic descriptive material for the companies involved in Table 1, we included stock exchange listings. Six of the eight companies have multiple listings. Only Elisa and TeliaSonera are not listed in the U.S. TeliaSonera does file Form 20 with the Securities and Exchange Commission, though, presumably because it has other securities in the U.S, a fact that we did not investigate. There is no apparent indicate effect of the multiple listings, and in particular listing in the U.S. on the type of information presented. The only detectable effect is the listing of Telenor on the Oslo Stock exchange which is noted for rigorous enforcement of accounting requirements [a source will be cited here]. Telenor throughout this analysis has shown a fairly high degree of compliance with both the requirements and expectations of the IASB in IFRS 3 and IAS 36.

4.0 Concluding discussion

This study has provided an in-depth analysis of compliance with IASB standards related to business combinations and goodwill impairment by exploring eight European telecommunications companies using content analysis methodology. While results cannot be generalized outside the eight companies, the insights obtained would not have been possible with broader-based research methods that did not explore as deeply. The findings indicate that at best there is only partial compliance with IASB standards and only limited improvement at best over the four year period. Among the most important findings is the fact that companies continue to report relatively large amounts of unallocated goodwill upon acquisition despite the clear expectation of the IASB that amounts allocated to goodwill will decline as larger amounts are allocated to specifically identifiable previously unreported intangible assets. There is a detectable increase in identification of amounts allocated to specific previously unreported intangible assets upon acquisition, e.g. customer bases, licenses, trademarks and brands, etc. But no detectable increase in the overall amount of such assets is apparent. Similarly there is little compliance with standards relating to goodwill impairment, notably assigning goodwill to appropriate CGUs. Moreover, there is at best only partial compliance with disclosure requirements of IFRS 3 and IAS 36.

The partial compliance with standards of the IASB has several implications, one of which is the future viability of the Board itself. Potentially of greater importance, though, is audit failure in which the audit reports indicate fair reporting and compliance with standards when there is obvious lack of compliance. Potentially of even greater importance, yet, is the lack of enforcement mechanism to assure compliance. The only detectable enforcement that was detected is that of the Oslo Stock Exchange as evidenced by Telenor’s high level of compliance. All of these issues remain as issues for further research and the findings of this study provide bases for that research.

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Table 1. Companies Studied with Descriptive Information in 2005

Company and country of Origin	Exchange listings	Number of Employees[2]	Total Assets[1]	Equity[1]	Revenues[1]	Net Income[1]	Cash Flow from Operations[1]
Deutsche Telekom Germany	Frankfurt and other German exchanges, New York, Tokyo	244,000	127,880	49,582	59,604	6,016	14,998
Elisa Finland	Helsinki (now part of OMX)	4,681	2,204	1,350	1,377	212	310
France Telecom France	Paris, New York	196,452	109,360	28,438	49,038	6,360	13,374
Telecom Italia Italy	Milan, New York	80,000	96,010	26,985	29,919	3,690	9,936
Telefonica Spain	London, Frankfurt, Madrid, New York, Tokyo and other exchanges in Spain and South America	207,641	73,174	16,158	37,882	4,827	11,139
Telenor Norway	Oslo, NASDQ	23,200	15,568	6,700	8,626	1,143	2,796
TeliaSonera Finland Sweden	Stockholm, Helsinki (now p OMX)	28,175	21,660	14,423	9,318	1,456	2,869
Vodafone[3] UK	London, New York	57,378	367,520	280,323	125,651	(28,716)	34,892

[1] End of 2005. In millions of Euros using exchange rates at December 31, 2005 for non-Eurozone companies. Data from 2005 Annual report

[2] Average number of employees during the year2005 or number of employees at the end of the year 2005, depending on data reported in the annual report.

[3] Vodafone reports on a fiscal year ending 31 March. Data are taken from the 31 March 2006 annual report.

Table 3. Telecom Companies reporting of acquisitions in 2005

Company and acquisition	Percent acquired	Acquisition price[1]	Percentage allocated to Pre-acquisition assets (adjusted to fair values)	Liabilities, minority interest and similar items	Pre-acquisition other net assets	Intangible assets from acquisition	Goodwill	Comments
Deutsche Telekom subsidiary acquired Telekom Montenegro	76.5%	147	122%	-53%	69%	14%	17%	Did not present adequate details to make allocation; required educated guesses. No explanation of amount allocated to "other intangibles" Report says that gives foothold into region, but no other details about individual intangibles to which acquisition costs allocated and what constitutes goodwill
Deutsche Telekom subsidiary acquired Alubra Telecommunicaciones	100%	36	278%	167%	111%	0%	-11%	Very sketchy details; educated guesses required. Negative goodwill of €4 million not explained. Negative goodwill increased net income.
Elisa acquired Tikka Communications	100%	37.3	82%	-20%	63%	18%	19%	The entire increase in intangibles from acquisition is allocated to the customer base. ??? Goodwill is attributed to synergies in the fixed network business.
Elisa acquired Saunalahti	100%	374	28%	-30%	28%	24%	78%	Amounts allocated to customer base and brand exceed total increase in intangibles; apparently acquired intangibles were deceased Company emphasizes significance of brand and customers and intent to develop further but allocates only 25% to these items. Relatively large 78% allocated to goodwill described as being attributed to synergies in network capacity and mobile communications business.
France Telecom acquired parent of Amena	79.4% of parent owning 98% of Amena	6,687	75%	-89%	-14%	46%	67%	Allocated amounts to trademarks, licenses, and subscriber base; nothing to other intangible assets. Description says that customer base is major impetus but only 33% allocated. No details about two-thirds allocated to goodwill.
Telecom Italia acquired Liberty Surf Group	100%	268	49%	-47%	2%	5%	93%	Liberty Surf is a major French provider; description emphasizes that number of customers increased substantially, but only 5% allocated to the customer base. No explanation for large percentage of 93% allocated to goodwill.

			Percentage allocated to					
Company and acquisition	Percent acquired	Acquisition price[1]	Pre-acquisition assets (adjusted to fair values)	Liabilities, minority interest and similar items	Pre-acquisition other net assets	Intangible assets from acquisition	Goodwill	Comments
Telecom Italia acquired Elefante TV and Delta TV	100% each	128	2%	-33%	-31%	98%	32%	Description states that now cover 70% of Italian market thus large amount allocated to frequencies and broadcast rights. Also states the importance of the Elefante brand, but nothing allocated to brand. No explanation of goodwill.
Telefonica acquired Cesky Telecom	69%	3, 662	118%	-75%	43%	32%	25%	Did not identify which "other intangibles" received allocations. Trademark and customer list are described as driving forces, but nothing allocated. No explanation for 25% goodwill
Telefonica acquired Radiocomunicaciones Móviles S.A. and Telefónica Móviles Chiles S.A.	100%	837 (total)	84%	-85%	-2%	10%	92%	No explanation to the intangible assets recognized (reported as "Other intangible assets"). Nothing allocated to the customer base, despite these acquisitions provided the group with 20 mln new customers. No explanation to the allocation of 92% of the purchase price to "Goodwill".
Telenor subsidiary acquired DATC and UCOM (Thailand)	75% and 86.2%	333.4	69%	-407%	-338%	354%	84%	Does not identify pre-acquisition values for intangibles arising from acquisition thus likely distorting extremely large percentage to intangibles from acquisition. Amounts identified for customer base, concession rights, trademarks, software and roaming agreements,

[1] In millions of Euros. Approximate exchange rates on transaction dates for non-euro currencies.

Table 3(Continued). Telecom Companies reporting of acquisitions in 2005

			Percentage allocated to					
Company and acquisition	Percent acquired	Acquisition price[1]	Pre-acquisition assets (adjusted to fair values)	Liabilities, minority interest and similar items	Pre-acquisition net assets	Intangible assets from acquisition	Goodwill	Comments
Telenor acquired Bredbandbolaget	100%	566	18%	-34%	-16%	17%	99%	Does not identify pre-acquisition values for intangibles arising from acquisition . Allocated amounts to customer base, trademarks, software and other intangibles The company emphasizes the benefit of a common Nordic platform but allocates only 17% to intangibles. Goodwill is explained as anticipated profits and synergies with no additional discussion to explain or justify large percentage.
Telenor acquired CyberCity	100%	166	21%	-33%	-12%	32%	81%	Does not identify pre-acquisition values for intangibles arising from acquisition. Allocated amounts to customer base, trademarks, and software. No explanation of amounts allocated to intangibles and goodwill
TeliaSonera acquired Volvik (now Chess)	100%	235	35%	-34%	1%	6%	93%	The company strengthened it position in Norway and emphasized growth potential in home markets, but allocated only 6% to subscriber contacts. No justification of 93% allocated to goodwill.
Vodafone[2] acquired Clear Stream	100%	2,795	36%	-48%	-12%	40%	72%	Reported amounts to license and spectrum fees and to other intangibles, but did not show beginning balances. Goodwill is explained Goodwill is explained as profits and synergies from acquired company.
Vodafone[2] acquired VemFin	99%	2,126	23%	-24%	-1%	41%	60%	Reports amounts allocated to license and spectrum fees but does not show beginning amounts of each. Goodwill is attributed to synergies and profits of acquired company.

[1] In millions of Euros. Approximate exchange rates on transaction dates for non-euro currencies.
[2] Vodafone reports on a fiscal year ending 31 March. Acquisitions are those reported in the annual report for year ended 31 March 2006

Table 4. Telecom Companies reporting of acquisitions in 2006

			Percentage allocated to					
Company and acquisition	Percent acquired	Acquisition price[1]	Pre-acquisition assets (adjusted to fair values)	Liabilities, minority interest and similar items	Pre-acquisition Net Assets	Intangible assets from acquisition	Goodwill	Comments
Deutsche Telekon subsidiary acquired Gedas group	100%	300	114%	-114%	0%	31%	69%	Company emphasizes technical expertise and specialized customer base, but allocates little to intangibles. No explanation of amounts to intangibles from acquisition and no explanation of large amount allocated to Goodwill.
Deutsche Telekom subsidiary acquired Tele-ring	100&	1,300	43%	-11%	32%	18%	50%	Company says assembled workforce value included in goodwill because intangible asset criteria not fulfilled; synergies included in goodwill because included in negotiated price. No additional explanation for amounts.
Deutsche Telekon subsidiary bought Polska Telefonia	48% to bring total to 97%; now must consolidate	1,600 in 2006; 1,800 previous, total 3,400	42%	-31%	11%	39%	50%	Information inadequate to understand allocations; we used informed guesses. No explanation of benefits of combination, allocations to new intangible assets nor goodwill
Elisa acquired Lounet	80%	9.2	108%	-28%	80%	17%	3%	Intangible assets from acquisition allocated entire3ly to customer base. No explanation for relatively large amounts allocated to pre-existing assets.
France Telecom acquired Diwan Group	99.5%	39 in two stages	n/a	n/a	n/a	n/a	120%	No details about allocations in 2006 other than to goodwill and intangibles although required and provided details in 2005. No explanation of large percentage of goodwill
France Telecom acquired Jitco, holding company for Jordan Telecommunications (JTC) and share directly in (JTC)	100% of Jitco and directly or indirectly 51% of JTC	?			?	?	?	Conflicting amounts of acquisition prices given in different parts of annual report. Reported amounts allocated to goodwill and to trademarks, license, and customer base; cannot determine percentages. Did not give amounts for other items other than deferred tax liability. Did not give information about other items allocated. No explanation for amounts allocated to goodwill.
Telefonica acquired O2	100% in two stages in 2005 and 2006	26,135	63%	-30%	33%	31%	36%	Described how amounts measured for licenses, customer base, and trademark but did not give amounts allocated to each item.

[1] In millions of Euros. Approximate exchange rates on transaction dates for non-euro currencies.

Table 4 (Continued). Telecom Companies reporting of acquisitions in 2006

			Percentage allocated to					
Company and acquisition	Percent acquired	Acquisition price[1]	Pre-acquisition assets (adjusted to fair values)	Liabilities, minority interest and similar items	Pre-acquisition net assets	Intangible assets from acquisition	Goodwill	Comments
Telefonica acquired Colombia de Telecommunicaciones	50% plus one share; committed to purchase remainder	578	424%	-456%	-32%	1%	131%	Apparent non-compliance with IFRS on computing acquisition price did not include commitment to acquire minority interests. No explanations of large percentages allocated to assets and liabilities, and very small amounts to intangibles, as well as no explanation of relatively large goodwill.
Telenor acquired Vodafone Sweden to become Telenor Sweden	100%	946	106%	-42%	64%	33%	3%	Allocated amounts to customer base, roaming agreements, and software; did not allocate anything to "other intangibles". Very small percentage to goodwill.
Telenor acquired Mobil63 Serbia to become Telenor Serbia	100	1,482	31%	-2%	29%	12%	59%	Allocated amounts to customer base and roaming agreements; did not allocate anything to "other intangibles". No explanation for large amount to goodwill
Telenor acquired various companies, individually immaterial	various	290	36%	-33%	3%	24%	73%	Allocated amounts to customer base, licenses, contracts, technology, trademarks, and software; did not allocate anything to "other intangibles. No explanation for large percentage of goodwill
TeliaSonera acquired Xfera	100%	152	350%	-328%	22%	0%	78%	Some adjustment amounts to net assets not clear. No allocations to intangibles even though Xfera has existing 3G network. No explanation of goodwill.
TeliaSonera acquired NextGenTel	100%	250	51%	-39%	12%	9%	79%	Allocated 10% to customer base even though second largest in Norway; nothing to "other intangibles. No explanation for large amount to goodwill.
Vodafone [2]acquired Telsim	100%	3764	14%	-10%	4%	34%	62%	Allocated amounts to licenses and spectrum and about 30% to "other intangibles" Goodwill is assigned to Eastern Europe, presumably a CGU. Goodwill is attributed to profits and synergies. Most of the goowill will be tax deductible

[1] In millions of Euros; approximate exchange rates on transaction dates for non-euro currencies.

[2] Vodafone reports on a fiscal year ending 31 March. Acquisitions are those reported in the annual report for year ended 31 March 2007

Table 5. Telecom Companies reporting of acquisitions in 2007

				Percentage allocated to				
Company and acquisition	Percent acquired	Acquisition price[1]	Pre-acquisition assets (adjusted to fair values)	Liabilities, minority interest and similar items	Pre-acquisition net assets	Intangible assets from acquisition	Goodwill	Comments
Deutsche Telekom subsidiary acquired Orange Nederland	100%	1,200	72%	-18%	54%	12%	33%	Goodwill described as reflecting positive future earnings and savings from synergies. No explanation of intangible assets from acquisition.
Deutsche Telekon subsidiary acquired Imobilien Scout	99% in stages	400	10%	-13%	-4%	33%	71%	Goodwill described as reflecting positive future earnings and savings from synergies. No explanation of intangible assets from acquisition.
Elisa individually insignificant acquisitions	various	11	63%	-31%	32%	58%	10%	Allocation to customer base and to technology acquired; nothing to "other intangibles".
France Telecom acquired ya.com	100%	150	n/a	n/a	n/a	n/a	83%	France Telecom provides information about acquisition price and goodwill amounts. Little information is given about other amounts. Numbers provided by company do not reconcile mathematically. Very limited information about amounts allocated to individual intangible assets from the acquisition. No explanation for goodwill.
France Telecom acquired Orange Moldova	Additional stake now 94%	103	n/a	n/a	n/a	n/a	83%	
France Telecom indirectly acquired VOX Mobile	100%	80	n/a	n/a	n/a	n/a	89%	
France Telecom acquired Groupe Silicomp	96%	93	n/a	n/a	n/a	n/a	75%	
Telecom Italia acquired net assets of AOL Germany	All of net assets	669	6%	-12%	-6.4%	19%	87%	Allocated amounts to customer relationships and audience agreements; nothing to "other intangibles". No explanation of large amount to goodwill
Telecom Italia acquired InterNLnet	100%	5.5			27%	18%	55%	Did not present details of amounts allocated to pre-acquisition assets or liabilities. Amounts provided by company do not reconcile mathematically. Did not describe intangible assets from the combination nor discuss factors attributed to goodwill
Telenor acquired Tele2 Denmark	100%	76.2	142%	-105%	37%	30 %	33%	Allocated to customer base, software, and trademarks; nothing to "other intangibles".
Telenor individually insignificant acquisitions	various	104.5	37%	-24%	13%	31%	56%	Allocated to customer base, licenses, and trademarks; nothing to "other intangibles"

[1] In millions of Euros. Approximate exchange rates on transaction dates for non-euro currencies.

Table 5 (Continued). Telecom Companies reporting of acquisitions in 2007

				Percentage allocated to				
Company and acquisition	Percent acquired	Acquisition price[1]	Pre-acquisition assets (adjusted to fair values)	Liabilities, minority interest and similar items	Pre-acquisition net assets	Intangible assets from acquisition	Goodwill	Comments
TeleisSoner acquired Cygate	100%	75.2	46%	-41%	5%	56%	39%	Allocated amounts to trade names, customer relationships, and partner agreements with suppliers; nothing to "other intangibles".
TeliaSonera acquired debitel Danmark	100%	110.2	67%	-48%	19%	14%	67%	Allocated amount to customer relationships and a small amount to "other intangibles"
TeliaSonera acquired MCT	100%	192.7	54%	-76%	-23%	39%	83%	Allocated to customer relationships, licenses, and interconnect agreements,. NO explanation for relatively large amount of goodwill.
TeliaSonera individually insignificant acquisitions	various	17			27%		73%	Provided few details about composition of net assets and did not identify intangibles separately
Vodafone[2] acquired Hutchison Essar	100%	8,072	32%	-59%	-28%	56%	72%	Allocated relatively almost all of intangible amount to licenses and spectrum; minor amounts to "other intangibles". Goodwill attributed to profits and synergies.
Vodafone[2] acquired Tele2 activities in southern Europe	100%	644	58%	37%	21%	23%	56%	The entire amount of the intangibles is allocated to "other intangibles" without explanation. Goodwill attributed to profits and synergies.

[1] In millions of Euros. Approximate exchange rates on transaction dates for non-euro currencies.

[2] Vodafone reports on a fiscal year ending 31 March. Acquisitions are those reported in the annual report for year ended 31 March 2008

Table 6. Telecom Companies reporting of acquisitions in 2008

			Percentage allocated to					
Company and acquisition	Percent acquired	Acquisition price[1]	Pre-acquisition assets (adjusted to fair values)	Liabilities, minority interest and similar items	Pre-acquisition net assets (adjusted to fair values)	Intangible assets from acquisition	Goodwill	Comments
Deutsche Telekom subsidiary acquired SunCom	100%	1,100	114%	-88.8%%	24%	0%	76%	Nothing allocated to intangibles from acquisition; pre-acquisition intangibles written down. Company describes goodwill as reflecting growth opportunities in the USA, customer base , synergies due to reduction of roaming costs and similar items but notably does not allocate acquisition price to customer base..
Elisa individually insignificant acquisitions	various	6.1	57%	-39%	18%	28%	54%	Allocation to customer base and to immaterial rights; nothing to “other intangibles”.
French Telecom consortium acquires Telecom Kenya	51%	273	122%	-131%	-9%	30%	79%	Allocated to customer base and software; nothing allocated to “other intangibles”. Goodwill attributed to assembled workforce, anticipated profits, and deferred taxes related to excess.
Telefonica subsidiary acquired parent and operating company Telering Brazil	91% of parent and 59% of subsidiary	451	150%	-179%	-28%	121%	8%	Did not provide details of amounts allocated to each intangible asset but provides extensive details elsewhere about many different intangible assets.
Telenor acquired IS Partner	100%	160	64%	-48%	16%	12%	71%	Allocated amounts to customer base, software, and trademarks; nothing to “other intangibles”.
Telenor individually insignifant acquisitions	various	54	´126%	-56%	22%	8%	70%	Allocated to customer base, software and trademarks ; approximately 6% to “other intangibles” Goodwill is attributed to employees, anticipated profits and deferred taxes related to excess values.
TelliaSonera acquired TelenorSonera Asia	51%	348	68%	-49%	20%	0%	80%	Did not allocate anything to other intangibles. Reduced pre-existing goodwill (approximately 543 million euro) of acquired company to zero, No explanation of goodwill amounts.
TeliaSonera individually insignificant acquisitions	various	46			-4%	0%	104%	Did not disclose details of allocations; no information about intangible assets
Vodafone[2] acquired	70%	617	42%	41%	1%	28%	71%	Allocated amounts to license and spectrum fees and relatively

				Percentage allocated to				
Company and acquisition	Percent acquired	Acquisition price[1]	Pre-acquisition assets (adjusted to fair values)	Liabilities, minority interest and similar items	Pre-acquisition net assets (adjusted to fair values)	Intangible assets from acquisition	Goodwill	Comments
Ghana Telecommunications								small amount to "other intangible assets". Goodwill is attributed to expected profits and synergies
Vodafone individually insignificant acquisitions	various	575			30%	0%	70%	Did not disclose details of allocations; no information about intangible assets

[1] In millions of Euros. Approximate exchange rates on transaction dates for non-euro currencies
[2] Vodafone reports on a fiscal year ending 31 March. Acquisitions are those reported in the annual report for year ended 31 March 2009.

Table 2. Goodwill as a percentage of total assets by company by year

Company	**2005**	**2006**	**2007**	**2008**
Deutsche Telekom	14.4%	16.1%	17.1%	16.8%
Elisa	35.0%	36.9%	35.6%	38.3%
France Telecom	30.8%	30.5%	31.0%	32.3%
Telecom Italia	45.8%	48.9%	50.8%	51.3%
Telefonica	12.2%	19.9%	18.7%	18.3%
Telenor	16.6%	20.6%	18.4%	18.3%
TeliaSonera	30.8%	31.4%	32.8%	31.9%
Vodafone[1]	41.5%	37.0%	40.3%	35.3%

[1] Vodafone reports on a fiscal year ending 31 March. Data are taken from the annual reports of 31 March 2006, 2007, 2008, and 2009.

Table 7. CGUs for Impairment testing purposes

Company	Number of CGUs to which goodwill has been allocated	Level of the CGUs to which goodwill has been allocated for impairment testing			Number of Segments	Number of Subsidiaries
			No. Of CGUs at each level	% of goodwill allocated to each level		
Deutsche Telekon	5	Business unit level	5	100%	4	350
Elisa	3	Primary segment level	3	100%	3	43
France Telecom	6	Group of CGUs	4	98%	4	255
		Primary segment level	2	2%		
Telecom Italia	5	Single company level	3	n/a	5	150

		Business unit level	2	n/a		
Telefonica	n/a	n/a	n/a	n/a	7	340
Telenor	8	Single company level	5	55%	10	81
		Primary segment level	3	45%		
TeliaSonera	4	Single company level	4	100%	10	60
Vodafone	5	Primary segment level	4	100%	9	25

Figure 1. Allocation of Acquisition Cost in 2005

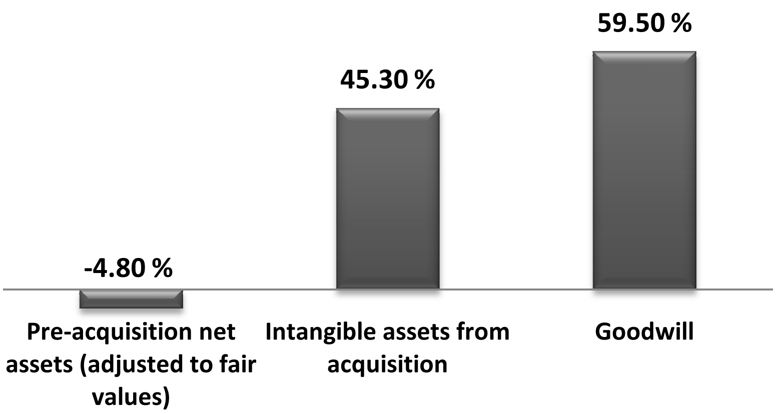


Figure 2. Allocation of Acquisition Cost in 2006

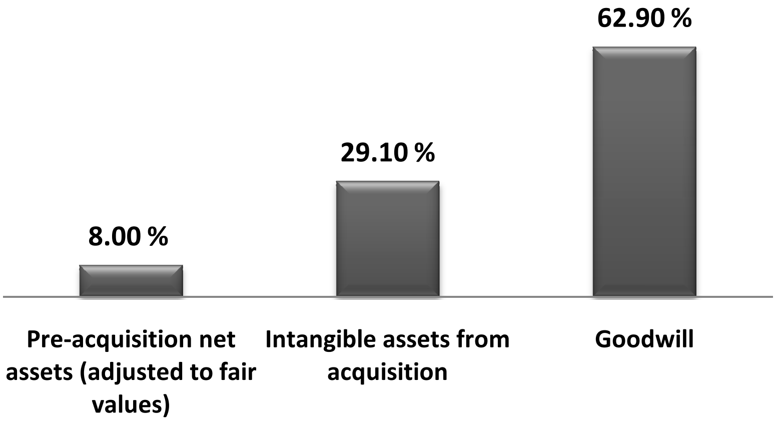


Figure 3. Allocation of Acquisition Cost in 2007

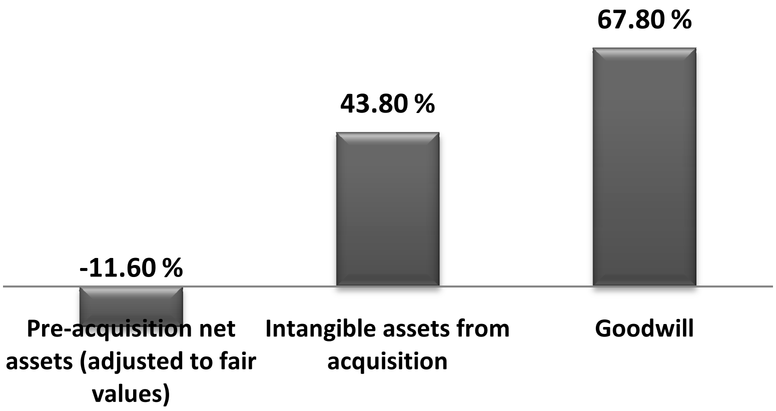


Figure 4. Allocation of Acquisition Cost in 2008

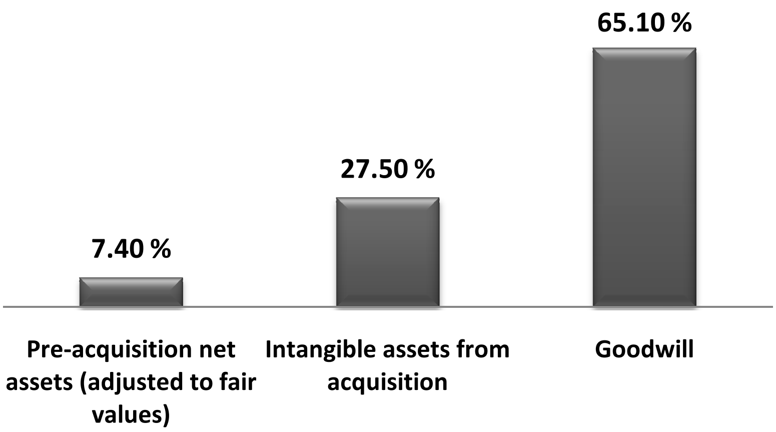
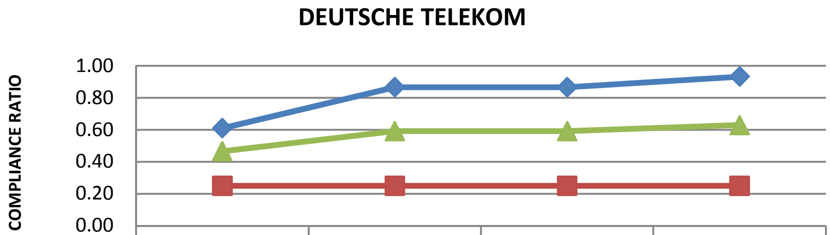


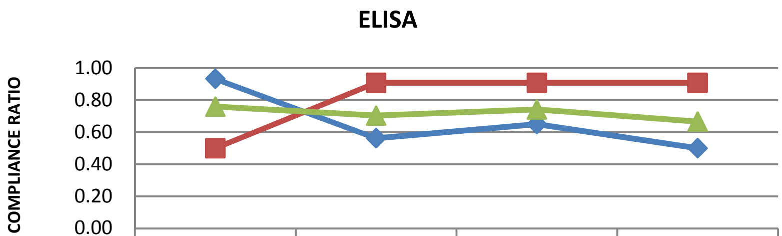
Figure 5. Level of Compliance by year and Standard of Deutsche Telekom



	2005	2006	2007	2008
IFRS 3	0.61	0.87	0.87	0.93
IAS 36	0.25	0.25	0.25	0.25
TOTAL	0.47	0.59	0.59	0.63

Deutsche Telekom presents a high level of compliance with IFRS 3 disclosure requirements and an extremely low ratio for IAS 36 disclosures. The IFRS 3 disclosure ratios are steadily improving throughout the four year period while the IAS 36 ratios are steady at 0.25. In all of the four years, the company discloses only some of the specified information about the bases on which its CGUs' recoverable amounts (value in use) are determined. Moreover it does not disclose any information about the sensitivity tests it should perform.

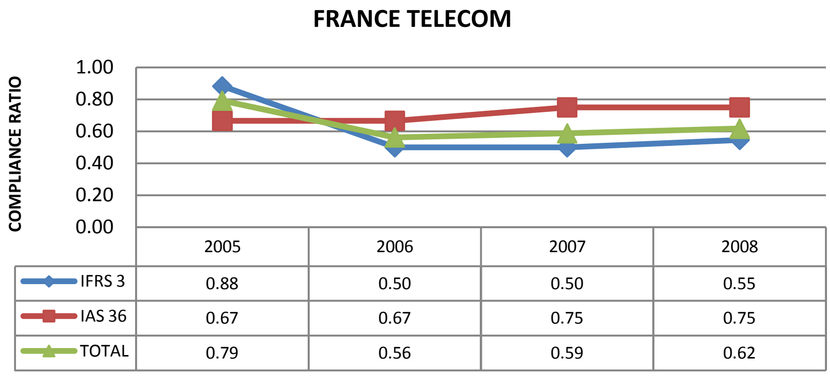
Figure 6. Level of Compliance by year and Standard of Elisa



	2005	2006	2007	2008
IFRS 3	0.93	0.56	0.65	0.50
IAS 36	0.50	0.91	0.91	0.91
TOTAL	0.76	0.70	0.74	0.67

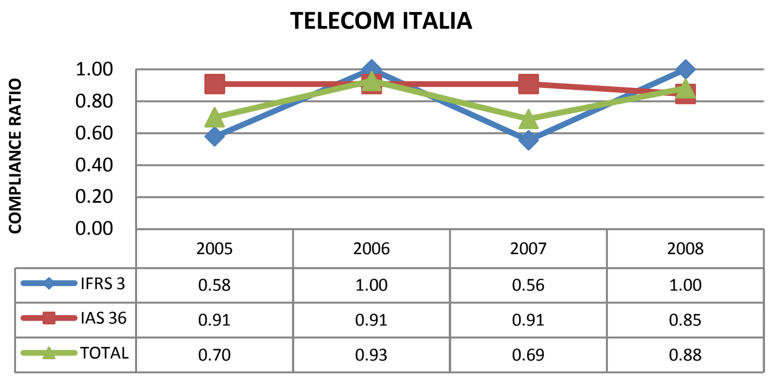
During the first four years of IFRS implementation, Elisa improves considerably its level of compliance with IAS 36 disclosure requirements (from 0.50 to 0.91) while it deteriorates its level of compliance with IFRS 3 requirements (from 0.93 to 0.50). The main reason that leads to the improvement of IAS 36 ratio is the improvement of disclosures about sensitivity tests. The main reasons that lead to the deterioration of IFRS 3 ratio are: 1) disclosures about profit or loss included in acquirer's results, 2) disclosures about the revenue and the profit or loss of the combined entity as though the acquisition date had been the beginning of the period, and 3) disclosures of the factors that contributed to a cost that results in goodwill recognition.

Figure 7. Level of Compliance by year and Standard of France Telecom



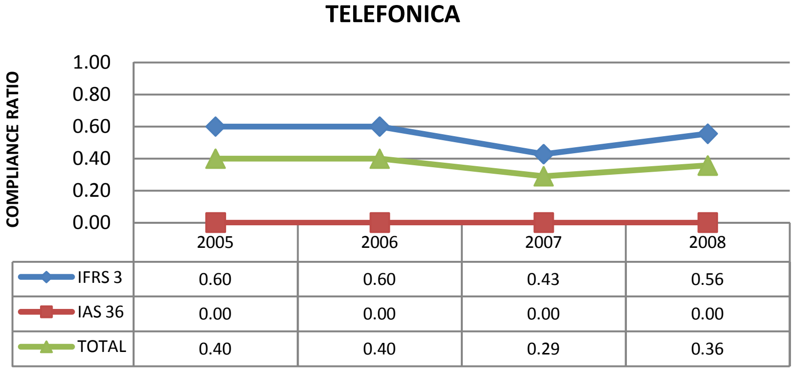
In 2005, France Telecom interestingly presents a better level of compliance with IFRS 3 disclosure requirements than in the three following years. The main reasons for the low level of compliance with IFRS 3 requirements are disclosure items about the revenue and the profit or loss of the combined entity as though the acquisition date had been the beginning of the period and the factors that contributed to a cost that results to goodwill recognition. By contrast, the company presents an improved ratio for IAS 36 disclosures throughout the four years. The main reason of the improvement is located in disclosures about the sensitivity analysis.

Figure 8. Level of Compliance by year and Standard of Telecom Italia



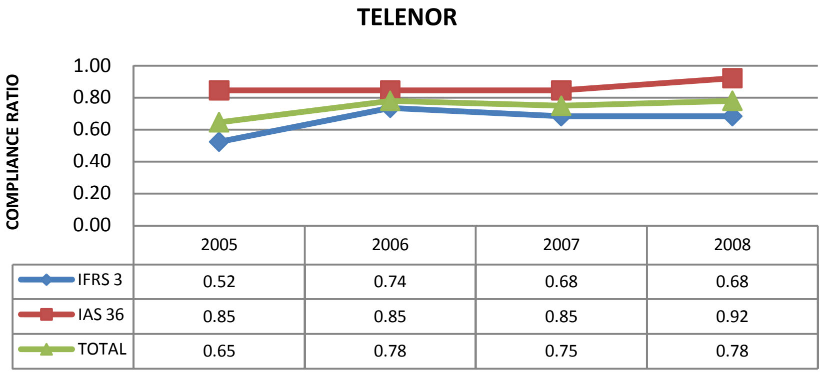
Telecom Italia presents substantial variations in IFRS 3 compliance ratios among years. On the one hand in two years it complies with all applicable disclosure items and on the other hand in two years it complies only with half of them. This variation can attributed to the lack of acquisitions in these two years and hence it is subject only to the basic quantitative disclosure items IFRS 3 mandates. For IAS 36 disclosure items, the company shows a high level of compliance throughout the four year period.

Figure 9. Level of Compliance by year and Standard of Telefonica



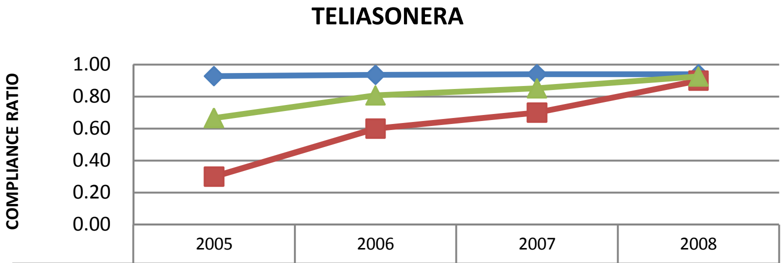
Telefonica does not disclose any information mandated by IAS 36. Moreover it also presents a relatively low level of compliance with IFRS 3 disclosure requirements. The main reasons for such low levels are lack of: 1) disclosure requirements about the profit or loss included in acquirer's results,2) disclosures about the revenue and the profit or loss of the combined entity as though the acquisition date had been the beginning of the period, and 3) disclosures about the factors that contributed to a cost that results in goodwill recognition.

Figure 10. Level of Compliance by year and Standard of Telenor



Telenor presents an improvement of its level of compliance during the first four years of IFRS mandatory implementation. Specifically it highly complies with IAS 36 disclosure requirements, while its ratio is lower for IFRS 3 requirements. The main reasons for the lower level of compliance with IFRS 3 requirements are related to disclosures items about the revenue and the profit or loss of the combined entity as though the acquisition date had been the beginning of the period and on the items, and the factors that contributed to a cost that results in goodwill recognition.

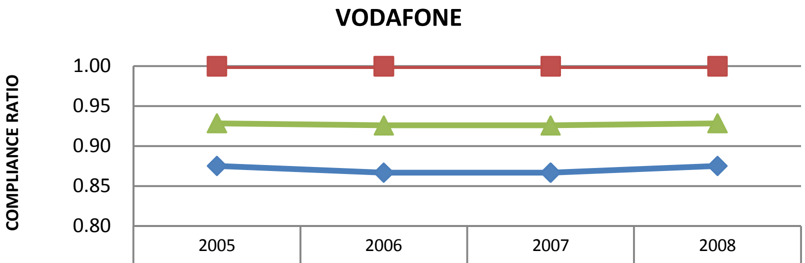
Figure 11. Level of Compliance by year and Standard of Teliasonera



	2005	2006	2007	2008
IFRS 3	0.93	0.94	0.94	0.94
IAS 36	0.30	0.60	0.70	0.90
TOTAL	0.67	0.81	0.85	0.93

Teliasonera presents the most substantial improvement over the four years. The overall level of compliance is 38% higher in 2008 that in 2005. This improvement is attributed to IAS 36 disclosures ratio which increased from 0.30 in 2005 to 0.90 in 2008.

Figure 12. Level of Compliance by year and Standard of Vodafone



	2005	2006	2007	2008
IFRS 3	0.88	0.87	0.87	0.88
IAS 36	1.00	1.00	1.00	1.00
TOTAL	0.93	0.93	0.93	0.93

Vodafone is the only of the eight companies that presents consistently strong positive compliance ratios. In all four years the company's level of compliance with IAS 36 disclosure requirements is 1. Also IFRS 3 compliance ratios are high. In general Vodafone has the highest total disclosure ratio among the eight companies (0.93).

Appendix 1. Number of companies that comply with specific disclosure requirements of IFRS 3 and IAS 36 by year

		2005			2006			2007			2008		
		C	NC	NA	C	NC	NA	C	NC	NA	C	NC	NA
IFRS 3	**Business combinations**												
IFRS 3 Par. 62	Acquirer has adjusted provisional values determined at time of initial accounting for business combination, in accordance with requirements of paragraph 62 of IFRS 3, comparative information presented for periods before initial accounting for the combination is complete (i.e. for periods before adjustments are made) shall be presented as if initial accounting had been completed from acquisition date.	0	0	8	0	1	7	1	0	7	1	0	7
IFRS 3 Par. 67	For each material business combination effected during the period, acquirer shall disclose:												
IFRS 3.67(a)	a) the names and descriptions of combining entities or businesses;	8	0	0	7	0	1	8	0	0	7	0	1
IFRS 3.67(b)	b) the acquisition date;	8	0	0	7	0	1	8	0	0	7	0	1
IFRS 3.67(c)	c) percentage of voting equity instruments acquired;	8	0	0	7	0	1	7	1	0	7	0	1
IFRS 3.67(d)	d) cost of the combination, and a description of the components of that cost, including any costs directly attributable to the combination;	8	0	0	7	0	1	8	0	0	6	1	1
IFRS 3.67(d)	e) where equity instruments are issued or issuable as part of cost of combination, the following information:												
	i) number of equity instruments issued or issuable;	0	0	8	0	0	8	1	0	7	0	0	8
	ii) fair value of the equity instruments issued or issuable; and	0	0	8	0	0	8	1	0	7	0	0	8
	iii) basis for determining that fair value;	0	0	8	0	0	8	1	0	7	0	0	8
IFRS 3.67(d)	f) in disclosing basis for determining fair value of equity instruments issued or issuable as part of cost of the combination, if published price for the instruments did not exist	0	0	8	0	0	8	0	0	8	0	0	8

	at date of exchange, significant assumptions used to determine fair value;																
IFRS 3.67(d)	g) in disclosing basis for determining tfair value of equity instruments issued or issuable as part of cost of combination, if a published price for instruments existing at date of exchange, but was not used as basis for determining cost of combination:																
	i) that fact;		0	0	8		0	0	8		0	0	8		0	0	8
	ii) reasons published price was not used;		0	0	8		0	0	8		0	0	8		0	0	8
	iii) method and significant assumptions used to attribute a value to the equity instruments; and		0	0	8		0	0	8		0	0	8		0	0	8
	iv)aggregate amount of difference between value attributed to, and published price of, equity instruments;		0	0	8		0	0	8		0	0	8		0	0	8

Appendix 1 (Continued). Number of companies that comply with specific disclosure requirements of IFRS 3 and IAS 36 by year

		2005				2006				2007				2008			
IFRS 3.67(e)	h) details of any operations entity has decided to dispose of as a result of business combination;		0	0	8		0	0	8		0	0	8		0	0	8
IFRS 3.67(f)	i)amounts recognised at acquisition date for each class of the acquiree's' assets, liabilities and contingent liabilities;		8	0	0		6	1	1		6	2	0		6	1	1
IFRS 3.67(f)	j) unless disclosure would be impracticable, carrying amounts of each class of acquiree's assets, liabilities and contingent liabilities, determined in accordance with IFRSs, immediately before combination;		7	1	0		6	1	1		6	2	0		6	1	1
IFRS 3.67(f)	k) if disclosure of IFRS carrying amounts immediately before combination is impracticable, that fact, together with an explanation of why.		0	1	7		0	1	7		0	2	6		0	1	7
IFRS 3.67(h)	l) a description of the factors that contributed to a cost that results in the recognition of goodwill:																
	i) a description of each intangible asset that was not recognised separately from goodwill; and		2	6	0		2	5	1		1	7	0		2	5	1
	ii) an explanation of why intangible assets' fair value could not be measured reliably;		0	8	0		0	7	1		0	8	0		0	7	1
IFRS 3.67(g)	m) in respect of any excess of acquirer's interest in net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost:																
	i)the amount of any such excess recognised in profit or loss in accordance with paragraph 56 of IFRS 3; and		0	0	8		0	0	8		0	0	8		0	0	8
	ii) line item in the statement of comprehensive income in which excess is recognised;		0	0	8		0	0	8		0	0	8		0	0	8
IFRS 3.67(h)	n) a description of nature of any excess of acquirer's interest in net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost, recognised in profit or loss in accordance with paragraph 56 of IFRS 3;		0	0	8		0	0	8		0	0	8		0	0	8
IFRS 3.67(i)	o) unless impracticable, amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period; and		4	4	0		4	3	1		4	4	0		4	3	1
IFRS 3.67(i)	p) if impracticable to disclose amount of acquiree's profit or loss since acquisition date included in acquirer's profit or loss for period that fact; and an explanation of why .		0	4	4		0	3	5		0	4	4		0	3	5
IFRS 3 Par. 69	If initial accounting for a business combination that was effected during period has been determined only provisionally as described in paragraph 62 of IFRS 3,entity shall disclose that fact and an explanation of why.		0	3	5		0	1	7		0	4	4		1	2	5
IFRS 3 Par. 70	Unless impracticable, the following information shall be disclosed:																
IFRS 3.70(a)	a)revenue of the combined entity for period as though acquisition date for all business combinations effected during period had been beginning of period; and		4	4	0		3	4	1		3	5	0		3	4	1

IFRS 3.70(b)	b) profit or loss of combined entity for period as though acquisition date for all business combinations effected during period had been beginning of period.		4	4	0		3	4	1		3	5	0		3	4	1
IFRS 3.70	If disclosure of information required by paragraphs 70(a) and 70(b) of IFRS 3 would be impracticable, entity shall disclose that fact and explanation.		0	4	4		0	4	4		0	5	3		0	4	4

Appendix 1 (Continued). Number of companies that comply with specific disclosure requirements of IFRS 3 and IAS 36 by year

IFRS 3 Par. 73	The entity shall disclose:																
IFRS 3.73(a)	a) amount, and an explanation, of any gain or loss recognised in current reporting period that relates to identifiable assets acquired or liabilities or contingent liabilities assumed in a business combination that was effected in either current or previous period and is of such a size, nature or incidence that disclosure is relevant to an understanding of combined entity's financial performance;		0	0	8		0	0	8		0	0	8		0	0	8
IFRS 3.73(b)	b) if initial accounting for a business combination that was effected in immediately preceding period was determined only provisionally at end of that period, amounts, and explanations, of adjustments to provisional values recognised during current period; and		0	0	8		1	0	7		0	0	8		1	0	7
IFRS 3 Par. 75	Entity shall disclose a reconciliation o carrying amount of goodwill at beginning and end of period, showing separately:																
IFRS 3.75(a)	a) gross amount and accumulated impairment losses at beginning of period;		8	0	0		8	0	0		8	0	0		8	0	0
IFRS 3.75(b)	b) additional goodwill recognised during period, except where that goodwill is included in a disposal group that, on acquisition, meets criteria to be classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;		8	0	0		7	0	1		8	0	0		7	0	1
IFRS 3.75(c)	c) adjustments resulting from subsequent recognition of deferred tax assets during period in accordance with paragraph 65 of IFRS 3;		0	0	8		0	0	8		0	0	8		0	0	8
IFRS 3.75(d)	d) goodwill included in a disposal group classified as held for sale in accordance with IFRS 5 and goodwill de-recognised during period without having previously been included in a disposal group classified as held for sale;		7	0	1		6	0	2		5	0	3		4	0	4
IFRS 3.75(e)	e) impairment losses recognised during period in accordance with IAS 36 *Impairment of Assets*;		3	0	5		2	0	6		2	0	6		3	0	5
IFRS 3.75(f)	f) net exchange differences arising during period in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*;		5	0	3		5	0	3		6	0	2		5	0	3
IFRS 3.75(g)	g) any other changes in the carrying amount during the period; and		1	0	7		0	0	8		3	0	5		2	0	6
IFRS 3.75(h)	h)gross amount and accumulated impairment losses at end of tperiod.		8	0	0		8	0	0		8	0	0		8	0	0