4 Impairment

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| **OVERVIEW** | * Goodwill and intangible assets with an indefinite life (e.g., Tradename) or intangible assets not yet available for use should be tested annually for impairment.
* An impairment test is required for all other assets with a finite useful life in the scope of this section only when there is an indication of impairment.
* Goodwill, intangible assets with indefinite useful lives and corporate assets should be tested at the Cash‑Generating Unit (“CGU”) level.
* The recoverable amount for an asset or a CGU is the higher of its fair value less costs to sell and its value in use.
* An impairment loss for a CGU is allocated first by writing down goodwill, then ‘pro rata’ to other assets in the CGU.
* An impairment loss recognized for goodwill cannot be reversed.
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4.1 Purpose and scope

This policy provides guidance and rules on accounting for **Impairment** for the purpose of preparing the financial statements of the Group according to International Financial Reporting Standards.

This section will address all assets except for:

* Inventories;
* Deferred tax assets;
* Assets arising from employee benefits; and

Financial assets.

4.2 Definitions

An **impairment loss** is the amount by which the carrying amount of an asset or a cash‑generating unit (“CGU”) exceeds its recoverable amount.

**Carrying amount** is the amount at which an asset is recognized after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon.

The **recoverable amount** of an asset or a CGU is the higher of its fair value less costs to sell and its value in use.

**Fair value less costs to sell** is the amount obtainable from the sale of an asset or CGU in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

**Costs of disposal** are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense.

**Value in use** is the present value of the future cash flows expected to be derived from an asset or CGU.

A **CGU** is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

**Useful life** is the period of time over which an asset is expected to be used by the Group.

4.3 Impairment recognition and measurement

4.3.1 Impairment indicators

In assessing whether impairment has occurred, the following indicators should be taken into consideration as a minimum:

External sources of information:

‑ An asset’s market value has declined significantly more than it was expected as a result of the passage of time;

‑ Significant changes that adversely affect the subsidiary have taken place recently or will take place in the technological, economic or legal environment;

‑ Market interest rates or other market rates of return on investments have increased, which may have an effect on the rate adopted for discounting the value‑in‑use cash flows or may affect the assets expected recoverable amount.

Internal sources of information:

‑ Evidence of obsolescence or physical damage to such an extent that even with normal repairs the asset becomes un-rentable;

‑ The second-hand market price of the units;

‑ Significant changes have occurred to the subsidiary which may impact the manner the asset will be used (e.g. restructuring, plans to discontinue use);

‑ Evidence of significant decreases in fleet utilization rates; and

‑ Internal reporting that provides evidence that the economic performance of the asset has declined.

This list is not restrictive. Other indications may exist.

4.3.2 Measuring recoverable amount

If there is any indication that an asset may be impaired, recoverable amount should be estimated for the individual asset. If it is not possible, the Group should determine the recoverable amount of the CGU to which the asset belongs. The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell and its value in use. If either measurement is determined to be higher than the asset carrying value, it is not necessary to calculate the other measurement.

**In many instances information about fair value less costs to sell is not available. Therefore, in most cases, value in use (i.e., discounted cash flows) would be utilized (see below).**

4.3.2.1 Value in use

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The following guidance should be used to estimate the future cash flows:

* The cash flows should be based on reasonable assumptions representing management’s best estimate of the set of economic conditions during the remaining life of the asset;
* Cash flows should be based on the most recent projections as approved by management covering a period of a maximum of five years;
* Cash flows projections are estimated by examining the causes of differences between past cash flow projections and actual cash flows;
* Cash flows projections should be consistent with past actual outcomes. To do this, the Group should consider whether the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make the current projections appropriate.
* The cash inflows should be those resulting from the continued use of the asset and those arising from its ultimate disposal from an arm’s length transaction;
* The cash outflows necessary to generate inflows from continuing use of the assets (including cash outflows to prepare the asset for use) should be included; and

Consider the asset in its current condition, ignoring future improvements.

4.3.2.2 Fair value less costs to sell

In determining fair value less costs to sell, an appropriate valuation model is used. The most representative estimate of an asset’s selling price is its price in a binding sale agreement in an arm’s length transaction between willing parties, adjusted for incremental costs directly attributable to the disposal of the asset.

**Costs to sell** are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits and costs associated with reducing or reorganization a business following the disposal of an asset are not direct incremental costs to dispose of the asset. Disposal costs do not include costs already recognized as a liability.

In the absence of a binding agreement, the following should be used in the following order to estimate the fair value less costs to sell:

* If there is an active market for sale of the asset, the selling price in the asset’s market, as adjusted for the cost of disposal; and

In the absence of a binding agreement or an active market, the fair value less costs to sell should be based on the best information available. Multiples of EBITDA as well as information from any recent unforced sales of similar assets within the same industry should be considered.

* + 1. Recognizing and measuring an impairment loss

**Any impairment tests performed that indicate either impairment or reversal of a previous impairment should be documented and discussed with Regional Management, Corporate Finance and the Disclosure Committee.**

An impairment loss is recognized to the extent that the carrying amount of an asset or a CGU exceeds its recoverable amount. The carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon.

Impairment losses are recognized in the income statement depending on the nature of the asset impaired. In the case of goodwill, it will be shown in the line item ‘impairment of goodwill and others’ in ‘other operating expenses’.

Once impairment on a CGU is estimated, the order of recognition against the assets should be as follows:

* Firstly to reduce goodwill included in the CGU; then

Against the other assets in the CGU on a pro‑rata basis.

In allocating the impairment loss, the carrying value of the asset should not be less than:

* its fair value less costs to sell (if determinable);
* its value in use (if determinable); and

zero.

4.4 Reversing an impairment loss

At each closing date, the Group should assess whether there is an indication that a previously recognized impairment loss has reversed. If there is such an indication and the recoverable amount of the impaired asset or CGU subsequently increases, then the impairment loss is reversed.

Impairment is not reversed when the increase in recoverable amount is caused only by the unwinding of the discount used in calculating the value in use.

In assessing whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased, the Group should consider whether the circumstances and indicators that led to the initial recognition of the impairment have improved.

An impairment loss recognized for goodwill cannot be reversed.

In allocating a reversal of an impairment loss for a CGU, the carrying amount of an asset should not exceed:

* its recoverable amount (if determinable); and

the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset should be allocated pro rata to the other assets of the unit, except for goodwill.

A reversal of an impairment loss for an asset should be recognized in the income statement similar to the recognition of the initial impairment.

4.5 Specific guidance

4.5.1 Determination of CGU

If there is an indication that an asset may be impaired the **recoverable amount of that individual asset should be estimated** unless it is not possible to estimate the individual asset’s recoverable amount.

If an asset does not generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets, then it will not be possible to estimate the recoverable amount of that individual asset. In such circumstances, the Group is required to identify the Cash Generating Unit (“CGU”) to which the asset belongs and to test the asset for impairment as part of that CGU.

An asset’s CGU is the smallest identifiable group of assets that includes the asset under review and that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The Group assesses impairment based on the following CGUs (except for goodwill):

|  |  |  |  |
| --- | --- | --- | --- |
| Units Summary Cash Generating |  |  |  |
|  |   |   |   |   |
|  | *North America* | *Latin America* | *Europe* | *Asia* |
|   |  |  |  |   |
|   | 1. US Wholesale2. Canada3. US Retail stores | 1. Chile2. Mexico3. Mercosur | 1. Italy (2010 forward), Spain (2010 forward), Belgium, UK, France, Germany, Netherlands, Czech Republic, Austria, Hungary, Finland, Denmark, Norway, Slovakia, Sweden, Switzerland, Greece and Poland 2. Russia3. Turkey4. South Africa5. Italy (prior to 2010)6. Spain (prior to 2010) | 1. South Korea2. India3. Japan4. Australia5. Vietnam6. Hong Kong (including Macau)7. China8. Taiwan9. Philippines10. Singapore11. Malaysia12. Thailand13. Middle East |

4.5.2 Goodwill

Goodwill does not generate cash inflows itself and often contributes to the cash inflows of multiple CGUs. For goodwill impairment testing, a CGU should represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and should not be larger than a segment.

For goodwill, the Group combines CGUs at the regional level, which is the lowest level at which goodwill is monitored by management. Goodwill is evaluated based on the following four regions:

* North America
* Latin America
* Europe
* Asia

4.5.3 Tradenames

Tradenames are the only indefinite‑life intangible. Each tradename is tested by the Group for impairment on a stand-alone basis.

4.5.5 Corporate assets

Corporate assets do not generate cash inflows independently of other assets or groups of assets. Furthermore, they contribute to the future cash flows of more than just one CGU as they contribute to the cash flow of the Group as a whole. Therefore the carrying amount of corporate assets is allocated to the CGU level for impairment testing purposes.

4.6 Disclosure

The following information should be disclosed for each class of asset:

* The amounts of impairment losses and the amount of reversals of impairment losses recognized in profit or loss during the period and the line items of the income statement in which those impairment losses are included and reversed; and

The amount of impairment losses and the amount of reversals of impairment losses on revalued assets recognized directly in equity during the period.

And for each material impairment loss recognized or reversed during the period:

* The events and circumstances that led to the recognition or reversal of the impairment loss;
* The amount of the impairment loss recognized or reversed;
* For an individual asset: the nature of the asset and the reportable segment to which the asset belongs, based on the primary format;
* For a CGU: a description of the CGU, the amount of the impairment loss recognized or reversed by class of assets and by reportable segment on the primary format;
* Whether the recoverable amount of the asset (or CGU) is its fair value less cost to sell or its value in use;
* If recoverable amount is fair value less cost to sell, the basis used to determine fair value less costs to sell; and

If recoverable amount is value in use, the discount rate used in the current estimate and previous estimate of value in use.

The following information should be disclosed for each CGU and groups of units (multiple CGUs) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison to the total carrying amount of goodwill or intangible assets with indefinite useful lives:

* The carrying amount of goodwill allocated to the unit;
* The carrying amount of intangible assets with indefinite useful lives allocated to the unit;
* The basis on which the unit’s recoverable amount has been determined (i.e. value in use or fair value less costs to sell);
* If the unit’s recoverable amount is based on value in use:
* A description of each key assumption on which management has based its cash flow projections for the period covered by the most recent forecasts;
* A description of management’s approach to determining the value assigned to each key assumptions, whether those value reflect past experience and if not, how and why they differ from past experience or external sources of information;
* The period of which management has projected cash flows;
* The growth rate used to extrapolate cash flow projections beyond the period and the justification for using any growth rate that exceeds the long term average growth rate for the countries where the Group operates, or for the market to which the unit is dedicated; and

The discount rate applied to the cash flow projections.

If the unit’s recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit, the following information should also be disclosed:

* A description of each key assumption on which management has based its determination of fair value less costs to sell;
* A description of management’s approach to determining the value assigned to each key assumption, whether those value reflect past experience or, if appropriate, are consistent with external sources of information, and if not, how and why they differ from past experience or external sources of information;
* If a reasonably possible change in a key assumption on which management has based its determination of the unit’s recoverable amount would cause the unit’s carrying amount to exceed its recoverable amount;
* The amount by which the unit’s recoverable amount exceeds its carrying amount;
* The value assigned to the key assumption; and

The amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit’s recoverable amount to be equal to its carrying amount.