

Intangible Assets

note 10

Intangible assets	Publishing rights			2006	2005
	Goodwill		Other		
Position at January 1					
Purchase value	2,570	1,453	312	4,335	3,519
Amortization and impairments	–	(688)	(197)	(885)	(707)
■ Book value at January 1	2,570	765	115	3,450	2,812
Movements					
Investments	–	–	73	73	50
Acquisitions through business combinations	542	406	3	951	390
Disposals	(3)	(4)	0	(7)	0
■ Net expenditures	539	402	76	1,017	440
Amortization	–	(121)	(43)	(164)	(121)
Impairments	–	–	–	–	–
Reclassifications	(27)	35	–	8	6
Exchange differences and other movements	(224)	(67)	(5)	(296)	313
■ Total movements	288	249	28	565	638
Position at December 31					
Purchase value	2,858	1,767	352	4,977	4,335
Amortization and impairments	–	(753)	(209)	(962)	(885)
■ Book value at December 31	2,858	1,014	143	4,015	3,450

Reclassifications include the deferred tax liability that relates to the final outcome of the purchase price allocation of 2005 acquisitions.

In 2006 the company recognized €13 million in its income statement for expenditures that are not components of the cost of internally generated intangible assets.

IMPAIRMENT TESTING FOR CASH-GENERATING UNITS

Carrying amounts of goodwill and publishing rights per division

	Publishing rights		2006	2005
	Goodwill			
Health	822	227	1,049	701
CFS	535	196	731	822
TAL	713	369	1,082	822
LTRE	714	222	936	917
Education	74	–	74	73
■ Total	2,858	1,014	3,872	3,335

The company reviews at each reporting date whether there is an indication that any of the cash-generating units that contain goodwill and/or publishing rights, may be impaired. Furthermore, the company carries out an annual impairment test by comparing the carrying amount of the cash-generating unit to which the goodwill and publishing rights belong, net of related deferred taxes, to the recoverable amount of the cash-generating unit. The recoverable amount is determined based on a calculation of the value in use and compared to multiples of recent transactions to estimate the net selling price. These calculations use cash flow projections based on actual operating results and the three-year Business Development Plan as approved by the Executive Board. Projections are extrapolated beyond this three-year period using an appropriate perpetual growth rate that is consistent with the long-term average market growth rate and that does not exceed 3-4%.

The estimated post-tax cash flows are discounted to their present value using a post-tax weighted average cost of capital (WACC). A post-tax WACC is used because this is readily available in the financial markets. Calculating the recoverable amount on a post-tax basis using a post-tax WACC should lead to the same results as pre-tax calculations. The post-tax WACC used is 8%.

The Group has decided not to apply different discount rates for different parts of the business, since its businesses serve fairly consistent markets (professional customers in developed countries), and their results are impacted in a similar and limited way by changes of the economic cycle and other significant long-term market risks.

The key assumptions used in the projections are:

- Revenue growth: based on actual experience, an analysis of market growth and the expected development of market share
- Margin development: based on actual experience and management's long-term projections.

The impairment test carried out in 2006 showed that the recoverable amount for each cash-generating unit exceeded the carrying amount; hence no impairment of goodwill or publishing rights was recognized in 2006. The impairment test also includes an assessment, if a reasonably possible change in a key assumption would cause the carrying amount to exceed the recoverable amount. One of the cash-generating units, with a carrying amount of €282 million of goodwill and publishing rights, has a recoverable amount that exceeds the carrying amount by €3 million. Its projections include assumptions with regard to gaining new and retaining existing major customers at prevailing price levels, and a long-term average market growth rate of 4%. If the company is unsuccessful at gaining new and retaining existing major customers or if the long-term average market growth rate is below 4%, the recoverable amount would be below the carrying amount.