IFRS 15 applied to Orange

Orange Group
Investor Relations

January 30, 2018
IFRS 15
A new standard on revenue

January, 1st 2018
Effective date of the Standard
Applied in full to prior periods
First financial communication: Q1 2018

A joint project convergence between IFRS and US GAAP

Major impact on Telecommunication sector:
- Subsidized handset
- Contracts longer than one year

Under IFRS 15, revenue recognition is going to be based on the contract with the customer...and not on the invoice anymore
<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Identify a contract: An agreement between two or more parties that creates enforceable rights and obligations.</td>
</tr>
<tr>
<td>2</td>
<td>Identify Performance Obligation: All the goods and services promised to a client with a need to define if they are distinct or not distinct.</td>
</tr>
<tr>
<td>3</td>
<td>Calculate the transaction price: The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to the client.</td>
</tr>
<tr>
<td>4</td>
<td>Allocation of the Transaction Price to the Performance Obligation: Allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services to the client.</td>
</tr>
<tr>
<td>5</td>
<td>Recognition of revenue when the entity satisfies the performance obligation: Revenue is recognized when the client obtains the control of the performance obligation.</td>
</tr>
</tbody>
</table>
Section one

Accounting impacts
Before

Revenue corresponded to cash received from the client

\[\text{The invoice}\]

\[\text{Price paid by the client: } 530 \text{ € (excl. VAT)}\]

\[\text{Cost for Orange: } 770 \text{ €}\]

\[\text{The invoice}\]

After

Revenue corresponds to value received by the client

\[\text{The contract}\]

\[\text{Equipment revenue } = 530 \text{ €}\]

\[\text{Subsidy } = 240 \text{ €}\]

\[\text{Invoiced amount } = 770 \text{ €}\]

\[24.99€ = (34.99€ - (240€/24 months))\]

\[\text{TOTAL CASH (end of contract) } 1369€\]
Customer investment
Balance sheet impacts

Before

Billing

Revenue

→ Nothing in the balance sheet

After

Billing

Revenue

→ We need to record the gap in the balance sheet

- The equipment revenue is recognized based on billed amount at contract inception
- The service revenue is recognized based on billed amount over the contract period

→ No difference between cash received and revenue recognized

- Change in the allocation of revenue between equipment and service
- The standalone value of the handset delivered to the client is recognized in equipment revenue at contract inception

→ A contract asset is recognized at inception, corresponding to the amount of the subsidy granted to the client, and will decrease over the enforceable period, as subsidy is recovered through service billing.
Reallocation mechanism

Example of the impacts on P&L

A historical downward trend of subsidy budget will trigger a negative impact on total revenue

The example is based on the following assumption:
- Subsidies in Y-2 equal to 100
- Enforceable period of 20 months (with an equal distribution of annual subsidies per month)
- Whatever the year, subsidies granted are recovered as follows: 32% in the 1st year; 56% in the 2nd year and 12% in the 3rd year (Those % represent the average subsidy recovery whether subsidies are granted in January or December of a given year)

Decreasing subsidies

<table>
<thead>
<tr>
<th>Year</th>
<th>100</th>
<th>85</th>
<th>74</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y-2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y-1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Impact on equipment revenue: +74

Impact on service revenue: -83.3*

*(100*12%+85*56%+74*32%)

Total impact on revenue: -9.3

Increasing subsidies

<table>
<thead>
<tr>
<th>Year</th>
<th>100</th>
<th>115</th>
<th>134</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y-2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y-1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Impact on equipment revenue: +134

Impact on service revenue: -119.3*

*(100*12%+115*56%+134*32%)

Total impact on revenue: +14.7

Stable subsidies

<table>
<thead>
<tr>
<th>Year</th>
<th>100</th>
<th>100</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y-2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y-1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Impact on equipment revenue: +100

Impact on service revenue: -100*

*(100*12%+100*56%+100*32%)

Total impact on revenue: 0
Reallocation mechanism

Example of the impacts on balance sheet

The contact asset balance reflects the subsidy policy of the previous periods

The example is based on the following assumption:
- Subsidy of Y-2 equals to 100
- Enforceable period of 20 months (with an equal distribution of annual subsidies per month)
- Whatever the year, subsidy granted are recovered as follow: 32% in the 1st year; 56% in the 2nd year and 12% in the 3rd year (Those % represent the average subsidy recovery whether subsidy in granted in January or December of a given year)

<table>
<thead>
<tr>
<th>Year</th>
<th>Contract asset amount end of Y-2</th>
<th>Contract asset amount end of Y-1</th>
<th>Contract asset amount end of Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y-2</td>
<td>100</td>
<td>85</td>
<td>74</td>
</tr>
<tr>
<td></td>
<td>32,0</td>
<td>27,2</td>
<td>23,7</td>
</tr>
<tr>
<td></td>
<td>56,0</td>
<td>47,6</td>
<td>41,4</td>
</tr>
<tr>
<td></td>
<td>12,0</td>
<td>10,2</td>
<td>8,9</td>
</tr>
</tbody>
</table>

Decrease of subsidies

Impact on service revenue on year Y: 
-83,3m = a+b+c

* When contract asset is equal to 0 it means that there is no more discrepancy between cash collected and revenue recognized
Before
Costs expensed as incurred
Or
Costs capitalized

After
Costs of obtaining and costs to fulfill a contract capitalized and expensed over the enforceable period

After
Access fees
Sales commissions and agent fees (1)
Indirect channel marketing costs
Design, installation, connection cost related to perf. obl.

(1) Cost related to a firm contract

→ Spread over the enforceable period

Recognized at a point in time
Build and run

Balance sheet + P&L impacts

Before

Build revenue corresponded to the percentage of completion by milestones defined in the contract.

After

Cornerstone: Is the Build phase individually distinct from the service?

Distinct: No changes

Not distinct: build and run will be recognized as a single performance obligation over time.
Non monetary transactions

P&L impacts

Before
Some specific wholesale balanced service agreements with the use of common active equipment qualified as service contracts

→ recognition of revenues and expenses

After
Those few agreements are qualified as non-monetary transactions and are out of the scope of IFRS 15

→ Net recognition of revenues and expenses

Balanced service agreements:
- Including sharing of active equipment only
- Without cash flow movements

→ Recognition of revenues and expenses separately, for the same amount, as incurred

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>Expenses</th>
<th>EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before</td>
<td>53m€</td>
<td>53m€</td>
<td>0</td>
</tr>
<tr>
<td>After</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Under IFRS 15, the same agreements are qualified as non-monetary transactions

→ No recognition of revenues and expenses (i.e. accounted on a net basis)
Summary of IFRS 15 impacts per business

<table>
<thead>
<tr>
<th></th>
<th>Retail</th>
<th>B to B</th>
<th>Wholesale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment and service revenue</td>
<td>⬆️</td>
<td>⬆️</td>
<td>⬆️</td>
</tr>
<tr>
<td>Customer investment</td>
<td>⬆️</td>
<td>⬆️</td>
<td>⬆️</td>
</tr>
<tr>
<td>Costs related to contracts</td>
<td>⬆️</td>
<td>⬆️</td>
<td>⬆️</td>
</tr>
<tr>
<td>Build and run</td>
<td>⬆️</td>
<td>⬆️</td>
<td>⬆️</td>
</tr>
<tr>
<td>Non monetary transactions</td>
<td>⬆️</td>
<td>⬆️</td>
<td>⬆️</td>
</tr>
</tbody>
</table>

* B to B includes Mobile enterprise in counties and OBS activities
Our first expected range of impacts

Expected impact on 2016 opening equity of approximately +800M€

Expected revenue impact on a normal course of business with a decreasing trend in subsidies around -100M€

Expected EBITDA impact on a normal course of business with a decreasing trend in subsidies and commission around -130M€
Section two

Impacts on disclosures
Statement of Income

Before

A presentation based on the nature of revenue

<table>
<thead>
<tr>
<th>Actual presentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
</tr>
<tr>
<td>Mobile services</td>
</tr>
<tr>
<td>Mobile equipment sales</td>
</tr>
<tr>
<td>Fixed services</td>
</tr>
<tr>
<td>Other revenues</td>
</tr>
<tr>
<td>Voice services</td>
</tr>
<tr>
<td>Data services</td>
</tr>
<tr>
<td>IT and integration services</td>
</tr>
<tr>
<td>International Carriers</td>
</tr>
<tr>
<td>Shared services</td>
</tr>
</tbody>
</table>

Entreprise (excl. Mobile)

International carriers & Shared services

After

A presentation in line with the type of offers

- Fixed and mobile wholesale revenues (including visitor roaming and incoming) ➔ Wholesale revenues
- Mass Market convergent offers ➔ Convergent services
- Fixed services Mass market and Enterprise ➔ Fixed services only
- All equipment sales ➔ Equipment Sales

New presentation
## Before

Concept of assets related to contracts with customers did not exist

<table>
<thead>
<tr>
<th>Assets</th>
<th>After</th>
<th>New lines for assets and liabilities related to contracts with customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total non-current assets</td>
<td>Assets related to contracts with customers</td>
<td>1</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>• Contract asset</td>
<td>1</td>
</tr>
<tr>
<td>Total current assets</td>
<td>Costs of obtaining a contract</td>
<td>1</td>
</tr>
<tr>
<td>Total assets</td>
<td>Costs to fulfill a contract</td>
<td>1</td>
</tr>
<tr>
<td>Equity and liabilities</td>
<td>Provision on Contract asset</td>
<td>1</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>Liabilities related to contracts with customers</td>
<td>2</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>Anticipated spread of subsidy</td>
<td>2</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>Deferred revenue   (Subscription, telephone cards, Loyalty Programs, Connection fees, other)</td>
<td>2</td>
</tr>
<tr>
<td>Total equity and liabilities</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
</tr>
</tbody>
</table>
- The IFRS 15 backlog only highlights customer commitments towards Orange at the closing date and shall not be considered as an indicator of future revenue.

- Given the market practice of contracts without commitment (Broadband contracts and SIMO contracts), the IFRS 15 backlog only reflects a small part of Orange Retail business.

The relevant French example

In France: 30% of mobile contracts are in the scope of IFRS 15 Backlog

Before

No disclosure of the backlog

After

- Only firm contracts will be included in the backlog calculation
- All firm contracts whether they include a subsidy mechanism or not
- Orange will disclose the backlog only for firm contracts that have an initial minimal duration of more than 12 months

Compulsory disclosure of the aggregated transaction price allocated to remaining performance obligations
Section three

Impacts on KPIs
We will use 3 different ARPO in line with our revenue split

ARPO* Convergent

ARPO* Mobile only

ARPO* Fixed broadband only

With these 3 KPIs, our main revenue streams will be well depicted and understood by the investors

*ARPO: Average Revenue Per Offer
From Blended Mobile ARPU to Mobile only ARPO…

Let’s take an example to illustrate the reconciliation between the 2 indicators:

<table>
<thead>
<tr>
<th>ARPU Mobile IAS18</th>
<th>IFRS 15 impacts</th>
<th>ARPU Mobile IFRS15</th>
<th>IFRS 15 impacts</th>
<th>ARPO Mobile only</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>32 €</td>
<td></td>
<td>+3.1 €</td>
<td>25.5 €</td>
</tr>
<tr>
<td></td>
<td>-3.1 €</td>
<td></td>
<td>-1.5 €</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-5 €</td>
<td></td>
</tr>
<tr>
<td>Restatement of</td>
<td>Visitor roaming</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>incoming</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Restatement of</td>
<td>Mobile billed service for convergence</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>IFRS 15 impacts</td>
<td></td>
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</tr>
</tbody>
</table>

New
Section four

Communication time schedule
2017 Full Year results release without IFRS15 impacts
• 2017 full year results and 2016 comparatives without IFRS15 impact
• Guidance provided without IFRS15 impacts for better comparability
• A range of IFRS15 impacts estimates will be disclosed in the notes

Communication of IFRS15 quantitative impacts, historical basis
• Restatement of 2017 results per quarter (revenue and EBITDA per segment) under IFRS15, on historical basis
• Restatement of 2016 FY results (revenue and EBITDA per segment) under IFRS15, on historical basis

Communication of IFRS15 quantitative impacts, comparable basis
• Full data book restated (2016 FY, and 2017 per quarter)

Q1 2018 results release under IFRS15
• First quarterly results under IFRS15, with Q1 2017 comparatives
• Results non audited
• No Q1 2018 results under old standards will be provided

Orange Polska on a standalone basis will take different communication options, for comparability purposes, without interfering with Orange Group financial communication
• No comparative figures (2017 and 2016) restated under IFRS15 will be communicated
• During 2018 period, Orange Polska will communicate its financial results under both IFRS15 and the old standard