

# 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

# 5 steps approach

## Identify a contract

An agreement between two or more parties that creates **enforceable rights and obligations**

## Identify Performance Obligation

All the **goods and services** promised to a client with a need to define if they are **distinct or not distinct**

## 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

## 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

## Recognition of revenue when the entity satisfies the performance obligation

Revenue is recognized **when the client obtain the control** of the performance obligation

# Section one

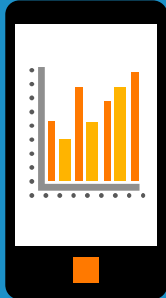
# Accounting impacts

# Equipment and service revenue

*P&L impacts*



Amount (excl. VAT) per month with a 24 month commitment

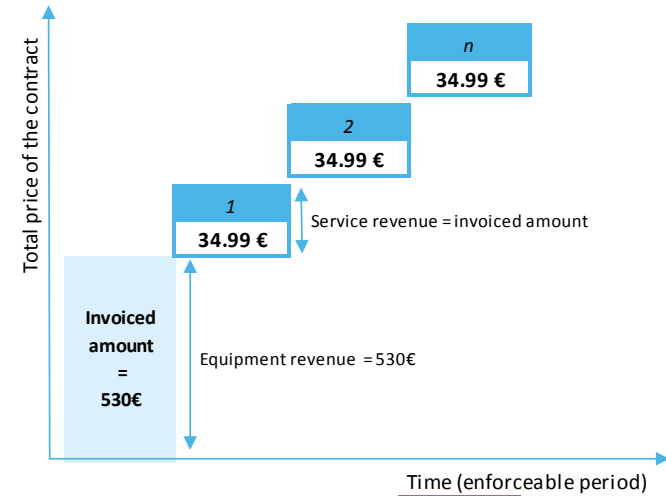


Price paid by the client: 530€ (excl. VAT)  
Cost for Orange: 770€

## Before

Revenue corresponded to cash received from the client

→ The invoice

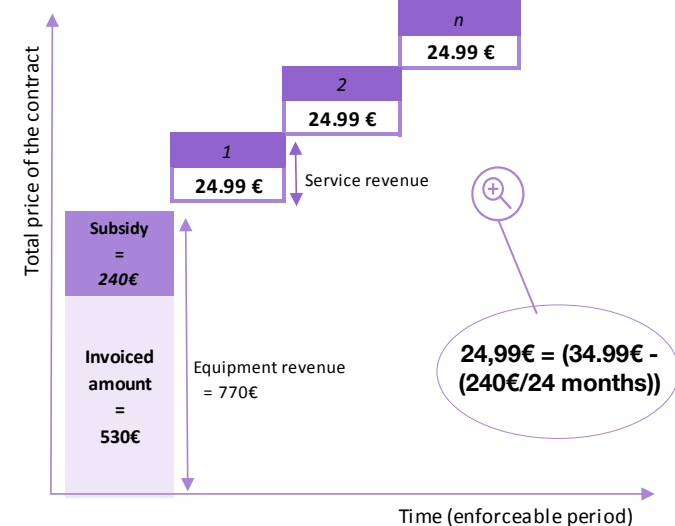


**TOTAL CASH (end of contract)**  
**1369€**

## After

Revenue corresponds to value received by the client

→ The contract



**TOTAL CASH (end of contract)**  
**1369€**

# Customer investment

*Balance sheet impacts*



## Before

Billing

=

Revenue

→ *Nothing 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

## After

Billing

≠

Revenue

→ *We need to record the gap in the balance sheet*

- 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

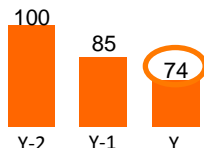
## Example of the impacts on P&L

## 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



Impact on equipment revenue **+74**



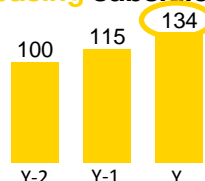
Impact on service revenue: **-83,3\***

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



Total impact on revenue: **-9,3**

### Increasing subsidies



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



Impact on equipment revenue **+100**



Impact on service revenue: **-100\***

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

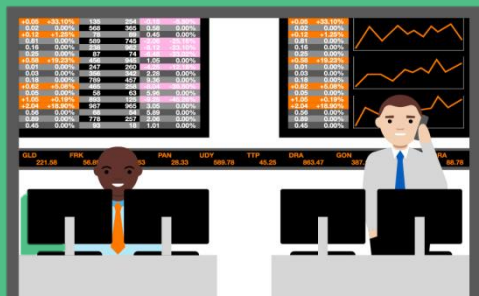


Total impact on revenue: **0**



# Reallocation mechanism

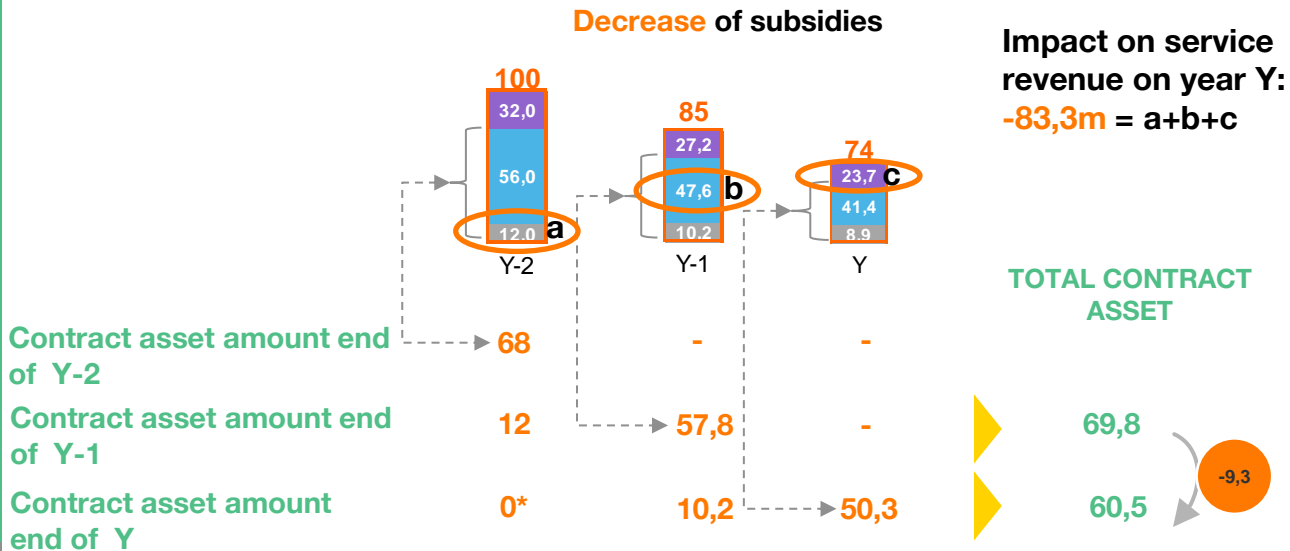
## Example of the impacts on balance sheet



## 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 is granted in January or December of a given year)



\* When contract asset is equal to 0 it means that there is no more discrepancy between cash collected and revenue recognized



# Costs related to contracts

*Balance sheet + P&L impacts*

## 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

## Before



Access fees



Sales commissions and agent fees (1)



Indirect channel marketing costs



Design, installation, connection cost related to perf. oblig.

## After



(1) Cost related to a firm contract



Spread over the enforceable period



Recognized at a point in time

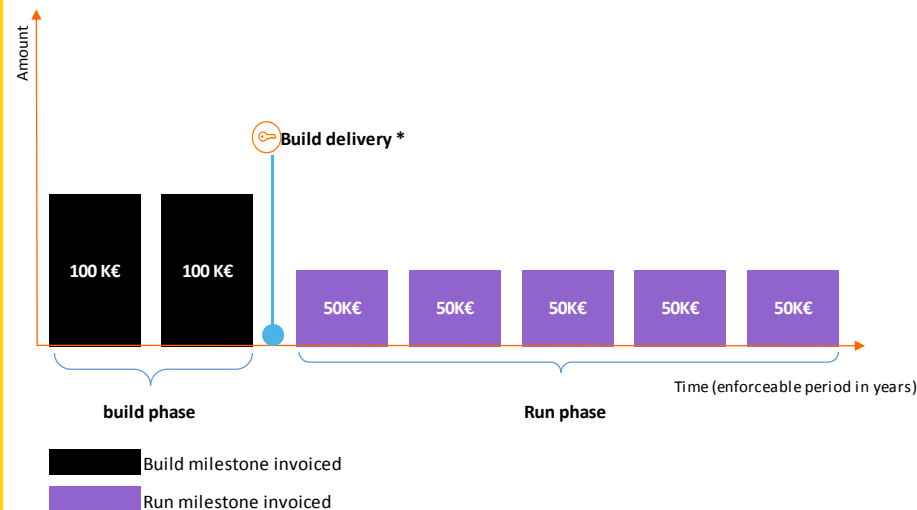
# Build and run

*Balance sheet + P&L impacts*



## Before

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

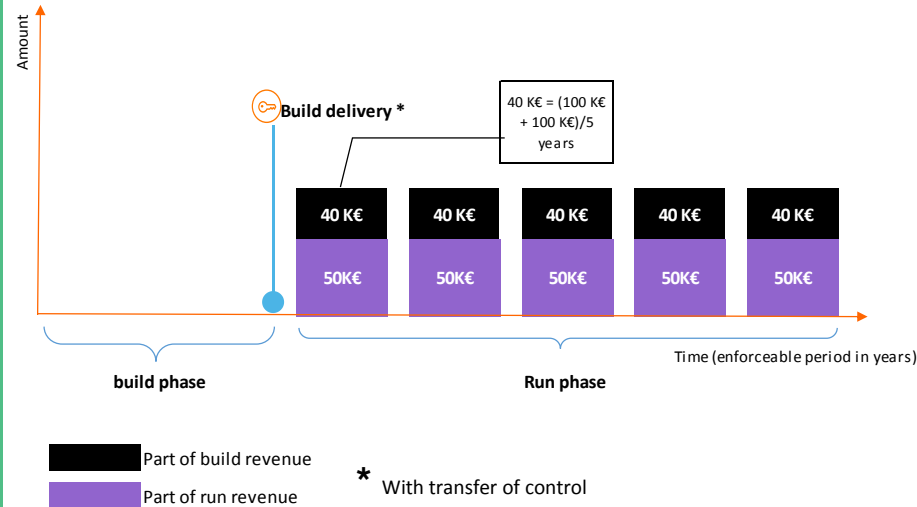


## After

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

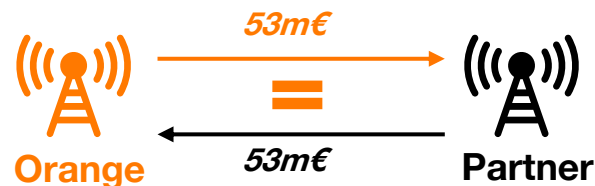
→ *Net recognition of revenues and expenses*

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*

Revenue	53
Expenses	53
<b>EBITDA</b>	<b>0</b>



Revenue	0
Expenses	0
<b>EBITDA</b>	<b>0</b>

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

	<b>Retail</b> 	<b>B to B</b> 	<b>Wholesale</b> 
Equipment and service revenue			
Customer investment			
Costs related to contracts			
Build and run			
Non monetary transactions			

\* 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

Actual presentation

### Revenues

Mobile services

Mobile equipment sales

Fixed services

Other revenues

Voice services

Data services

IT and integration services

International Carriers

Shared services

*Enterprise  
(excl. Mobile)*

*International carriers  
& Shared services*

New presentation

### Revenues

Convergent services

Mobile services only

Fixed services only

Equipment sales

IT and integration services

Wholesales revenues

Other revenues

**Before**

**A presentation  
based on the  
nature of  
revenue**

# Statement of Income



**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**

<b>Assets</b>
...
<b>Total non-current assets</b>
...
Trade receivables
...
<b>Total current assets</b>
<b>Total assets</b>
<b>Equity and liabilities</b>
...
<b>Total equity</b>
...
<b>Total non-current liabilities</b>
...
Trade payables
Deferred income
...
<b>Total current liabilities</b>
<b>Total equity and liabilities</b>
<b>ACTUAL PRESENTATION</b>

<b>Assets</b>
...
<b>Total non-current assets</b>
...
Trade and other receivables
Assets related to contracts with customers <sup>1</sup>
<b>Total current assets</b>
<b>Total assets</b>
<b>Equity and liabilities</b>
...
<b>Total equity</b>
...
<b>Total non-current liabilities</b>
...
Trade and other payables
Liabilities related to contracts with customers <sup>2</sup>
...
<b>Total current liabilities</b>
<b>Total equity and liabilities</b>
<b>NEW PRESENTATION</b>



## Before

Concept of assets related to contracts with customers did not exist

## After

New lines for assets and liabilities related to contracts with customers

# Balance sheet



### <sup>1</sup> *Assets related to contracts with customers*

- Contract asset
- Costs of obtaining a contract
- Costs to fulfill a contract
- Provision on Contract asset

### <sup>2</sup> *Liabilities related to contracts with customers*

- Anticipated spread of subsidy
- Deferred revenue (Subscription, telephone cards, Loyalty Programs, Connection fees, other)



- 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

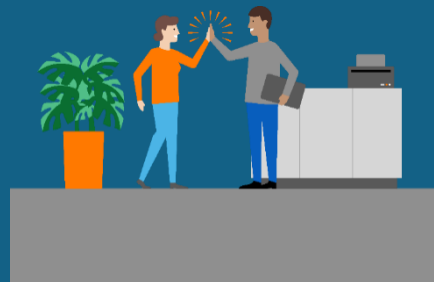
### The relevant French example

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

## Before

No disclosure of the backlog

# Backlog



## After

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

- 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**

# Section three

## Impacts on KPIs

## We will use 3 different ARPO in line with our revenue split

ARPO\* Convergent

ARPO\* Mobile  
only

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

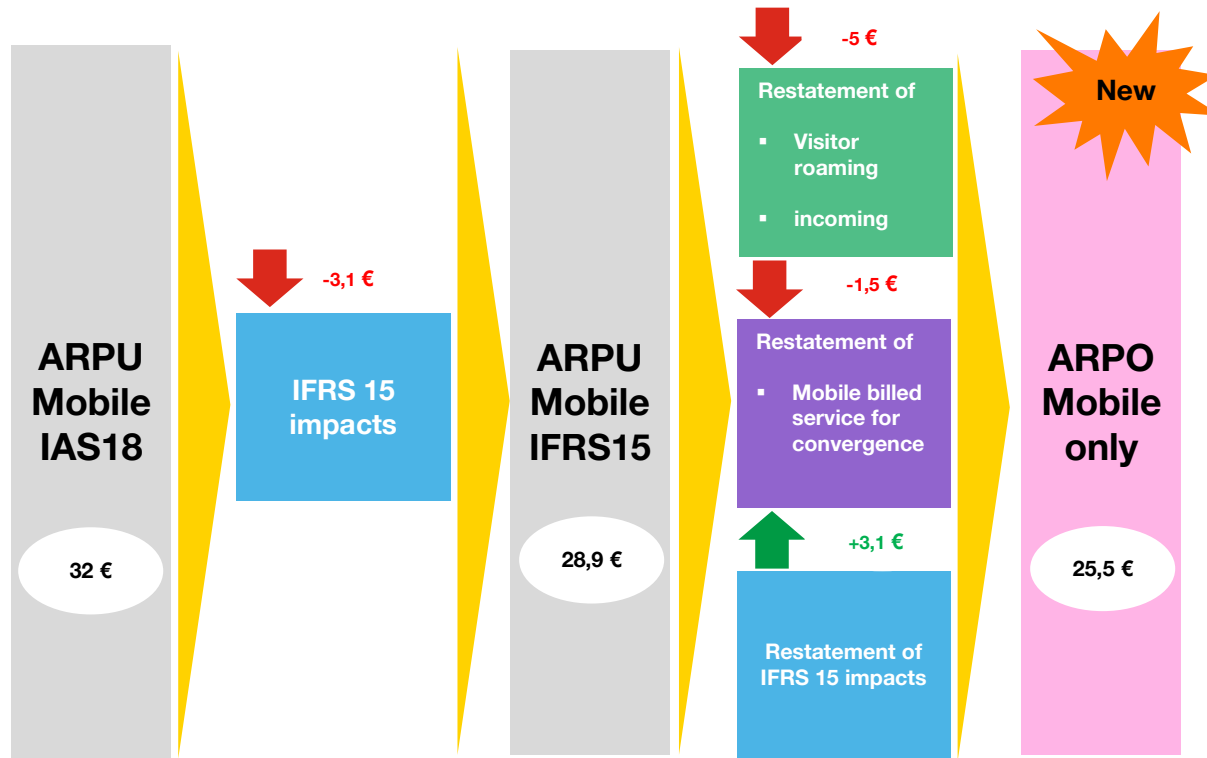
ARPO\* Fixed  
broadband only

*\*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 :



# Section four

## Communication time schedule

21<sup>st</sup> Feb 2018

*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

Mid-March  
2018

Beginning of  
April 2018

26<sup>th</sup> April 2018



*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

# Q&A

