



Mrs. Françoise Flores
Chair
EFRAG- European Financial Reporting
Advisory Group
AISBL-IVZW
35 Square de Meeûs
B-1000 Brussels

Paris, 13 March 2012

Dear Mrs Flores,

We appreciate the opportunity to take part in the Field Test of the revised IASB-FASB joint ED "Revenue from Contracts with Customers" that EFRAG launched with a view to provide evidence on:

- (a) the clarity of the guidance provided in the ED,
- (b) the impact on financial statements of the proposed requirements, and
- (c) costs and benefits of the proposed requirements.

This letter and its accompanying documents present the results of the field testing that we were able to perform in the limited timeframe since the revised ED has been published.

This letter also forms our answer to EFRAG's call for comments on its own comment letter to the IASB, especially with respect to the Boards invitation to comment on whether the proposed requirements are clear and can be applied in a way that effectively communicates to users of financial statements the economic substance of an entity's contracts with customers.

In this letter, we also refer to the results of an inquiry of 34 users that were contacted by the investors relations departments of 4 European operators; its conclusions have been endorsed by 9 other operators. We provided you with this study separately.

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We have been closely following the Boards project since the first Discussion Paper and have been involved in numerous exchanges with the IASB-FASB Staff and Boards members.

The concerns we have constantly expressed i.a. in our comment letter to the IASB dated 22 October 2010 and which you were copied remain valid. In fact, since the Boards last discussion of the telecommunications industry in June 2011,

- the portfolio method that was advocated by the Staff in June 2011 as a possible solution to alleviate the industry's feasibility concern has proved not to be implementable;



- users have gained a better understanding of the potential impacts of the revised ED and have made their concerns more explicit,
- operators selling handsets in installments have described a contractual arrangement different from that of Orange's main contracts; installment sales seems to affect positively the feasibility of an allocation but are not the customers preferred choice in Orange markets.

We appreciate that several Boards members supported the consideration of alternative methods in their June 2011 meeting to cope with the telecommunications industry concerns.

We have since then been engaged in further discussions in order to find a positive outcome compatible with the Boards overall model and palatable to users. Such discussions are still ongoing and we would appreciate any participation of the EFRAG staff you will find appropriate.

We are also convinced that any unintended consequences of a solution on other industries can be avoided by carefully crafting an amendment scoping in only those contracts with certain characteristics (an approach that was considered by the Staff in the AP4B/147B in June 2011).

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Users of our financial statements have constantly expressed that the proposed requirements result in less useful information compared with current requirements and that they will require us to continue providing them with the existing information, i.e. forcing operators to produce non GAAP measures.

As one of them stated, "I do see merit in the arguments presented in the ED. However it is not clear whether this is the BEST reflection of economic reality. Indeed, the accounting outcome appears to be awkward, and inconsistent with the rather predictable monthly cash flows generated."

This appreciation is linked to the stand-alone selling price allocation of the transaction price for the sale of a discounted handset with a communication plan.

Indeed, the stand-alone selling price allocation can not provide users with a cross industry comparative basis of communication fees excluding the effect of the recovery of the initial discount on the handset.

In users view, this mechanism results in

- a loss of comparability between operators or between an operator's business units,
- lessened modelling capabilities of revenues and associated cash flows,
- higher sensitivity of revenue to variations in commercial practices that do not reflect a variation in the benefits received by the customers (e.g. use of a direct or indirect distribution channels, stand-alone selling prices that are offer specific, legal and contractual clauses),

Orange shares these concerns. In addition, the stand-alone selling price allocation

- would require systems and data (or link between data) that currently are not in place/available;
- assuming the development of such systems is feasible, their deployment and the collection of data will require a significant number of years: we will neither be able to meet the 2015 tentative implementation date envisaged by the Boards, nor any deadline before 2020;



- their development will be extremely costly because the volumes of transactions, the number of combinations of prices, and permanent modifications in contracts do not enable a portfolio approach; these costs will be additional as the billing systems interconnected to the communication access system and to the collection system will have to remain in place.
- would put an extreme pressure on accounting and internal control processes and on the auditability of the reallocation and of the related balances;
- would put at risk the cost of capital demanded by the market as evidenced by various academic studies about non transparent financials, and as explicitly stated by some users, thereby increasing in a disproportionate manner the imbalance between costs and benefits of the Boards proposals.

Therefore, in the presentation of our field test, we have focused our efforts on providing EFRAG with insights on our operations and on the characteristics of stand-alone selling prices in our markets, as well as with facts about the costs and benefits balance.

We did not focus on the revised ED wording as the Boards themselves have illustrated how they expected the ED to be applied by the industry. However, please note the determination of the applicable requirements to the usual contract modifications as well as the implementation of the time value of money (when applicable) were found to be a specific challenge.

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We are hopeful that the constructive dialog that EFRAG is accustomed to with the IASB will help to solve the issues raised by the telecommunication operators as well as it has been able to convince the Board of the need to find a proper outcome for other industries in order not to lessen the usefulness of their financial information.

Looking forward to reading EFRAG's comment letter to the IASB and feedback of the field test,

Kind regards,

/s/ Gervais Pellissier
Gervais Pellissier
CEO delegate & CFO

/s/ Patrice Lambert-De Diesbach
Patrice Lambert-De Diesbach
Investors Relations Officer

/s/ Valérie Thérond
Valérie Thérond
Chief Accounting Officer

