

# Orange Polska

## Application of IFRS16

.one

15 March 2019



# IFRS 16

## A new standard for lease contracts

**1st January  
2019**

Application date

Applied prospectively, with  
no prior period  
restatement

No change on lessor side

1<sup>st</sup> financial  
communication : Q1 2019

### Regulators objectives:

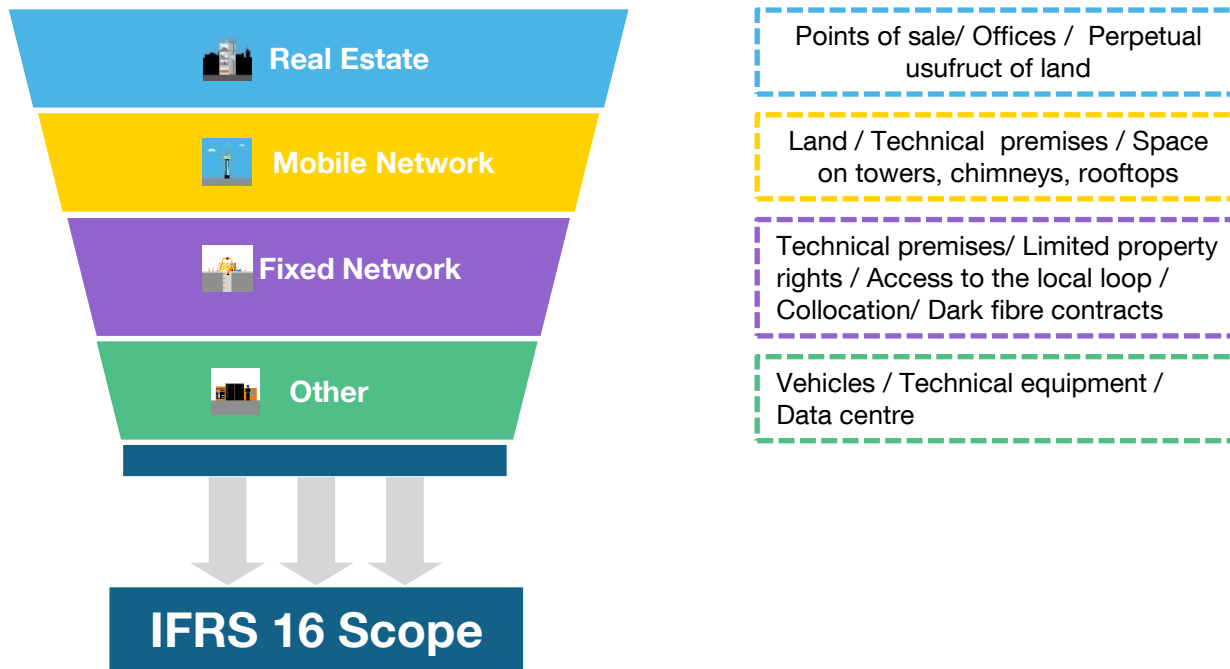
- Integrating all the lease commitments on the balance sheet
- Improving transparency and comparability between companies

### Major areas of impact on Orange Polska:

- Real Estate
- Network



# A change applied to several categories of assets



# Impact on Balance Sheet

## Before\*

No lease asset nor liability recognized

Off balance sheet commitments only for operating lease

### Illustrative example:

Orange signed on 1 January 2019 a commercial lease to rent a shop for a period of 15 years for an annual rent of PLN 300k (year end annual payment). The applicable interest rate is 3%.

### IAS 17

Nothing on the balance sheet

Estimates in the off balance sheet commitment note in the financial statements

### IFRS 16

Recognition of a right of use asset and lease liability representing at contract inception the present value of future lease payments

## Now\*

Accounting of a right of use (ROU) asset

Recognition of a debt for the NPV of the future lease payments

	2019
<b>Assets</b>	
Goodwill	
Other Intangible assets	
Property, plant and equipment	
Right of use assets	3581
Contract assets	
....	
<b>Total non-current assets</b>	
Inventories	
Trade receivables	
.....	
<b>Total current assets</b>	
<b>TOTAL ASSETS</b>	

	2019
<b>Liabilities</b>	
Share capital	
...	
<b>Total equity</b>	
Non-current financial liabilities	
Non-current lease liabilities	3388
Non-current derivatives liabilities	
...	
<b>Total non-current liabilities</b>	
Current financial liabilities	
Current lease liabilities	193
...	
<b>Total current liabilities</b>	
<b>TOTAL EQUITY and LIABILITIES</b>	

The lease asset and liability calculated and accounted as of January 1st 2019 will be :

$$\text{PLN 3,581 K} = \sum_{n=1}^{15} \frac{(300)}{(1+3\%)^n}$$

\* Finance leases : no change

# Impact on Profit & Loss statement

**Before\***  
Operating expense

Above EBITDA

## Illustrative example:

Orange signed on 1 January 2019 a commercial lease to rent a shop for a period of 15 years for an annual rent of PLN 300k (year end annual payment). The applicable interest rate: 3%.

## IAS 17

Rent charges are booked above EBITDA

## IFRS 16

Opex will be replaced by an **amortisation of the right of use and an interest expense for the actualization impact.**

**Now\***

RoU amortization

Interest expense

Below EBITDA

	2019
<b>Revenues</b>	
External purchases	300
Other operating income	
Other operating expense	
Labour expenses	
.....	
<b>EBITDA</b>	
Depreciation and amortization	239
....	
<b>EBIT</b>	
Cost of gross financial debt	
Lease interest expense	107
....	
<b>Finance costs, net</b>	
Income tax	
<b>Consolidated net income after tax</b>	

- Amortization of the right of use PLN 239K: PLN 3,581K / 15 years
- Interest expense on the first year: PLN 107K: PLN 3,581K \* 3% (this interest expense will decrease over the years as the capital portion is repaid)

# EBITDAaL to replace EBITDA as main measure of operating profitability

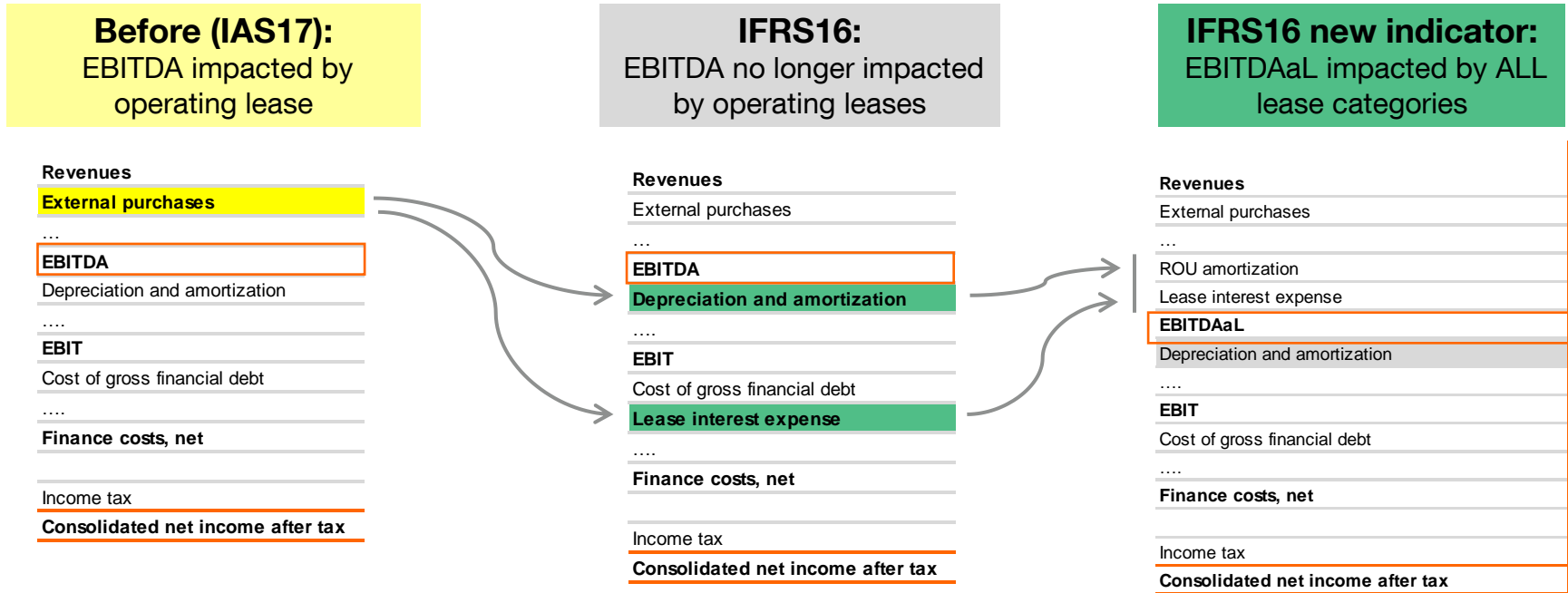
- Implementation of IFRS16 does not change the business fundamentals and source of value creation
- In our view expenses related to leasing contracts are part of operating activity
- Therefore we decided to create alternative performance measure to report operating profitability

**EBITDAaL** (EBITDA after leases)

- It is consistent with "one accounting method for all leases" approach
- It better reflects how the company is managed internally

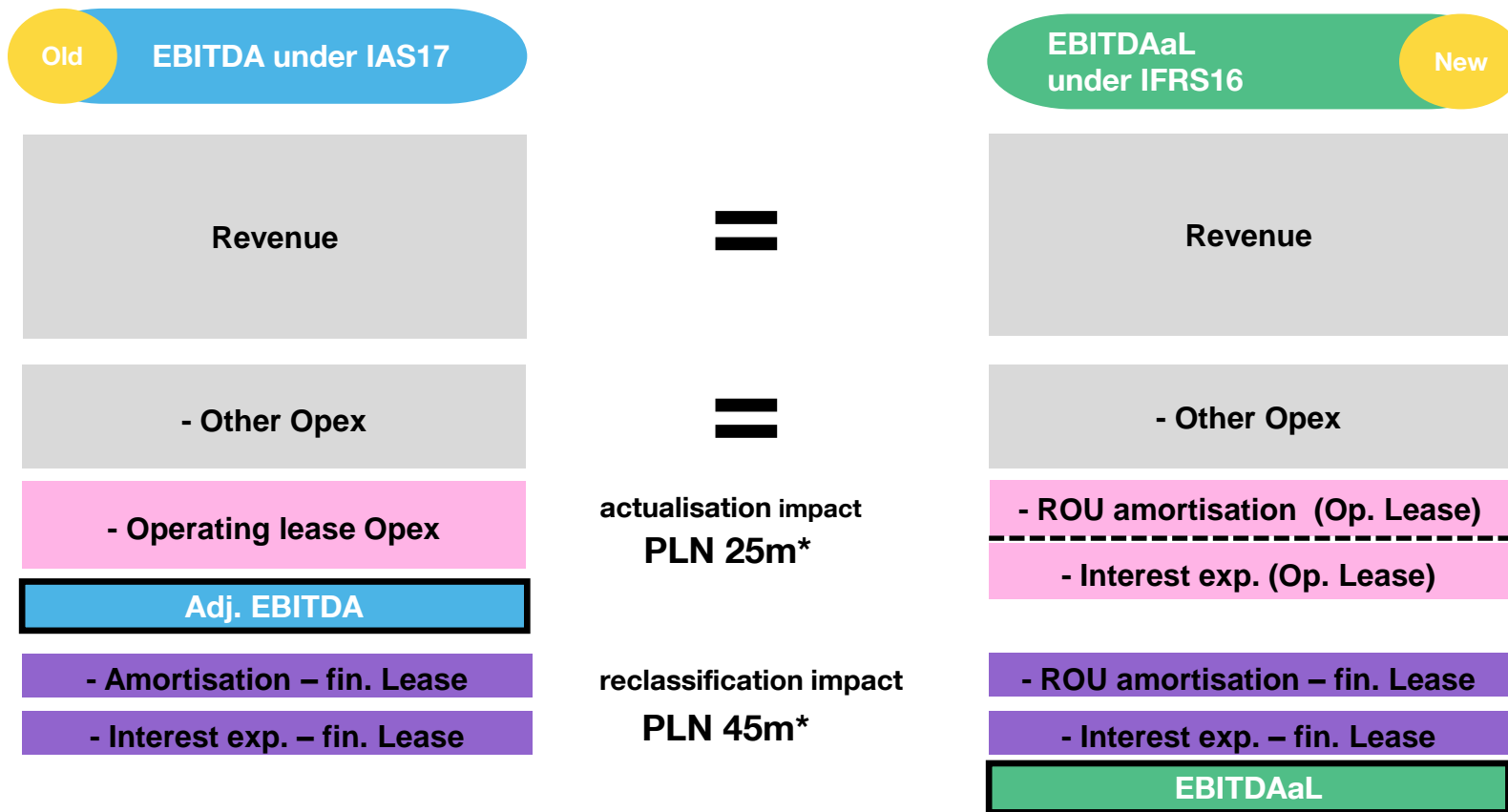


# P&L treatment of operating leases



ROU – Right of use

# Differences between EBITDA and EBITDAaL



\* Estimated impact for 2018

ROU – Right of use



# Alternative Performance Measures (APMs) under IFRS16

(all IFRS16 corrections and values after these corrections for 2018 are company's best estimates)

(in PLNm)

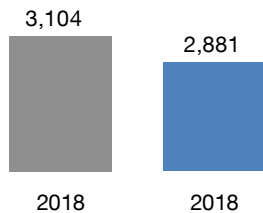
**IAS18**      **IFRS15**

Operating leases in OPEX  
Finance leases **below EBITDA**  
(depreciation & interests)

**After IFRS16 implementation**

Operating and finance leases  
treated equally  
**as operating costs.**

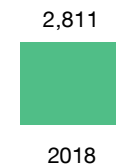
**adj. EBITDA**



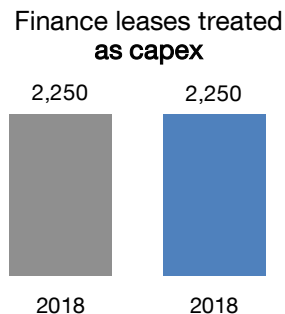
-25  
IFRS16 impact  
on operating leases

-45  
finance leases –  
amortisation & interest

**EBITDAaL (EBITDA after leases)  
to become new main operating  
profitability measure since 2019**



**adj. CAPEX**



-137  
Capex financed  
by finance leases

Finance leases treated  
as operating expense  
**(no longer in capex)**



# Alternative Performance Measures (APMs) after IFRS16

(all IFRS16 corrections and values after these corrections for 2018 are company's best estimates)

(in PLNm)

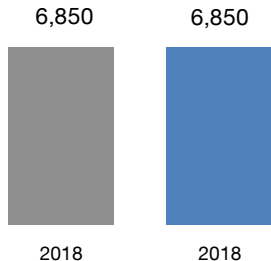
**IAS18**      **IFRS15**

**After IFRS16 implementation**

Finance leases included  
in net debt (**finance capex, not included  
in EBITDA**)

Finance leases excluded from net debt  
(treated **as operating cost, included  
in EBITDAaL**)

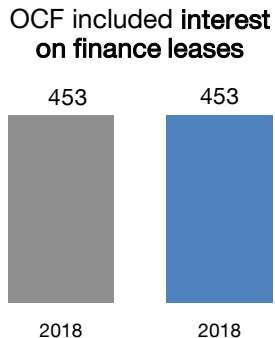
**Net debt**



-178  
finance leases liabilities



**adj. Organic  
cash flow**



-42  
finance leases –  
capital payments

OCF includes **fully finance leases**  
(interests and capital payments)



# EBITDAaL proforma 2018

(figures are not audited and constitute company's best estimates)

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY 2018
<b>Revenues</b>	2,710	2,706	2,755	2,930	11,101
<b>Labour expenses</b>	-432	-397	-370	-383	-1,582
<b>External purchases</b>	-1,492	-1,471	-1,519	-1,725	-6,207
- Interconnect expenses	-447	-471	-469	-460	-1,847
- Network and IT expenses	-144	-154	-148	-160	-606
- Commercial expenses	-578	-551	-561	-743	-2,433
- Other external purchases	-323	-295	-341	-362	-1,321
<b>Other operating incomes &amp; expenses</b>	-47	-29	-56	-72	-204
<b>Impairment of receivables and contract assets</b>	-23	-41	-46	-52	-162
<b>Gain on disposal of assets</b>	19	3	93	77	192
<b>Amortization &amp; impairment of RoU of leased assets</b>	-66	-66	-70	-74	-276
<b>Lease interest expense</b>	-10	-13	-14	-14	-51
<b>EBITDAaL</b>	<b>659</b>	<b>692</b>	<b>773</b>	<b>687</b>	<b>2,811</b>
amortisation & interest on finance leases	10	10	12	13	45
IFRS16 impact on operating leases	5	7	7	6	25
<b>Adjusted EBITDA (IFRS15)</b>	<b>674</b>	<b>709</b>	<b>792</b>	<b>706</b>	<b>2,881</b>

# Q&A