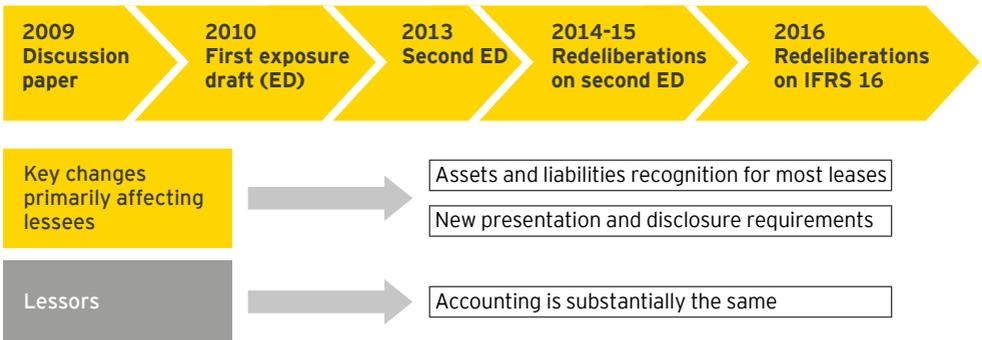


IFRS 16 Leases

Accounting implications for telecoms

Impact of new leases standard for telecoms at a glance

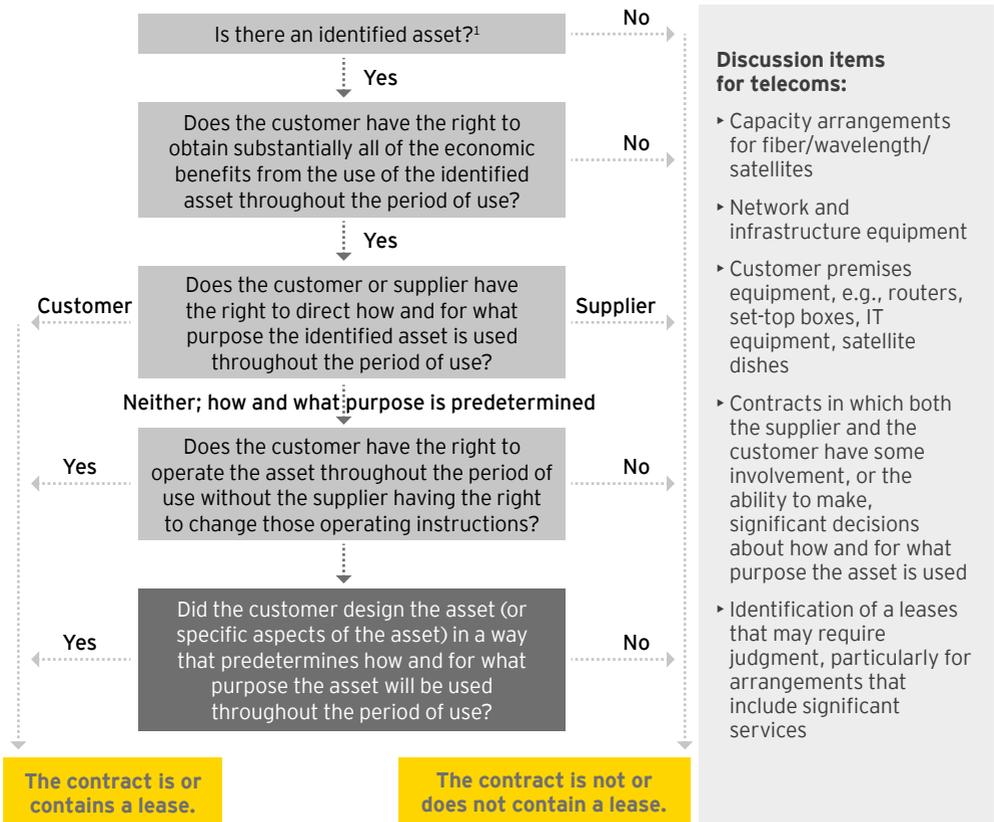


The new standard will be effective for annual periods beginning on or after 1 January 2019 with limited early adoption allowed.

Impact on telecoms

- ▶ Financial statements: balance sheet, income statement, cash flow statement and disclosures
- ▶ Key financial metrics and ratios, e.g., leverage (gearing), current ratio, asset turnover, interest cover, EBIT/operating profit, earnings before interest, tax, depreciation and amortization (EBITDA)
- ▶ Debt covenants compliance
- ▶ Systems, processes and controls
- ▶ Strategic business decisions, e.g., lease/buy and sale and leaseback
- ▶ Potential complexity and operational difficulties for lease accounting
- ▶ Significant data requirements for accounting, presentation and disclosure of lease transactions

Determining whether an arrangement is or contains a lease



Lessee accounting – measurement and presentation

Initial recognition and measurement	Initially measure right-of-use (ROU) asset and lease liability using an appropriate discount rate
Subsequent measurement of lease liability	Increase the lease liability to reflect interest on the lease liability Reduce lease liability by payments made
Subsequent measurement of ROU asset	Depreciate ROU asset, based on IAS 16 <i>Property, Plant and Equipment</i> Alternative measurement of ROU asset under the revaluation in International Accounting Standard (IAS) 16 or the fair value model under IAS 40 <i>Investment Property</i>
Profit and loss	Generally “front-loaded” expense for individual leases Separate interest and depreciation presentation

¹ A capacity portion of an asset is an identified asset if it is physically distinct (e.g., a floor of a building). A capacity or other portion of an asset that is not physically distinct (e.g., a capacity portion of a fiber optic cable) is not an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset.

Effective date and transition

- ▶ Effective for annual periods beginning on or after 1 January 2019
 - ▶ Early application permitted if IFRS 15 is also applied
- ▶ Lessees are permitted to choose between two transition approaches and apply the election consistently to all leases
 - ▶ Full retrospective; or
 - ▶ Modified retrospective
- ▶ Lessors are not required to make any adjustments on transition
 - ▶ Except for intermediate lessors in a sublease
- ▶ Lessees and lessors are not required to reassess whether contracts are, or contain, a lease
 - ▶ Option to be applied to all contracts that are ongoing at the date of initial application

Lessees modified retrospective approach

Existing operating leases

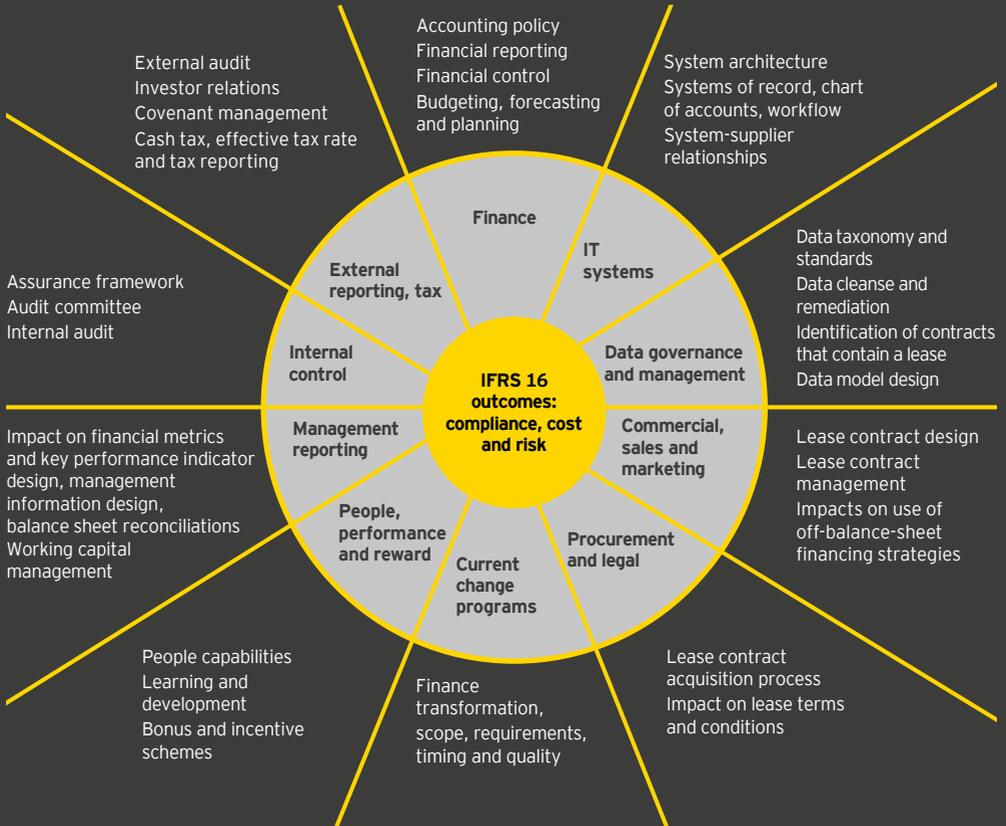
- ▶ Do not restate comparative periods
- ▶ Lease liability = PV of remaining lease payments²
- ▶ Choice (Present value) of measurement of ROU asset may affect future expenses:
 - ▶ As if IFRS 16 had been applied since commencement date;
- Or
- ▶ Equal to lease liability
- ▶ Practical expedients adjusted by any prepaid or accrued lease payments:
 - ▶ Provide exemption for leases ending within 12 months
 - ▶ Rely on onerous lease assessment
 - ▶ Exclude initial direct costs from ROU asset
 - ▶ May use hindsight
- ▶ Disclose explanation of any difference between:
 - ▶ Operating lease commitments disclosed applying IAS 17 at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application
 - ▶ Lease liabilities recognized at the date of initial application

²Using incremental borrowing rate at the date of initial application

Existing finance leases

- ▶ Carry forward asset and lease liability from IAS 17 *Leases*
- ▶ Apply IFRS 16 requirements from the date of initial application

Impact on telecom business



How EY can help

► EY leasing enabler

Data entry area



Processing area



Reporting area



Added value of our modular approach:

- ▶ Quick modifications at any time in response to changes (e.g., additional automated interfaces, to meet local accounting requirements)
- ▶ Simple configuration that speeds up project progress and the presentation of results
- ▶ Used on several projects over the past five years
- ▶ Ongoing improvements
- ▶ Globally consistent use
- ▶ Applicable to IFRS and US GAAP
- ▶ LE as license-free project result

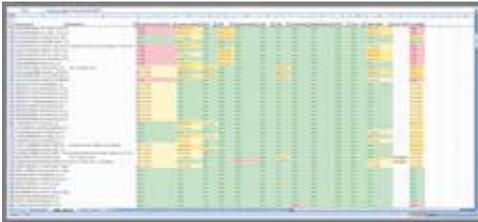
Selected applications:

- ▶ Impact analysis IAS 17 vs. IFRS 16
- ▶ KPI dashboard
- ▶ Simulation options
- ▶ Disclosure
- ▶ “Buy-or-lease” decision
- ▶ Internal/external reporting

Semiautomated contract capturing

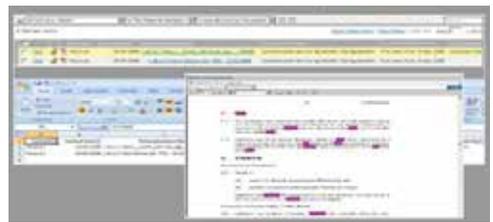


EY text mining tool



- ▶ Fast and consistent mass data collection
- ▶ Marking of not found mandatory fields
- ▶ Company cluster-related adaption of search strings

EY relativity text analyzer tool



- ▶ Key term identification
- ▶ Reconciliation with model agreements
- ▶ Text-of-contract benchmarks

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Telecommunications operators are facing a rapidly transforming business model. Competition from technology companies is creating challenges around customer ownership. Service innovation, pricing pressures and network capacity are intensifying scrutiny of the return on investments. In addition, regulatory pressures and shareholder expectations require agility and cost efficiency. If you are facing these challenges, we can provide a sector-based perspective on addressing your assurance, advisory, transaction and tax needs. Our Global Telecommunications Sector is a virtual hub that brings together people, cultures and leading ideas from across the world. Whatever your need, we can help you improve the performance of your business.

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EYG no. 00773-174Gbl

BMC Agency
GA 0000_09184

ED None



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