1 INTRODUCTION

We would like to take the opportunity to respond to the International Accounting Standards Board's (IASB) and the Financial Accounting Standards Board's (FASB) Exposure Draft (ED) on Leases.

We have restricted our comments to the most significant concerns we have with the Exposure Draft for Leases.

This document consists of 3 parts:

- A short company descriptions
- Characteristics and specifics of the IT and Telecom market
- Econocom's comments on the Exposure Draft

2 SHORT PRESENTATION OF ECONOCOM

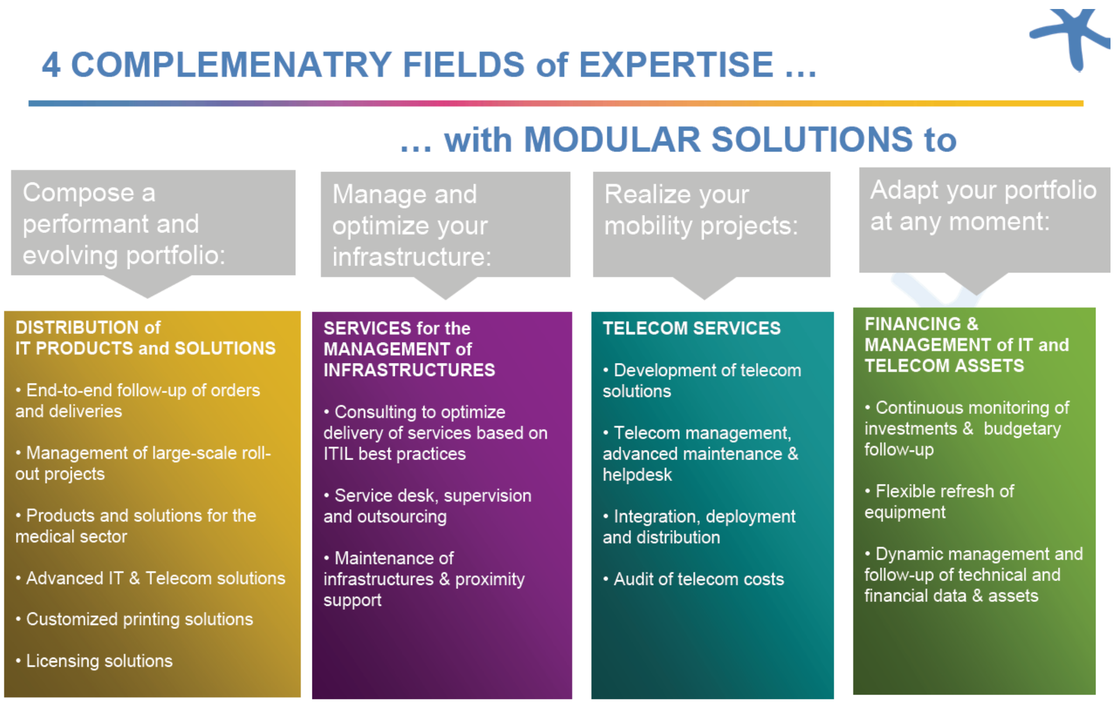
2.1 Group Organisation

Econocom is a European IT service company that has been providing support to companies in the management and operating of their IT infrastructure since 1982. This expertise has been extended to Telecom since 2004. Subsidiaries are established in 8 Western-European countries: Belgium, France, Germany, Italy, Luxembourg, Spain, The Netherlands, UK. Econocom is listed at the Euronext Stock Exchange.

Econocom is taking advantage of the skills and competencies of its 2 300 employees (among which 1 700 engineers and IT technicians) to design, build and implement customized outsourcing solutions for its 10 000 customers.

Econocom offers the combined IT and telecom expertise associated with its four complementary businesses:

- IT products and solutions
- Managed services for distributed infrastructures (outsourcing, maintenance and consulting)
- Telecom services
- Financial management of ICT assets (lease, asset management)



On October 28, 2010 Econocom announced the finalization of the acquisition of the ECS Group, formerly part of Société Générale.

The combined entities of the Econocom and the ECS groups have close to 4.000 employees and a revenue of €1,6 billion. They have a pan-European presence, with local offices in 17 countries. They are firmly established in 7 major western European markets as well as in expanding markets in eastern Europe, Morocco, China and the US.

2.2 IT Financial Services

Econocom Financial Services – the lease company – has been operating as a financial services provider in the IT and telecom sector for more than 25 years. Our financing solutions are made to fit the trends in the IT and telecom markets. The broad range of Asset and Budget Management Services offered by Econocom Financial Services enable organizations to optimize end-user services while reducing IT and telecom costs at the same time.

econocom mobility on demand

3 CHARACTERISTICS AND SPECIFICS OF THE IT AND TELECOM MARKET

3.1 Number of assets

25 years ago, companies signed ICT lease contracts for a mainframe, telephone switchboards, etc. – for large investment projects with a well-defined start and end date. Nowadays, ICT lease contracts very often comprise hundreds or even thousands of assets of different types and economic lives: laptops, desktops, servers, network components, mobile phones, etc.

3.2 Economic lifetime

The large number of assets often included in one lease contract also implies that ICT lease companies are often confronted with different economic lifetimes combined:

- Mobile phones – typically with a shorter economic lifetime than,
- Laptops - typically with a shorter economic lifetime than,
- Desktops - typically with a shorter economic lifetime than,
- Servers

3.3 Phased delivery

Due to the large number of assets, it is physically impossible to deliver all of them at once. Companies always need time to organize, coordinate and implement the roll-out of large quantities of assets. The roll-out planning will be influenced by:

- The geographical scope of the organization – different countries involved, different locations within one country involved;
- The number of assets to be rolled-out;
- The type of assets to be rolled-out;
- The extent of services to be provided: transport, installation, imaging, connection to networks, etc.;
- The delivery time by supplier for specific models designed for specific customers;
- The Service Level Agreements by which the customer requests guaranteed delivery times combined in some cases with buffer stocks;
- Etc.

3.4 Movements and exchanges

Given the large number of assets often included in ICT lease contracts and given the fast pace of technical and price evolutions in the ICT market, business organizations very often feel the business need to change assets throughout the duration of the contract. They require flexibility in terms of total number of devices and in terms of types of devices (upgrade or downgrade).

The following practical example will illustrate: a 48 months lease contract containing 4.000 assets with various ages implies 1.000 replacements per year, so statistically the replacement of 5 assets per day.

Lease companies in the ICT sector need to be prepared to respond to:

- Changes in models
- Changes in quantity
- Changes in duration

The large number of assets not only implies movements and exchanges throughout the duration of the lease agreement, but also at the end of the contract. It is impossible for large organizations to give back thousands of assets in one day, as:

- Not all new assets will have been ordered in time;
- Not all new assets will be delivered on site on time;
- Not all new assets will be installed at the different geographical locations on time, etc.

3.5 Intangibles

ICT lease contracts often include:

- Hardware
- Software – typically Microsoft or ERP licenses
- Services – typically installation costs, maintenance fees, warranty extensions
- Consumables – typically in the case of printers (toners, paper)

Under the Exposure Draft, software and licenses are not included in the lease standard, leaving the question open on how to treat them, and generating a lot of complexity to book the hardware, the software and the services in 3 different ways. This – combined with large quantities of assets – implies hundreds of bookings for one contract.

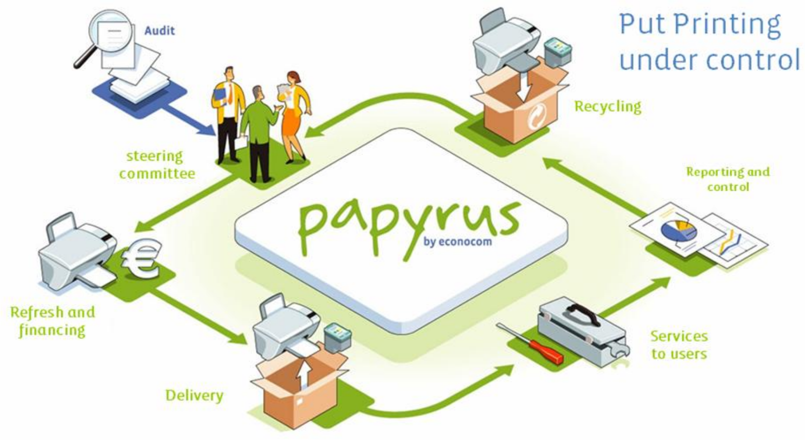
3.6 All-in Prices

In the context of printing e.g., organizations will require an all-in price including:

- The rent for the hardware
- The on-site maintenance
- The onsite delivery and collection of consumables

The requested all-in offers should include:

- The provision of hardware
- The deployment
- The procurements and logistics services
- The financing
- The asset management
- The support and helpdesk services
- The end-of-life services including transport, data cleaning, refurbishing



Similar all-in offers exist – built around other types of IT assets:

- PC's
- Mobile devices: All-in price including the device, the internet connection and subscription, helpdesk support, etc.

Customers are often not able or not willing to look for and negotiate each component of the offer and prefer to pay an all-in price from one single point of contact supplier.

3.7 Price per Unit

More and more organizations want a unit based pricing:

- A price per page
- A price per unit
- A price per gigabyte
- A price per use

4 ECONOCOM'S COMMENTS ON THE EXPOSURE DRAFT

We understand the objectives of the new standards, which is to simplify the accounting treatment of leases and to give a more reliable picture of the lessee's commitments by capitalizing all leases.

We are concerned by the fact that ED implicitly consider leases with a limited number of assets on each contract, with a single start and end date, and stability of the leased assets during the lease period. As explained above, the IT industry has specific needs, which we believe are difficult and very complex to handle under the ED.

4.1 Question 1: Lessees

1.a.
Fundamentally, we agree with the new obligations for lessee and lessor.

However, we seriously question the feasibility for lease contracts containing hundreds or even thousands of individual assets delivered at different times. The new proposed regulations imply that lessee and lessor will have to track hardware, software and services components for all assets, which will generate a huge number of expectations and bookings.

1.b.
Recognizing amortization of the right-of-use asset and interest on the liability implies that at the start of the lease contract, the contract will be more expensive than the flat payment under the leases. Besides the balance sheet effect which is the objective of the new standard, the new standard might have an un-voluntary negative P&L effect for organizations that concluded operating lease so far.

4.2 Question 2: Lessors

The performance obligation approach has an inflating effect on the balance sheet of the lessor by generating two assets for one asset in a lease contract. We recommend netting the performance obligation. Lessors belonging to banking groups will be strongly negatively influenced in terms of Raroc, Basel III rules, ratios, etc.

We also believe that difference and analysis between the derecognition approach versus leases that are a sale will need further clarification.

4.3 Question 3: Short-term leases

We understand that short term leases are booked as a lease at lessee side and as a service at lessor side.

4.4 Question 4: Definition of a lease

4.a.

For a single hardware asset, a lease seems defined appropriately. The difficulty comes when a contract includes hundreds or even thousands of hardware assets in combination with intangibles, services components and consumables.

4.b.
We understand that many of the leases that were classified as Financial Leases under the current IAS17 will be considered as a Sale under the ED. Are leases with a term that covers most of the economic life of an asset a lease or a sale?

4.c.

Specified asset

In the asset reporting, we keep track of the serial numbers of the hardware assets integrated in the contract. The fact that a serial number is mentioned in a contract or is tracked, does not mean that only that specific serial number must be the object of the lease. As the lessor is the legal owner of the asset, he needs to follow his ownership and be sure to recover the assets at the end of the lease. That does not prevent, that most IT equipment are commodities and can be replaced by identical models with different serial numbers.

4.5 Question 5: Scope exclusions

Intangibles are excluded. For the ICT related business, it raises the question about the treatment of software licenses.

Moreover, it seems the new regulations don't describe anything for the lessee in terms of how to account for the lease of intangibles.

4.6 Questions 6: Contracts that contain service components and lease components

More and more organizations turn towards bundled offerings including hardware, software and services, with a unit based pricing. Organizations have an increased interest in a bundled offer, because they don't wish to take care themselves of the negotiation of the prices on all different components, coordination of the multiple supplier relations, etc.

A typical example of such a bundled contract is to be situated in the mobile phone business: the hardware is offered for free on the condition you take a subscription for the communication itself. We wonder how this should be accounted for: As a service contract? As a purchase? As a lease?

4.7 Question 7: Purchase options

See comments above under 4b – Purchase options at a price which is lower than the market value will be treated as sale.

The options to extend a lease at a bargain rent are very close to a bargain purchase option. However, they are treated in the ED as lease under the most likely term.

4.8 Question 8: Lease term

In our opinion, the “most likely than not to occur” approach will generate a lot of subjective estimates, seems an unnecessary burden and will imply significant changes in re-assessing the likelihood of each possible lease term.

In this context, we would like to draw the attention to the fact, that in practice, the economic lifetime of assets is not always dictated by the contract, nor by the organization itself but rather by market trends, evolutions and unforeseeable innovations. With the list below, we just want to give some indications of reasons why organizations require flexibility, wish to replace assets:

- Software announcements;
- Cost of maintenance and spare parts;
- Technological evolutions (e.g. the evolution from desktop, to laptop, to light weight laptop, to iPad);
- End of life decisions taken by the hardware suppliers;
- Secular trend of decreasing prices of IT for new models;
- Total cost of ownership components like energy savings, green IT, wireless

Given this volatile context, all accounting based on the likelihood of various usage durations could prove to be completely wrong in reality.

See also 3.4 - 4.b. for a lease period covering most of the economic life.

4.9 Question 9: Lease payments

In our opinion, bargain extensions, residual value guarantees, term option penalties could imply that the lease is in fact a sale.

4.10 Question 10: Reassessment

We are concerned that most computations including crystal bowl glazing will generate many reassessments. We understand that positive reassessments and negative reassessments will not be treated the same way (in some cases a P&L charge, in some other cases only a balance sheet effect).

4.11 Question 11: Sale & Leaseback

We are concerned that the same transaction could be treated differently by lessee and lessor, depending on their perception.

4.12 Question 12: Statement of financial position

12.a.
Specific asset and liability – yes

12.b.
Not in favour of performance obligation approach

12.c. OK

12.d. No comments

In line with the Belgian GAAP which proves to be largely accepted.

4.13 Question 13: Statement of comprehensive income

We do not see the added value in the lessee’s books of showing amortization and lease expenses related to lease separately than those related to sale/purchase. This seems to create an unnecessary burden.

4.14 Question 14: Statement of cash flows

The added-value of such a statement comes when lease flows are volatile or contingent. If many leases are treated as sale, those flows will not need to be disclosed in so many details.

4.15 Question 15: Disclosure

In our opinion, this makes the lease treatment more complex than the purchase treatment.

4.16 Question 16: Transition

Transition rules should keep a low level of complexity.

4.17 Question 17: Benefits and costs

At this stage, we do not agree that the benefits will outweigh the costs. Contracts mixing hardware, software and services for large numbers of assets will be far more difficult to handle for both lessee and lessor and will create significant administrative charges compared to purchase.

4.18 Other

We are very concerned about the implementation date of the new rules in terms of unclear concepts and complexity of treatment.

We will conclude by a proposal which may appear to be extreme. We wonder if the lease rules could not be simply avoided and treated under 3 existing standards:

- A sale contract
- A service contract
- Financial instruments – if the concern for leases relate to the most likely term, volatility of cash flows, contingent rentals, etc. – this could probably be considered options to renew or not a contract, link the price to indexes or rates, etc. which is in fact a financial instrument.

4.19 Conclusion

As stated in the introduction, we have tried to be practical in our answers and hope to have articulated the main concerns and questions coming from the field, especially the IT and Telecom market.

We would be pleased to discuss our comments into further details during face-to-face meetings. Please contact Christian Levie at +32 2 790 85 54 or at +32 496 59 47 43.