



Mr Hans Hoogervorst
Chair
International Accounting Standard Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Paris, 13 March 2012

Dear Mr Hoogervorst,

We appreciate the opportunity to respond to the revised IASB-FASB Exposure Draft "Revenue from Contracts with Customers" issued in November 2011.

This letter forms our answer to your call for comments, 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 by the investors relations departments of 4 European operators and which conclusions have been endorsed by 9 other operators. You were provided with this study on 29 February 2012.
- the EFRAG field test that has i.a. targeted telecommunications operators. This field test provides insights on our operations and on the characteristics of stand-alone selling prices in our markets as well as about one-off and on-going implementation costs. Its results were presented to both the EFRAG and the IASB staff in Brussels on 9 March 2012.

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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 Staff and Boards members.

The concerns we have expressed in our comment letter dated 22 October 2010 remain valid. In fact, since the Boards last discussion of the telecommunications industry in June 2011,

- the portfolio method that was advocated by the Staffs 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.

Although our concerns have not yet been addressed in the revised ED, we appreciate that several Board 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 are hopeful that a constructive dialog can now take place that will convince the Boards of the need to achieve a reasonable outcome for our industry and users as the Boards did for other industries (software, pharmaceutical, construction etc.).

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."

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.

This appreciation clearly questions the informational value of the apportionment of part of the communication revenue to the discounted handset as required by the ED stand-alone selling price allocation of the transaction price.

This mechanism in users' view results for this industry in

- a loss of comparability between operators as well as between an operator's business units,
- lessened modeling capabilities of revenues and associated cash flows,
- a 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, in our industry, 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 numbers of combination 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, thereby increasing in a disproportionate manner the imbalance between costs and benefits of the Boards proposals.

We did not focus on the revised ED wording as the Boards have illustrated how they expected the ED to be applied by the industry. However, please note that as presented during the EFRAG meeting in Brussels on 9 March 2012 the determination of the applicable requirements to the contract modifications that are usual by Orange was found to be a specific challenge.

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Looking forward to discussing the appropriate amendment of the revised Exposure Draft,

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

/s/Nicolas de Paillerets
Nicolas de Paillerets
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