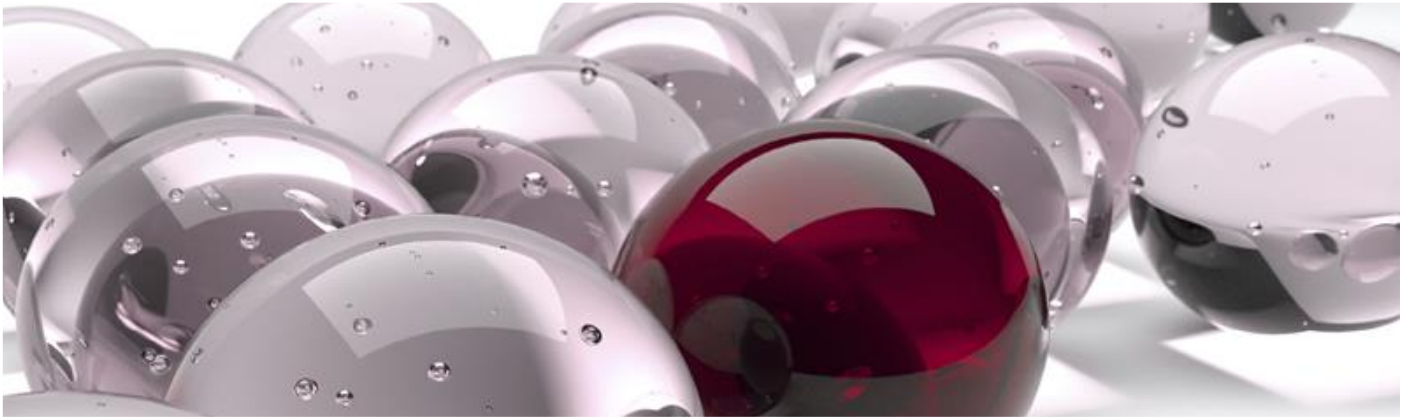


A Closer Look



IFRS 15: how has financial reporting changed since 31 December 2016?

Following up on the study we carried out on IFRS 15 (see [IFRS – A Closer Look](#)), we look at the information published on 30 June 2017 by a sample of European companies on progress towards transition and the anticipated impacts of the first application of IFRS 15 at 1 January 2018 (for the companies whose reporting date coincides with the end of the calendar year, and excluding cases of early application.)

The conclusions of this interim progress report will be worth reviewing at the end of the second half of 2017, given the fact that most issuers are still analysing the impacts.

1. The sample

The sample is the same as was used in the study at 31 December 2016, consisting of industrial and services companies from the Eurostoxx 50, CAC 40 and Next 20. Banks and insurance companies were therefore excluded from the sample.

The analysis covered IFRS financial statements published for the first half-year and available as of 20 September 2017, with a sample of 75 entities (49 French and 26 European outside France). This gave us:

- 71 interim reports at 30 June 2017;
- 2 interim reports at 28 February 2017;
- 1 interim report at 2 July 2017;
- 1 annual report at 31 March 2017.

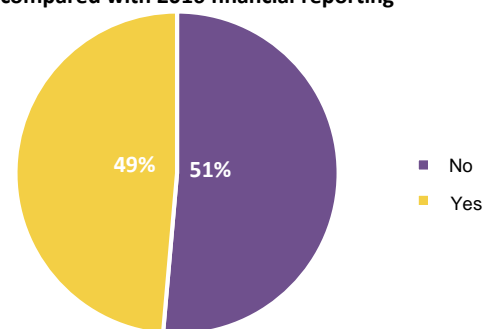
All of the charts and tables in this study have been produced by Mazars, based on data gathered from the interim financial statements published by the companies in our sample for the period to 30 June 2017.

The examples which follow are provided as illustration only, and are not intended to represent the whole range of good practices identified in the research.

2. Augmented reporting...

Almost 50% of the companies in our sample have adopted the “progressive” approach encouraged by the regulators, with more disclosures published on the impact of IFRS 15 than at 31 December 2016.

Augmented disclosures on IFRS 15 at 30 June 2017 compared with 2016 financial reporting



This new information includes:

- A closer analysis of the principles of the standard, through applying it to the broad categories of contracts with customers and to operating segments and/or business lines;

Excerpt from BOUYGUES' consolidated interim financial statements at 30 June 2017:

IFRS 15: Revenue from Contracts with Customers

On 28 May 2014, the IASB issued a new standard on revenue recognition intended to replace most of the current IFRS pronouncements on this subject, in particular IAS 11 and IAS 18. The new standard was endorsed by the European Union on 29 October 2016 and is applicable from 1 January 2018. The Bouygues group has not early adopted IFRS 15, which it will apply retrospectively with effect from 1 January 2018; the 2017 figures presented in 2018 will also be restated to reflect the impacts of IFRS 15 (presentation of a comparative reporting period).

The process of implementing IFRS 15 within the Bouygues group is ongoing, as is the assessment of the impacts of the new standard. The key issues being assessed are:

- Construction: the method used to recognise revenue over time. Based on the principal contracts analysed to date, the method used to calculate the recognition of revenue over time is consistent with IFRS 15.
- Property: the principle of recognising revenue and margin over time, especially on off-plan sales under "VEFA" (*Ventes en l'État Futur d'achèvement*) contracts in France, is not called into question by IFRS 15. However, the calculation of the percentage of completion on residential and business property development projects will now have to incorporate land-related costs. This means that more revenue and margin will be recognised at the start of the project as compared with current practice.
- Media: distribution contracts, and the date of recognition of revenue generated by rights sales (especially TV and SVoD).
- Telecoms: identifying performance obligations, especially on contracts that combine a subscription with a subsidised handset; such contracts will have to be split into separate components. Under IFRS 15, both the revenue recognition pattern and the split between the sale of the handset and the supply of the service will change, and the accelerated revenue recognition will result in a contract asset being reported in the balance sheet. A further impact relates to some contract origination costs, which will be recognised as an asset in the balance sheet on signature of the contract and then amortised over the life of the contract.

BOUYGUES, *Interim results 2017, Financial report, page 47*

- The choices made in light of the practical expedients offered;

Excerpt from TELEFONICA'S consolidated interim financial statements at 30 June 2017:

It is also possible to elect to apply certain practical expedients to facilitate the application of the new criteria. The Group has evaluated which of them will be adopted in the implementation of the standard with the objective of reducing the complexity in its application. The main practical expedients that the Group plans to implement are:

- Not to apply the standard retrospectively to contracts that are completed contracts at January 1, 2018.
- Portfolio of contracts: the Group will apply the requirements of the standard to groups of contracts with similar characteristics, since, for this cluster, the effects would not differ significantly from an application on a contract by contract basis.
- Financial component: it will not be considered significant when the period between when the promised good or service is transferred to a customer and when the customer pays for that good or service will be one year or less.
- Costs to obtain a contract: will be recognised as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

TELEFONICA, *Condensed consolidated interim financial statements for the six months ended 30 June 2017, pages 14/15*

- Quantitative disclosures (order of magnitude, estimations), but only for a small proportion of the sample (see below);
- The choice made in terms of transitional arrangements (see below).

3. ...but the analysis is still largely ongoing, limiting the quantitative disclosures made

Readers will recall that in their July 2016 recommendations, ESMA and the AMF had advised entities, in the run-up to the first application of IFRS 15, to provide quantified disclosures

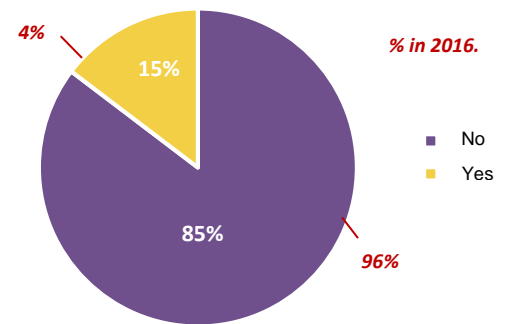
on the possible impacts of the standard during the first period of application. If the expected impact was material, these figures should in most cases be published in the interim financial statements for 2017.

Only 11 companies, representing 15% of our sample, made quantitative disclosures at 30 June 2017, compared with 3 at December 2016.

Most issuers will continue to quantify the impacts of transition in the second half of 2017. However, 3 companies have announced deadlines for the publication of quantified information:

- Engie: beginning of 2018;
- Orange: Q4 2017;
- Thalès: Q3 2017 (with the publication of restated financial statements on the first half of 2017).

Quantified disclosures at 30 June 2017 on the expected impacts of the application of IFRS 15



What type of quantitative disclosures did companies publish at 30 June 2017?

The quantitative disclosures provided by our sample are presented below.

Company	Consolidated measures	Level of accuracy	Unit	Impact
ASML	Net income / turnover	Range	%	↗
Capgemini	Revenue	Estimate	%	↘
Daimler	Equity	Estimate	€	↗
Deutsche Telekom	Reserves, proportion of turnover from services/sale of goods and merchandise	Range	€, %	-
Eiffage	Order book	Estimate	€	↗
Fresenius	Revenue	Range	%	↘
Nokia	Reserves	Estimate	%	
Philips	Reserves	Estimate	€	↘
PSA	Revenue	Estimate	€	↘
Safran	Equity	Estimate	€	↘
Siemens	Reserves	Estimate	%	↗

Except from Daimler's consolidated interim financial statements at 30 June 2017:

Group-wide investigation of the effects on the consolidated financial statements of adopting IFRS 15 has not yet been completed. From today's perspective, the application of IFRS 15 is not expected to have any major impact on the Group's profitability, liquidity and capital resources or financial position. The preliminary opening balance for January 1, 2017 would show an **increase in equity of approximately €0.1 billion compared to the figure disclosed as of December 31, 2016.** The option that contracts concluded before January 1, 2017 need not be reassessed under IFRS 15 was made use of.

DAIMLER, Interim report Q2 2017, pages 34/35

Except from Philips' consolidated interim financial statements at 30 June 2017:

IFRS 15 Revenue from Contracts with Customers

General

The Company performed a subsequent analysis on topics which were initially assessed as not having material differences under IFRS 15 in comparison with current accounting standards. These topics were related to the measurement of revenue related to separately identifiable components (current relative fair value approach compared to relative standalone selling prices under IFRS 15) and the timing of revenue recognition for the sale of goods and rendering of services (current transfer of risks and rewards compared to new transfer of control). As anticipated in the Annual Report 2016, no material differences have been identified so far as result of this analysis.

Royalty income

As previously disclosed in the Annual Report 2016, the Company has identified a potential impact on revenues originating from its IP royalties (segment HealthTech Other). A detailed investigation into contracts existing at the date of this report is still ongoing. Up to now, the Company estimates the transition impact to be approximately EUR 30 million of deferred revenue that will be recorded as a retained earnings increase in equity, while the annual impact on future IP revenue is not material.

Costs of obtaining a contract

The Company identified that certain sales commissions paid to third parties and internal employees are qualified as incremental costs of obtaining a contract. These costs are mostly paid and capitalized upon issuance of sales orders and recognition of revenue related to the sale of goods or rendering of services. Such costs are commonly expensed in line with the revenue recognition pattern of the related goods or services. Based on further investigation performed on these sales commissions, it was noted that these are largely amortized within a year and therefore Philips currently intends to implement the practical expedient of expensing sales commissions when incurred. When following this practical expedient, an estimated adjustment of approximately EUR 70 million will be recorded as a retained earnings decrease in equity on transition, while the annual impact on future sales commission costs is not material.

Transition

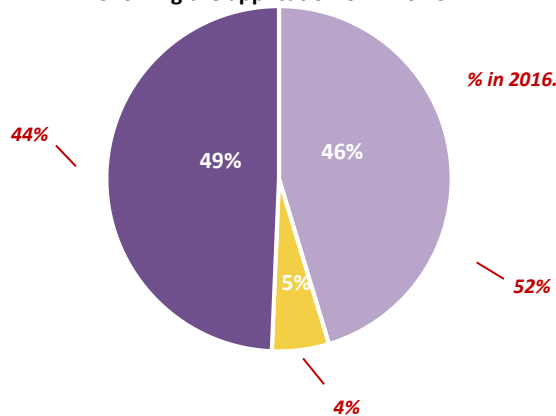
The Company has decided to apply the cumulative effect transition method when adopting IFRS 15 in its Consolidated financial statements for the year ending December 31, 2018, applying the new standard to those contracts that are not considered completed contracts at the date of initial application. This means that comparative figures will not be restated and will be presented in accordance with current accounting standards.

PHILIPS, Notes to the semi-annual condensed consolidated financial statements, pages 27/28

4. Companies continue to be cautious when reporting the expected level of impact.

What impacts do companies expect transition to IFRS 15 to have?

Assessment of the expected level of impact following the application of IFRS 15



- Assessment ongoing and / or no precise information on the level of anticipated impact
- Material
- Non material even though the detailed assessment may be continuing

There has been little change in the first half of 2017 as to the anticipated level of the impact. Almost 46% of issuers in our sample (compared with 52% at the 2016 year-end) are either still assessing these impacts or reported no precise information about the level of impact they expect. The second half of the year should enable them to finalise their analyses and the amount of the impacts.

The very considerable caution of the majority of companies just a few months ahead of the transition to IFRS 15 confirms, if need there be, that this is a far from trivial subject and that continued vigilance is required while diagnosis and roll-out are still ongoing.

AIRBUS and E.ON have joined DEUTSCHE TELEKOM and TELEFONICA in predicting a material impact from the new standard.

Excerpt from E.ON's consolidated interim financial statements at 30 June 2017:

IFRS 15, "Revenue from Contracts with Customers"

In May 2014, the IASB published IFRS 15, "Revenue from Contracts with Customers," which must be applied for fiscal years beginning on or after January 1, 2018. Initial application is retrospective, and the E.ON Group has opted for modified retrospective initial application. Within the framework of the project for the implementation of IFRS 15, the following significant impact was identified in comparison with the previous revenue recognition: The revision criteria for principal/agent relationships will at times result in a change in recognition on the balance sheet and income statement. This means that, in particular, revenues and cost of materials will decrease without resulting in any earnings effects. The cumulative effect is considered to be material.

E.ON, Interim report January – June 2017, page 34

Excerpt from AIRBUS's consolidated interim financial statements at 30 June 2017:

IFRS 15 "Revenue from contracts with customers"

As indicated in the Consolidated Financial Statements as at 31 December 2016, IFRS 15 will replace the current revenue recognition standards.

Airbus will adopt the new standard on 1 January 2018, using the full retrospective transition method. Accordingly, the comparative 2017 results included in the 2018 financial statements will be restated, and equity will be adjusted as of 1 January 2017. Airbus will elect practical expedients for completed contracts and contract modifications.

Impacts on current revenue from construction contracts

Airbus has compared its current accounting policies and practices to the requirements of the new standard. As a result of this analysis, Airbus expects that the adoption of IFRS 15 will have a significant impact on the timing of revenue recognition on certain long-term construction contracts that are currently accounted for under IAS 11. The most significant changes will result from the following:

- In some cases the over time revenue recognition criteria are not fulfilled under IFRS 15. In particular, on A350 launch contracts, on A400M series production and certain NH90 contracts, revenue relative to the manufacture of aircraft will hence be recognised at the delivery of the aircraft to the customer.
- Measurement of the revenue will take into consideration variable consideration constraints in order to achieve high likelihood that a significant reversal of the recognised revenue will not occur in the future.
- The measure of the progress towards complete satisfaction of a performance obligation satisfied over time will be based on inputs (i.e. cost incurred) rather than on outputs (i.e. milestones achieved). On Airbus current long-term construction contracts progress is usually measured based on milestones achieved. Under IFRS 15, Airbus will measure progress of work performed using a cost-to-cost approach, whenever control of the work performed transfers to the customer over time.

Impacts on current revenue from the sale of commercial aircraft

With respect to the commercial aircraft business, other than sales made under the A350 launch contracts described above, IFRS 15 will not change the timing of recognising revenue, which will continue to be recognised when the customer takes delivery of the aircraft.

The detailed analysis of the impacts on the prior period financial statements and backlog are ongoing.

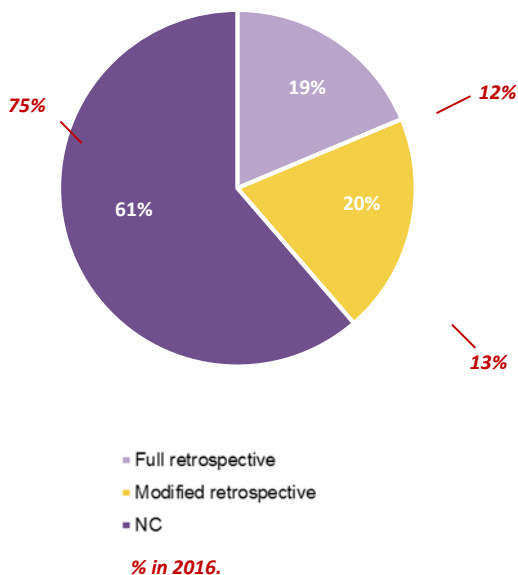
Airbus will continue to work during 2017 on the quantification of transition effects and on the design and implementation of procedures to apply the new requirements.

AIRBUS, First-half 2017 financial report, page 13

5. Transitional arrangements

What proportion of issuers provide disclosures on the transition method chosen for the first application of IRFS 15, and which approach have they chosen?

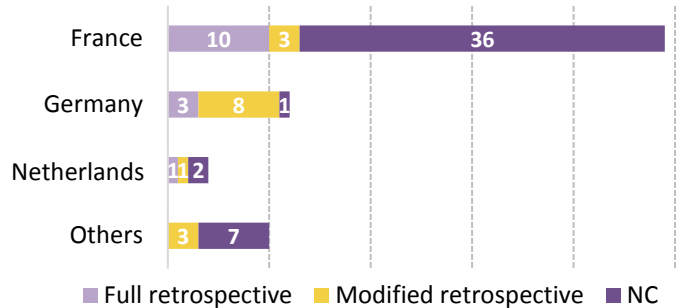
Choice of transition method



61% of issuers in our sample had not so far reported their transition method at 30 June 2017.

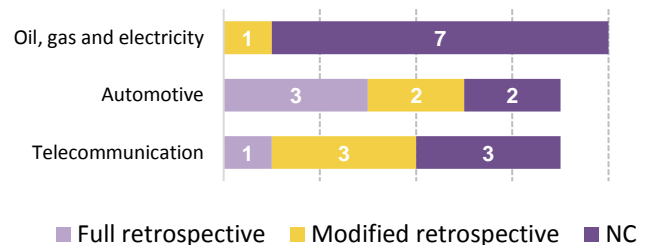
If we analyse these data more closely, we obtain the following results for the countries and sectors most represented in the sample:

By country of registration



Transition method	French companies
Full retrospective	Airbus, Alstom, Bouygues, Capgemini, Eiffage, Ingenico, Safran, Sanofi, Thales, Valeo
Modified retrospective	Dassault Systemes, Kering, Michelin

Top-three industries



E.ON is the only energy supplier to choose the modified retrospective approach. In the telecoms sector, most companies have opted for the modified retrospective method.

Finally, these two methods were almost equally represented in the automotive sector.

Key points

- The first application of IFRS 15 is imminent. The financial disclosures published at 30 June 2017 give us a better idea of the work issuers are conducting and the subjects they have identified, but the great majority of these companies will continue their analysis over the second half of 2017.
- Though quantitative disclosures have mostly been augmented since the previous publications, issuers remain generally cautious:
 - 46% of companies in our sample still give no precise information on the expected level of impact, and
 - only 15% provided quantified disclosures, despite the regulators' recommendations.
- 61% of issuers in our sample have still not reported their choice of transition method. The two approaches have so far been chosen by equal numbers of companies in the sample, although there are significant differences by country.

CONTACT

Fax:

Mazars

Technical Committee:

Jonathan Fryer

jonathan.fryer@mazars.co.th

Tippawan Pumbansao

tippawan.pumbansao@mazars.co.th

Address

12th Floor, Empire Tower
1 South Sathorn Road
Bangkok, Thailand

Tel: +66 (2) 670 1100

Fax: +66 (2) 670 1101

More information on
www.mazars.co.th
twitter.com/MazarsThailand
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