

# AIRBUS

## IFRS 15 Update

15 February 2018



# SAFE HARBOUR STATEMENT

## DISCLAIMER

This presentation includes forward-looking statements. Words such as “anticipates”, “believes”, “estimates”, “expects”, “intends”, “plans”, “projects”, “may” and similar expressions are used to identify these forward-looking statements. Examples of forward-looking statements include statements made about strategy, ramp-up and delivery schedules, introduction of new products and services and market expectations, as well as statements regarding future performance and outlook.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

### **These factors include but are not limited to:**

- Changes in general economic, political or market conditions, including the cyclical nature of some of Airbus’ businesses;
- Significant disruptions in air travel (including as a result of terrorist attacks);
- Currency exchange rate fluctuations, in particular between the Euro and the U.S. dollar;
- The successful execution of internal performance plans, including cost reduction and productivity efforts;
- Product performance risks, as well as programme development and management risks;
- Customer, supplier and subcontractor performance or contract negotiations, including financing issues;
- Competition and consolidation in the aerospace and defence industry;
- Significant collective bargaining labour disputes;
- The outcome of political and legal processes including the availability of government financing for certain programmes and the size of defence and space procurement budgets;
- Research and development costs in connection with new products;
- Legal, financial and governmental risks related to international transactions;
- Legal and investigatory proceedings and other economic, political and technological risks and uncertainties.

As a result, Airbus’ actual results may differ materially from the plans, goals and expectations set forth in such forward-looking statements.

For a discussion of factors that could cause future results to differ from such forward-looking statements, see the Airbus “Registration Document” dated 4 April 2017, including the Risk Factors section.

Any forward-looking statement contained in this presentation speaks as of the date of this presentation. Airbus undertakes no obligation to publicly revise or update any forward-looking statements in light of new information, future events or otherwise.

### **Rounding disclaimer:**

Due to rounding, numbers presented may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

### **IFRS 15 Estimate Disclaimer:**

The actual IFRS 15 impacts may differ from the estimates when adopting the standard as of 1<sup>st</sup> January 2018. The Company has not finalised the re-run of the IFRS 15 changes on IT systems. The new accounting policies are subject to change until the Company presents its first consolidated financial statements that include the date of initial application.

## INTRODUCING IFRS 15 “REVENUE FROM CONTRACTS WITH CUSTOMERS”

- IFRS 15 effective from January 1<sup>st</sup> 2018, now the standard for revenue recognition, measurement, and disclosure
- IFRS 15 will not impact cumulative profit or cash over the lifetime of a contract
- FY 2018 will be prepared under full application of IFRS 15, with FY 2017 restated
- Airbus has chosen the full retrospective method of implementation. Cumulative estimated catch-up adjustment to opening equity balance as of 1<sup>st</sup> January 2017 of € -2.1 bn
- Revenues now recorded net of engine concessions for **all** Commercial Aircraft programmes, resulting in an estimated reduction in 2017 revenues and cost of sales of ~ € -7 bn, with **no impact to EBIT**
- **2018 Earnings guidance is issued under IFRS 15; the application of IFRS 15 is expected to bring an increase of ~ € 0.1 bn to 2018 EBIT Adjusted**

# IFRS 15 REPLACES IAS 11 “CONSTRUCTION CONTRACTS” AND IAS 18 “REVENUE”

## IFRS 15

**One model for revenue recognition for all types of contracts**

- Revenue recognition is based on satisfying performance obligations in a given contract according to the transfer of control of goods or services

**Higher probability threshold for variable revenue**

- Variable revenues recognised only when **‘highly probable’** that benefits will flow to seller and that significant reversal will not occur

## Current Principles

**Several models for revenue recognition**

- IAS 18: Sale of goods and delivery of services
- IAS 11: Construction contracts
- Specific interpretations (IFRIC13, IFRIC15, IFRIC18)

- IAS 18: Recognition based on risks and rewards
- IAS 11: Contractual margin reflected

**Lower probability threshold for variable revenue**

- Variable revenues recognised when **‘probable’** that benefits will flow to the seller

- **No impact on cumulative profit or cash recognised over contract lifecycle**
- **Some impact on revenue recognition and profit phasing**

# IFRS 15: KEY AIRBUS CONSIDERATIONS

Alignment of revenue & order book value

1.	<b>Separation of contracts into performance obligations (POs)</b>	▶	Each performance obligation will reflect an <b>individual margin</b> ; several POs possible for one contract
2.	<b>Timing of Recognition</b>	▶	<b>Point in time:</b> <ul style="list-style-type: none"><li>▪ Revenue recognition at <b>delivery</b> is the primary method for most contracts.</li></ul>
		▶	<b>Over time:</b> <ul style="list-style-type: none"><li>▪ Revenues and margins are recognised <b>as costs are incurred</b>, i.e. <b>cost-to-cost</b> instead of milestones</li></ul>
3.	<b>Variable Consideration</b>	▶	Variable revenues will be measured to reflect “ <b>highly probable</b> ” instead of “ <b>probable</b> ” criteria
4.	<b>Engine concessions</b>	▶	All commercial aircraft revenues will reflect price net of engine concessions based on estimates
5.	<b>Order book</b>	▶	The order book will reflect the minimum future revenues to be recognised on the contracts rather than the list price

**Key programme considerations: A350 launch customer contracts, A400M, NH90 and Tiger**

The actual IFRS 15 impacts may differ from the estimates when adopting the standard as of 1<sup>st</sup> January 2018.

# A350 LAUNCH CONTRACTS: IFRS 15 KEY CONSIDERATIONS

	IFRS 15	Current Standard
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1.	<b>Multiple POs</b>	<p>Each aircraft forms a distinct PO with an <b>individual margin</b>. <b>Learning curve effects</b> reflected in P&amp;L upon delivery</p>	<p>Recognise <b>average contractual margin</b> instead of individual margin. Costs capitalised to WIP and released to cost of sales based on average contract margin</p>
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2.	<b>Timing of recognition</b>	<p>Revenues recognised at delivery (unchanged)</p>	<p>Revenues recognised at delivery</p>
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**Assessment of provision for onerous contracts remains on a per contract basis**

**Key Elements**

▶	<b>Scope</b>	<ul style="list-style-type: none"> <li>▪ <b>Limited number of aircraft</b> impacted: consideration only applies to <b>launch contracts</b></li> </ul>
▶	<b>Revenues</b>	<ul style="list-style-type: none"> <li>▪ <b>Limited impact</b>. Revenues already recognised net of engine concessions</li> </ul>
▶	<b>EBIT Adjusted</b>	<ul style="list-style-type: none"> <li>▪ <b>2017</b>: Decrease from A350 launch customer contracts from lower unit margin vs. average contract margin</li> <li>▪ <b>2018</b>: Increase expected reflecting progress along the learning curve</li> </ul>

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# A400M: IFRS 15 KEY CONSIDERATIONS

## IFRS 15

## Current Standard

### 1. Multiple POs



Individual margin for **development, aircraft production, retrofit and services**

Recognise **average contractual margin** instead of individual margin for whole launch contract

### 2. Timing of recognition



Development revenues recognised as costs are incurred, production, retrofit and services recognised at respective **delivery**

Contract revenues recognised **over-time** (technical milestones)

### 3. Variable revenue



Updated to reflect “highly probably” vs. “probable” recovery

Considered upon “probable” criteria

**Assessment of IFRS 15 implications on-going**

# AIRBUS IFRS 15 EXPECTED CONSOLIDATED RESTATEMENTS

	IN € BILLION	As reported 31 December 2016	Estimated adjustments due to adoption of IFRS 15	Estimated opening balance at 1 January 2017
<b>Equity</b>	Equity	3.7	(2.1)	1.6

IFRS 15 will not impact the overall profitability over the lifetime of contracts and the cash flows. As such IFRS 15 quantitative impacts on equity are phasing differences

**Revenues**

**2017:** Decrease mainly from net engine concessions (~ € -7 bn) on **all** Commercial Aircraft

**2018:** Negative effect expected to reduce

**EBIT Adjusted**

**2017:** Decrease mainly from A350 as lower unit margin vs. average contract margin

**2018:** Increase mainly from A350 as higher unit margin vs. average contract margin

**No impact on cumulative cash or profit recognised over contract lifecycle**

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- FY 2018 will be prepared under application of IFRS 15 with FY 2017 restated
- **2018 Earnings guidance is issued under IFRS 15; the application of IFRS 15 is expected to bring an increase of ~ € 0.1 bn to 2018 EBIT Adjusted**