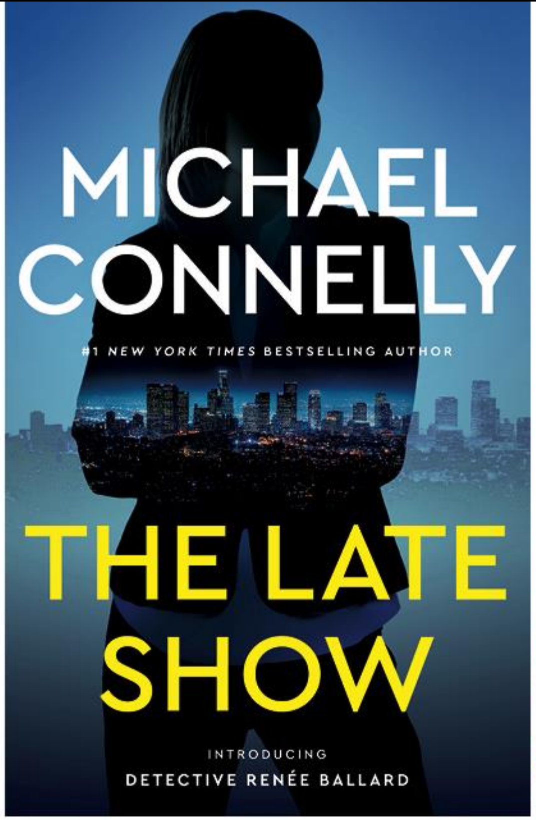
IFRS 16 APPLIED TO LAGARDÈRE

12 FEBRUARY 2019

CONTENTS

Lagardère

IFRS 16, THE NEW STANDARD ON LEASE ACCOUNTING



12 February 2019

IFRS 16 – A NEW LEASE ACCOUNTING MODEL

1 January 2019

Effective date of the standard

- **Restatement of 2018 financials**: full retrospective transition approach chosen by Lagardère to provide **comparability between periods and transparency** on restatements.
- First financial communication under the new standard: H1 2019 results.

BEFORE (IAS 17)

- **Leased assets** are mainly **stores under concession contracts, office buildings,** vehicles and equipment.
- **Almost all lease contracts** are currently accounted for as **operating leases** in the Group's consolidated financial statements.

NOW (IFRS 16)

- **The standard's objective is to facilitate comparability between entities by recording contractual lease obligations in the balance sheet for operating leases.**
- This new accounting principle **eliminates the dual accounting model for lessees which previously distinguished between finance leases and operating leases.**

IFRS 16 – IMPACT ON BALANCE SHEET

Under IFRS 16, all leased assets are to be presented as if the Group has purchased them, giving rise to a <u>gross up effect in the balance sheet</u> with the recognition of a lease liability for fixed rental payment only (previously off-balance sheet), against a right-of-use asset.

At inception

- The **lease liability** is measured at the present value of the future lease payments for **fixed rental payments** only.
- The **right-of-use asset** is equal to the **lease liability**.

BEFORE (IAS 17)

Contractual obligations **€€€**
(Operating leases and guaranteed minimum payments under concession agreements)

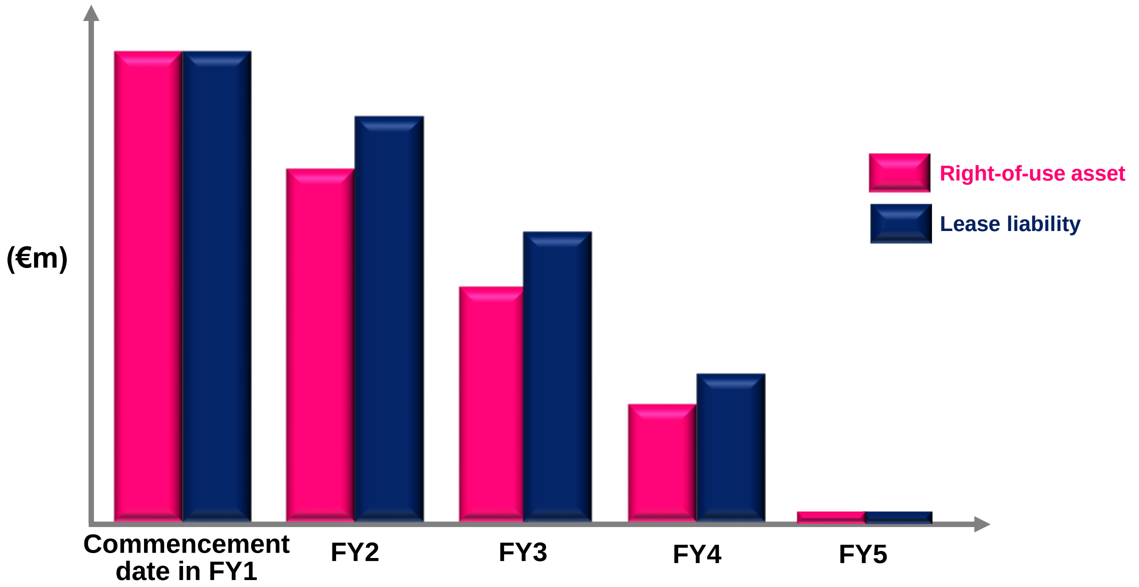
Assets	Liabilities
Right of use asset	Lease Liability €€€

NOW (IFRS 16)

During the lease period

- The **right-of-use asset (pink bars) is depreciated on a straight-line basis** over the lease term.
- The **lease liability (blue bars) will decrease to reflect the repayment** of the principal. The repayment increases over the contract.

<u>Lease assets and liabilities by accounting period over the term of a lease</u>



Lagardère

IFRS 16 – IMPACT ON INCOME STATEMENT

BEFORE (IAS 17)

The fixed and variable **rental expense** is included in EBIT.

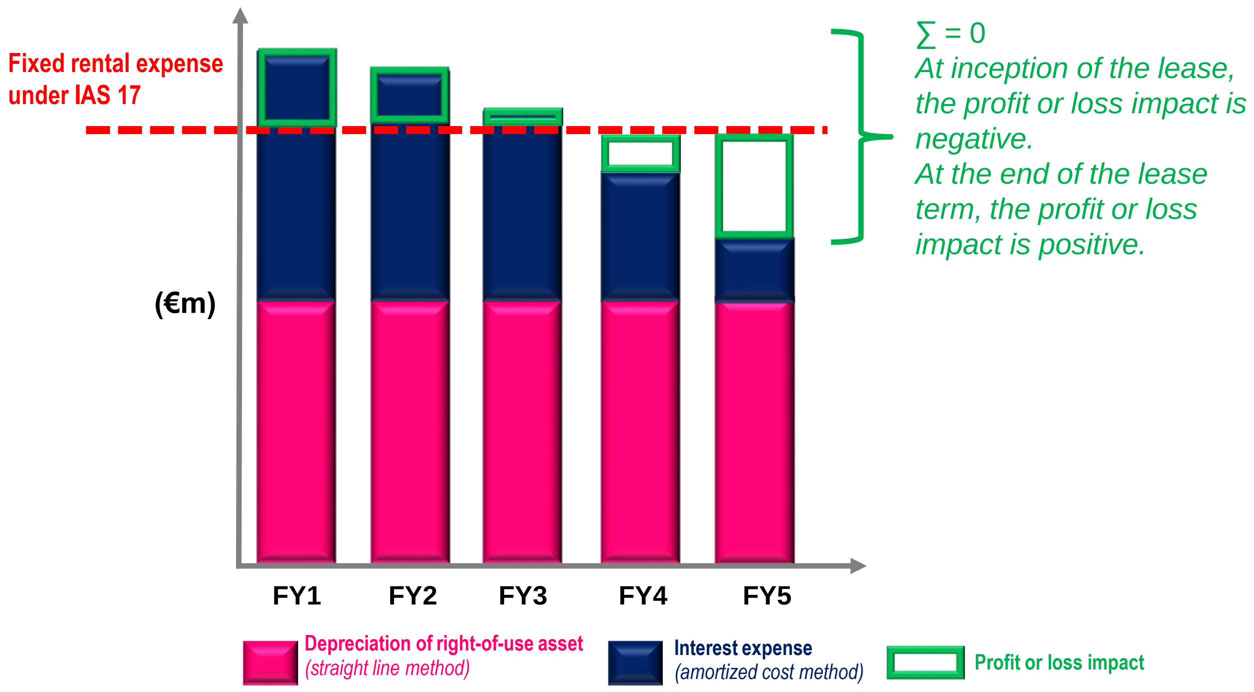
NOW (IFRS 16)

Over the contract, the **fixed rental expense is replaced** by:

- **straight-line depreciation of the right-of-use asset in EBIT, and**
- **decreasing lease interest expense** (effective interest method) **in Finance costs.**

At the end of the lease, the cumulative IFRS 16 expense comprising the depreciation of the right-of-use asset and the interest expense equals the cumulative rental expense under IAS 17.

Impact on the income statement (IFRS 16 vs IAS 17)



- **EBIT/Recurring EBIT:** the difference between the fixed rental expense and the depreciation of the right-of-use asset create an **"accounting" improvement.**
- **EBITDA: no longer includes the fixed rental expense, but only the variable portion of rent.**
- **Finance costs: an "accounting" increase due to the lease interest expense.**
- **Profit: no aggregate change to profit** but a **phasing effect**: IFRS 16 creates an **adverse impact at inception which reverses over the term of the lease.**

Lagardère

IFRS 16 – IMPACT ON STATEMENT OF CASH FLOWS

BEFORE (IAS 17)

Under IAS 17, lease payments related to operating leases were included in cash flows from operating activities. Except for rent-free periods or cut-off effects**, rental expense in EBIT was perfectly equal to the amount of rent paid**.

NOW (IFRS 16)

The repayment of the lease liability (fixed rent) is now a cash outflow from financing activities.

Statement of cash flows (€m)
Operating lease - variable rent paid
Operating lease - fixed rent paid
Net cash from operating activities
Net cash from investing activities
Repayment of the lease liability (principal + interest)
Net cash from financing activities
Change in cash

Only fixed rental payments are reclassified under financing activities.

No change in net cash flows.

Same aggregate amount of cash outflows under both IAS 17 and IFRS 16.

The phasing effect on profit creates a temporary disconnect between the income statement and statement of cash flows that reverses over the term of the lease.

(see examples slide 22 and 23)

Lagardère

IFRS 16 – ACCOUNTING FOR LEASE MODIFICATIONS

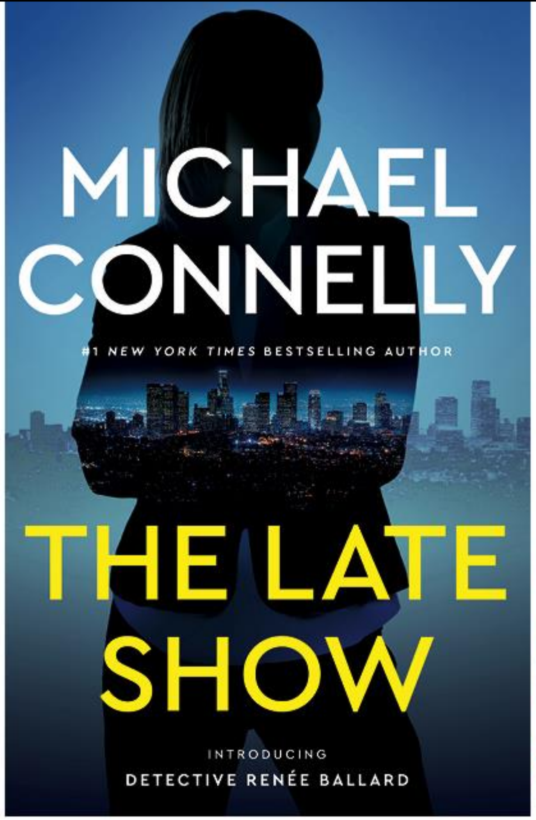
Lease modifications		Accounting impacts
A decrease in the term or in the surface area (square metres).	**P&L impact** →	▪ **Reduction of both the right-of-use asset and the lease liability** corresponding to the **percentage of decrease** in term or surface area. ▪ **Remeasurement of the lease liability** (revised discount rate) against the right-of-use asset. ▪ Income statement impact: **gain (or loss) on lease modification.**
▪ **An increase in the lease term or surface area** with lease payments modified in line with stand-alone price **(market price)** is treated as **a new lease.** ▪ **Other increases or decreases such as a change in future lease payments.**	**No P&L impact** →	▪ Recognition of a **new lease liability** (new discount rate) and **new right-of-use asset**. ▪ **Remeasurement** of the lease liability (revised discount rate) against the right-of-use asset.

It is common for concession contracts to be amended to take into account changes in surface area, term or rent to be paid. Under IAS 17, the rent was adjusted in EBIT; IFRS 16 creates additional volatility in the income statement and balance sheet.

Lagardère

SUMMARY OF THE ESTIMATED IMPACTS ON THE 2018 CONSOLIDATED FINANCIAL STATEMENTS

12 February 2019



Lagardère

SUMMARY OF THE ESTIMATED IMPACTS ON THE 2018 CONSOLIDATED FINANCIAL STATEMENTS (EXCLUDING HBF CONTRIBUTION)

Impacts on assets (€m)		Impacts on liabilities (€m)	
		Equity	-135
Right-of-use asset NEW	**+2,433**	**Lease liability NEW**	**+2,613**
o/w concession stores	+1,892	o/w concession stores	+2,001
o/w buildings and other	+541	o/w buildings and other	+612
Net deferred tax asset*	+45		
Total assets	**+2,478**	**Total liabilities**	**+2,478**

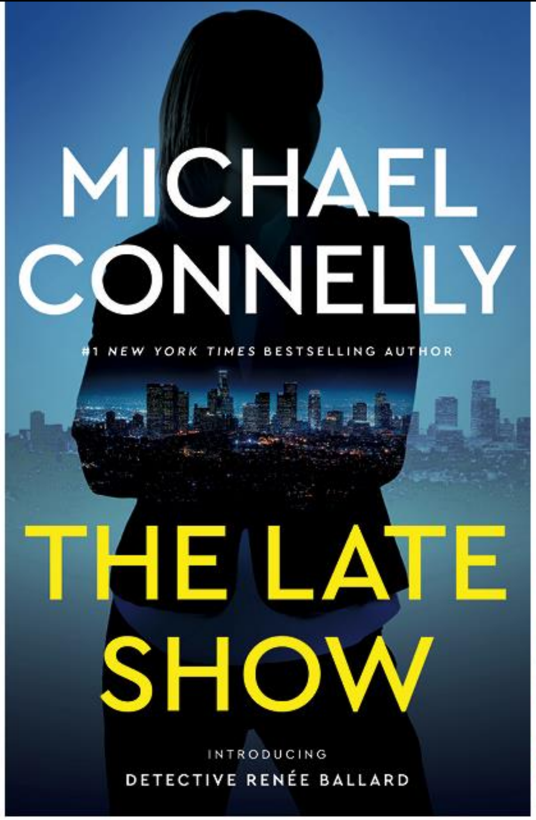
The lease liability is not included in current or non-current debt.

Impacts on statement of cash flows (€m)	
Reclassification of fixed portion of rents	*+529*
Net cash from operating activities (including variable rents)	**+529**
Net cash from investing activities	
Lease liability repayment NEW	-529
Net cash from financing activities	**-529**
Change in cash	**0**

Impacts on income statement (€m)	
Revenue	**x**
External charges (including variable rents)	*-y*
Cancellation of fixed rental expense	*+532*
Depreciation of right-of-use asset NEW	-471
Gain or loss on lease modifications NEW	-4
EBIT	**+57**
o/w concession stores	+41
o/w buildings and other	+16
Lease interest expense NEW	**-76**
o/w concession stores	-58
o/w buildings and other	-18
Profit before tax	**-19**
Income tax*	+5
Profit	**-14**

* Income tax rate to be adjusted.

Lagardère



READABILITY OF TRAVEL RETAIL PERFORMANCE

12 February 2019

Lagardère

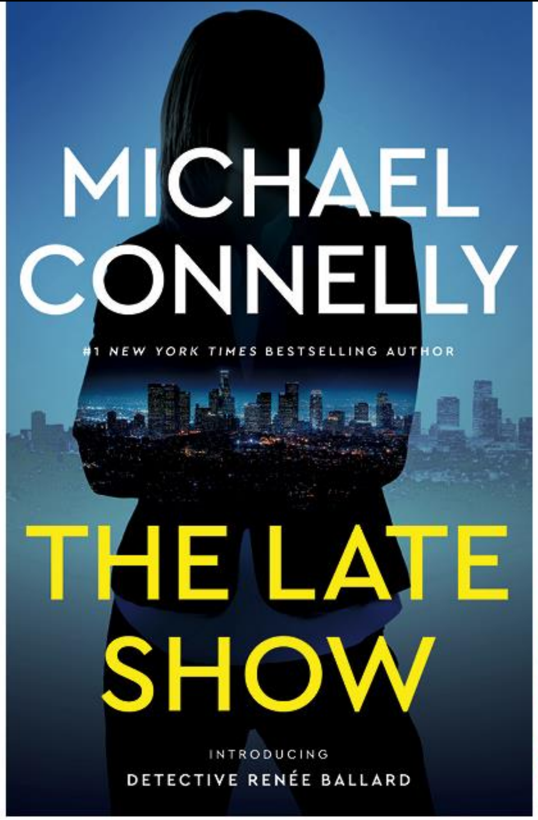
IFRS 16 – READABILITY OF TRAVEL RETAIL PERFORMANCE

"Concession" business		Accounting under IFRS 16
No choice between purchasing or « leasing ».	→	**Nature of operating lease no longer reflected. Accounting improvement in EBIT.**
Renewals, extensions **or gains of new concessions.** Defined term - Duration: long-term agreement secures activity.	→	**New tender gain = new lease liability** The longer the lease, the greater the liability and the higher the interest expense. **Volatility in the balance sheet and in Finance costs.**
Structure of the concession rent: - **fixed** payments or - **variable** payments based on percentage of sales, or, - **a combination of variable payments with a MAG*.**	→	**Phasing effect in income statement. Disconnect between rent paid and IFRS 16 expense.**
Concession agreements are continuously evolving for operational purposes: new stores, closures, relocations, term extensions.	→	**Various accounting effects:** - **higher interest expense volatility** (lease liability remeasurements); - **gains and losses on lease modifications.**

Operating profitability under IFRS 16 no longer reflects the full rent paid (which may be fixed or variable, or a combination of both) or the dynamic of the concessions over time.
This new accounting treatment distorts the readability of the performance of the Travel Retail business.

* MAG (Minimum Annual Guarantee) may be fixed or based on passenger flows or the previous year's rent, etc.

IMPACTS ON GROUP PERFORMANCE INDICATORS



12 February 2019

FROM IFRS FINANCIAL STATEMENTS TO GROUP PERFORMANCE INDICATORS

No change in business model.

The lease liability under IFRS 16 relates to operating leases not to financing operations. Consequently, the **lease liability is not included in net debt.**

A mechanical application to our existing KPIs would lead to **increases in Recurring EBIT, EBIT, Recurring EBITDA and Free cash flow that are only "accounting effects".**

Performance indicators need to be **consistent with the business model and business dynamic in order to effectively analyse and monitor performance**.

The **existing indicators will be retained** with some **revisions to neutralise accounting volatility and distortions for the concessions business.**

Reconciliations will be provided for all revised indicators.

Lagardère

IFRS 16 - ESTIMATED IMPACTS ON GROUP PERFORMANCE INDICATORS

Income statement indicators/existing definitions (€m)	
Recurring EBIT	+57
Adjusted profit - Group share	-14

Neutralisation of concessions impact: -€41m

Neutralisation of concessions impact: +€13m

Income statement indicators/REVISED definitions (€m)	
Recurring EBIT	+16
Adjusted profit - Group share	-1

Other Indicators/existing definitions (€m)	
Net debt*	-
Free cash flow	+529
Recurring EBITDA	+532
Leverage ratio	-

Neutralisation of IFRS 16 impact

Other Indicators/REVISED definitions (€m)	
Net debt	-
Free cash flow	0
Recurring EBITDA	0
Leverage ratio**	-

Lagardère revised the existing performance indicator definitions such that they continue to reflect economic performance:

- **Recurring EBIT and Adjusted profit – Group share: limited impact.**
- **Net debt / Free cash flow / Recurring EBITDA: no impact.**
- **Leverage ratio: no impact (consistency principle applied).**

* Net debt includes €8m finance lease liabilities under IAS 17.

** The revised definitions of Net debt and Recurring EBITDA will be used in a revised Leverage ratio (consistency principle).

Lagardère

REVISED DEFINITIONS: RECURRING EBIT AND ADJUSTED PROFIT – GROUP SHARE

REVISED Recurring EBIT (€m)

REVISED Recurring EBIT	**+16**
Income from equity-accounted companies	-
Restructuring costs	-
Impairment losses	-
Gains (losses) on disposals	-
Amortisation of acquisition-related intangible assets and expenses	-
Cancellation of fixed rental expense* - concession stores **NEW**	+440
Depreciation of right-of-use asset - concession stores **NEW**	-395
Gains and losses on lease modifications **NEW**	-4
EBIT	**+57**
Lease interest expense **NEW**	**-76**
o/w concession stores	-58
o/w buildings and other	-18
Finance costs, net	-
Income tax*	+5
Profit	**-14**

IFRS 16 impact on EBIT for concessions: +€41m

REVISED Adjusted profit – Group share (€m)

Profit – Group share	**-14**
Restructuring costs	-
Gains (losses) on disposals	-
Impairment losses on goodwill, PP&E, intangible assets and equity-accounted companies	-
Amortisation of acquisition-related intangible assets and expenses	-
Cancellation of fixed rental expense* - concession stores **NEW**	-440
Depreciation of right-of-use asset - concession stores **NEW**	+395
Gains and losses on lease modifications **NEW**	+4
Lease interest expense - concession stores **NEW**	+58
Tax effects on the above transactions	-4
REVISED Adjusted profit – Group share	**-1**

IFRS 16 impact on Profit – Group share for concessions: -€13m

* Cancellation of fixed rental expense is equal to the repayment of the lease liability, the associated change in WC and interest paid in the statement of cash flows.

Lagardère

REVISED DEFINITIONS: FREE CASH FLOW AND RECURRING EBITDA

REVISED Free Cash Flow (€m)

Cash flow from operations before changes in working capital (IFRS)	**+532**
Repayment of lease liability **NEW**	-453
Interest paid on lease liability **NEW**	-76
REVISED Cash flow from operations before changes in working capital	**+3**
Changes in working capital	-3
Income taxes paid	-
REVISED Net cash from operating activities	**-**
Purchases of property, plant & equipment and intangible assets	-
Disposals of property, plant & equipment and intangible assets	-
REVISED Free Cash Flow	**-**

REVISED Recurring EBITDA (€m)

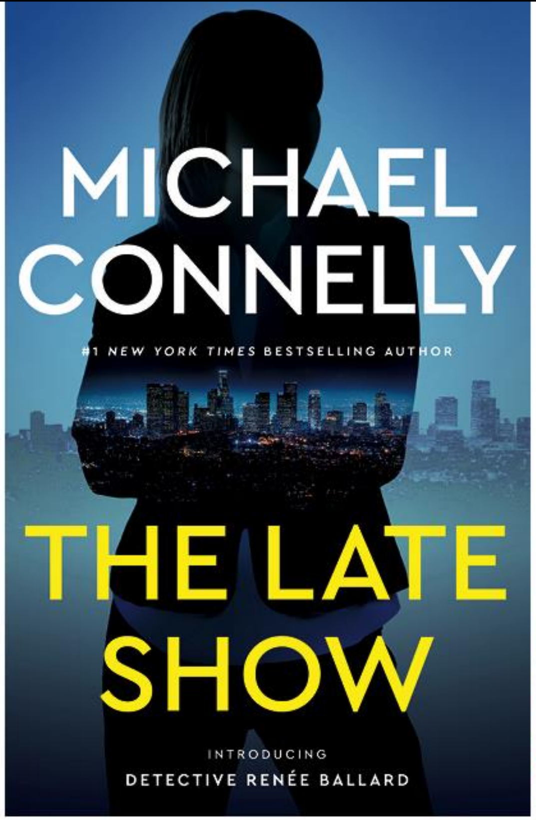
REVISED Recurring EBIT	**+16**
Depreciation & amortisation of intangible assets and property, plant and equipment	-
Amortisation of signing fees	-
Dividends received from equity-accounted companies	-
Cancellation of fixed rental expense* – buildings and other **NEW**	-92
Depreciation of right-of-use asset – buildings and other **NEW**	+76
REVISED Recurring EBITDA	**-**

* Cancellation of fixed rental expense is equal to the repayment of the lease liability, the associated change in WC and interest paid in the statement of cash flows.

Lagardère

COMMUNICATION SCHEDULE

12 February 2019



COMMUNICATION SCHEDULE

13 March 2019

- **Full-year 2018 results without application of IFRS 16**
  - Full-year 2018 results and 2017 comparative without application of IFRS 16.
  - Estimated IFRS 16 impacts on full-year 2018 disclosed.
  - 2019 guidance based on the revised definition of Recurring EBIT (including fixed rents for concessions contracts) **(excluding HBF).**

April 2019

- **Reference Document published on the Lagardère website**
  - Audited 2018 consolidated financial statements with a dedicated note on IFRS 16 impacts (excluding HBF).

25 July 2019

- **First-half 2019 results under IFRS 16**

CONCLUSION

- **Off-balance sheet contractual obligations for operating leases (MAG* and fixed rental payments) are now discounted and presented in a separate line in the balance sheet as a lease liability against a right-of-use asset. The lease liability is not included in Net debt.**
- **IFRS 16 introduces volatility and therefore distorts the readability of performance, especially for Travel Retail (concession contracts).**

Existing performance indicators needed to be adapted, and the definitions have been revised to ensure that they remain relevant to our businesses:

	2018 IFRS 16 impacts (€m)		
Performance indicators	Existing definition	REVISED definition[1]	
Recurring EBIT	+57	+16	LIMITED IMPACT (add-back of fixed rental expense and MAG for concessions only)
Adjusted profit - Group share	-14	-1	SLIGHT IMPACT (add-back of fixed rental expense and MAG for concessions only)
Net debt	-	-	NO IMPACT (excludes all lease liabilities)
Free cash flow	+529	-	NO IMPACT (reclassification of all fixed rental payments to cash flow from operations)
Recurring EBITDA	+532	-	NO IMPACT (add-back of all fixed rental expense)
Leverage ratio	-	-	NO IMPACT (consistency principle applied)

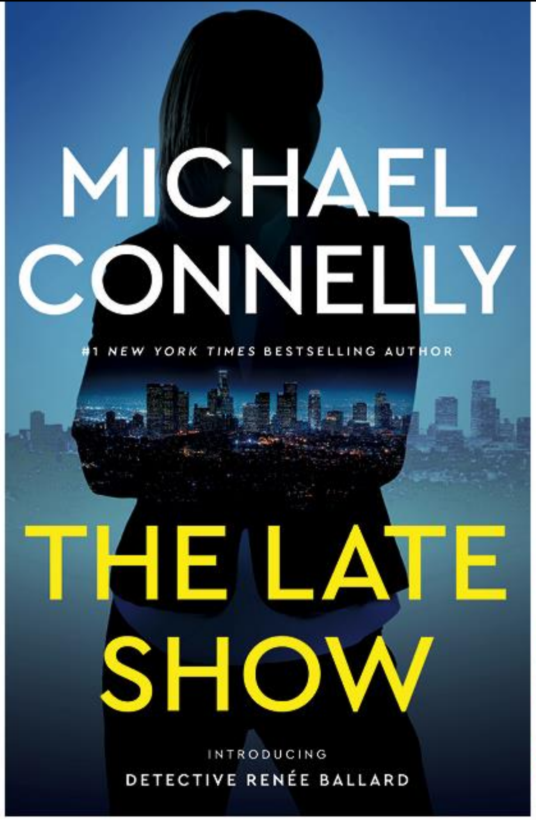
[1] Reconciliations will be provided for all revised indicators with the comparative 2018 IFRS financial statements.

2019 REVISED Recurring EBIT guidance will only reflect the IFRS 16 impact of buildings and other, while fixed concession rental expense and MAG will be added back.

* MAG (Minimum Annual Guarantee), may be fixed or based on passenger flows or the previous year's rent, etc.

APPENDICES

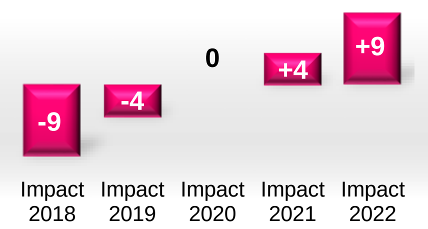
12 February 2019



APPENDIX 1/EXAMPLE: IFRS 16 IMPACT FOR A NEW CONCESSION CONTRACT

- **Example with a new concession contract, signed as of 1 January 2018:**
  - Commencement date: 1 January 2018
  - Contractual end date: 31 December 2022
  - Fixed contractual rent: €50m in 2018, and fixed increase of €5m each year until the end of the lease
  - Additional variable rent based on a percentage of sales
  - Discount rate: 3%

IFRS 16 Impact on Profit (€m)



P&L (€m)	Impact 2018	Impact 2019	Impact 2020	Impact 2021	Impact 2022	Total
Cancellation of fixed rental expense	+50	+55	+60	+65	+70	+300
Depreciation of right-of-use asset	-55	-55	-55	-55	-55	-275
IFRS 16 impact on Recurring EBIT	**(5)**	**-**	**+5**	**+10**	**+15**	**+25**
IFRS 16 interest expense	-8	-6	-5	-4	-2	-25
IFRS 16 impact on Profit Before Tax	**-13**	**-6**	**-**	**+6**	**+13**	**0**
Income tax expense	+4	+2	-	-2	-4	0
IFRS 16 impact on Profit	**-9**	**-4**	**-**	**+4**	**+9**	**0**

P&L (€m)	Impact 2018	Impact 2019	Impact 2020	Impact 2021	Impact 2022
IFRS 16 impact on Recurring EBIT	**-5**	**-**	**+5**	**+10**	**+15**
(-) Concession Depreciation of right-of-use asset	+55	+55	+55	+55	+55
(+) Concession Fixed rental expense	-50	-55	-60	-65	-70
REVISED Recurring EBIT*	**-**	**-**	**-**	**-**	**-**

Cash flow statement (€m)	Impact 2018	Impact 2019	Impact 2020	Impact 2021	Impact 2022	Total
Reclassification of fixed rental payment	+50	+55	+60	+65	+70	+300
IFRS 16 impact of net cash from operating activities	**+50**	**+55**	**+60**	**+65**	**+70**	**+300**
Lease liability repayment (principal + interest)	-50	-55	-60	-65	-70	-300
IFRS 16 impact of net cash used in financing activities	**-50**	**-55**	**-60**	**-65**	**-70**	**-300**
REVISED Free cash flow**	**-**	**-**	**-**	**-**	**-**	**-**

Depreciation schedule of lease liability and right-of-use asset

(€m)	Lease liability				Depreciation of right-of-use asset
	Interest	Principal	Payment	Outstanding capital	
31 Dec. 2018	8	42	50	233	55
31 Dec. 2019	6	49	55	184	55
31 Dec. 2020	5	55	60	129	55
31 Dec. 2021	4	61	65	68	55
31 Dec. 2022	2	68	70	0	55
Total	**25**	**275**	**300**		**275**

Phasing effect creates a temporary disconnect between the income statement and the statement of cash flows that reverses over the term of the lease.

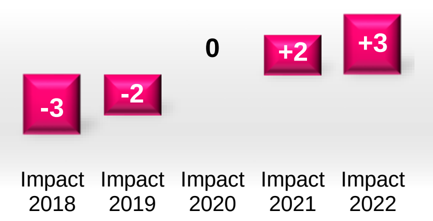
* See definition of REVISED Recurring EBIT in slide 16.
** See definition of REVISED Free cash flow in slide 17.

Lagardère

APPENDIX 2/EXAMPLE: IFRS 16 IMPACT FOR A NEW REAL ESTATE CONTRACT

- **Example with a new real estate lease, signed as of 1 January 2018:**
  - Commencement date: 1 January 2018
  - Contractual end date: 31 December 2022
  - Fixed contractual rent: €100m per year
  - Rent-free period: 6 months at the beginning of the lease
  - Discount rate: 3%

IFRS 16 Impact on Profit (€m)



P&L (€m)	Impact 2018	Impact 2019	Impact 2020	Impact 2021	Impact 2022	Total
Cancellation of fixed rental expense	+90	+90	+90	+90	+90	+450
Depreciation of right-of-use asset	-82	-82	-82	-82	-82	-410
IFRS 16 impact on Recurring EBIT	**+8**	**+8**	**+8**	**+8**	**+8**	**+40**
IFRS 16 interest expense	-12	-11	-8	-6	-3	-40
IFRS 16 impact on Profit Before Tax	**-4**	**-3**	**-**	**+2**	**+5**	**0**
Income tax expense	1	1	-	-	-2	0
IFRS 16 impact on Net Profit	**-3**	**-2**	**-**	**+2**	**+3**	**0**

P&L (€m)	Impact 2018	Impact 2019	Impact 2020	Impact 2021	Impact 2022
IFRS 16 impact on Recurring EBIT	**+8**	**+8**	**+8**	**+8**	**+8**
(-) Concession Depreciation of right-of-use asset	-	-	-	-	-
(+) Concession Fixed rental expense	-	-	-	-	-
REVISED Recurring EBIT*	**+8**	**+8**	**+8**	**+8**	**+8**

Cash flow statement (€m)	Impact 2018	Impact 2019	Impact 2020	Impact 2021	Impact 2022	Total
Reclassification of fixed rental payment	+50	+100	+100	+100	+100	+450
IFRS 16 impact of net cash from operating activities	**+50**	**+100**	**+100**	**+100**	**+100**	**+450**
Lease liability repayment (principal + interest)	-50	-100	-100	-100	-100	-450
IFRS 16 impact of net cash used in financing activities	**-50**	**-100**	**-100**	**-100**	**-100**	**-450**
REVISED Free cash flow**	**-**	**-**	**-**	**-**	**-**	**-**

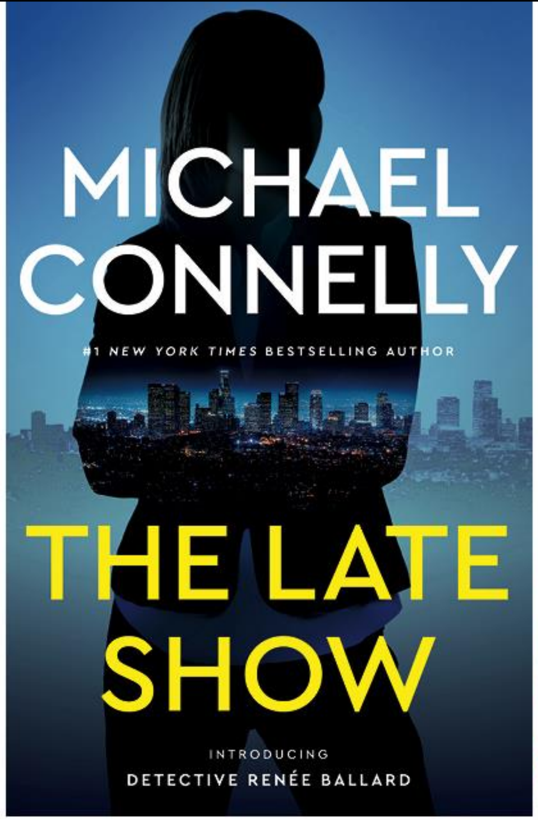
Depreciation schedule of lease liability and right-of-use asset

(€m)	Lease liability				Depreciation of right-of-use asset
	Interest	Principal	Payment	Outstanding capital	
31 Dec. 2018	12	38	50	372	82
31 Dec. 2019	11	89	100	283	82
31 Dec. 2020	8	92	100	191	82
31 Dec. 2021	6	94	100	97	82
31 Dec. 2022	3	97	100	0	82
Total	**40**	**410**	**450**		**410**

Phasing effect creates a temporary disconnect between the income statement and the statement of cash flows that reverses over the term of the lease

* See definition of REVISED Recurring EBIT in slide 16.
** See definition of REVISED Free cash flow in slide 17.

Q&A



12 February 2019