



Equinor ASA – Erfaringer fra IFRS 16 Leases implementeringsprosjektet

Norsk forening for oljeregnskap og –skatt
Kristiansand Symposium 2018
Morten Haukaas, VP Accounting / Chief Accountant

Leases – Equinor examples



FPSO vessels



LNG vessels



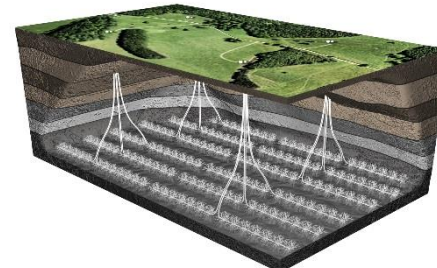
Office buildings



Exploration rig



Pipelines ?



Lease of land?



Storage tanks?



Helicopters?



Rail cars?



It equipment?



Containers?

Operational lease commitments

- Note 22 Leases in the 2017 Annual Financial Statements

The information in the table below shows future minimum lease payments due and receivable under non-cancellable operating leases at 31 December 2017:

(in USD million)	Operating leases					Sublease	Net total
	Rigs	Vessels	Land and buildings	Other	Total		
2018	1,039	615	155	152	1,961	(125)	1,837
2019	712	393	140	113	1,359	(105)	1,253
2020	509	382	136	92	1,119	(104)	1,015
2021	374	304	133	60	872	(68)	804
2022	352	233	134	57	777	(22)	755
2023-2027	287	498	621	47	1,453	(61)	1,392
2028-2032	-	93	369	23	485	(0)	485
Thereafter	-	13	50	13	76	-	76
Total future minimum lease payments	3,274	2,532	1,737	558	8,101	(484)	7,617

(in USD million)	Note	At 31 December	
		2017	2016
Finance debt	18, 22	24,183	27,999
Deferred tax liabilities	9	7,654	6,427
Pension liabilities	19	3,904	3,380
Provisions	20	15,557	13,406
Derivative financial instruments	25	900	1,420
Total non-current liabilities		52,198	52,633

Balance sheet effect	IAS 17 (old)			IFRS 16 (new)	
	Financial Leases	Operating leases	Service contracts	Leases *	Service contracts
Assets	Financial lease asset	-	-	Right of use asset	-
Liabilities	Financial lease liability	-	-	Lease liability	-
Off balance sheets rights and obligations		Leasing note	Commitment note	-	Commitment note




Income statement effect:	IAS 17 (old)			IFRS 16 (new)	
	Financial Leases	Operating leases	Service contracts	Leases *	Service contracts
Revenue	X	X	X	X	X
Operating costs (excluding DD&A)	-	Single expense	Single expense	-	X
EBITDA					
Depreciation and amortisation	Depreciation	-	-	Depreciation	-
Operating profit					
Finance cost	Interest	-	-	Interest	-
Profit before tax					

*) Exception for short term leases and leases of low value

Cash flow statement effect	IAS 17 (old)			IFRS 16 (new)	
	Financial Leases	Operating leases	Service contracts	Leases *	Service contracts
Cash flows from operations	Interest element	Lease costs	Service costs	Interest element	Service costs
Cash flows from investing activities	-	(Capitalised lease costs)	(Capitalised costs)	(Capitalised interests)	(Capitalised costs)
Cash flows from financing activities	Down-payment	-	-	Down-payment	-
Net CF	Lease payments	Lease payments	Service payments	Lease payments	Service payments

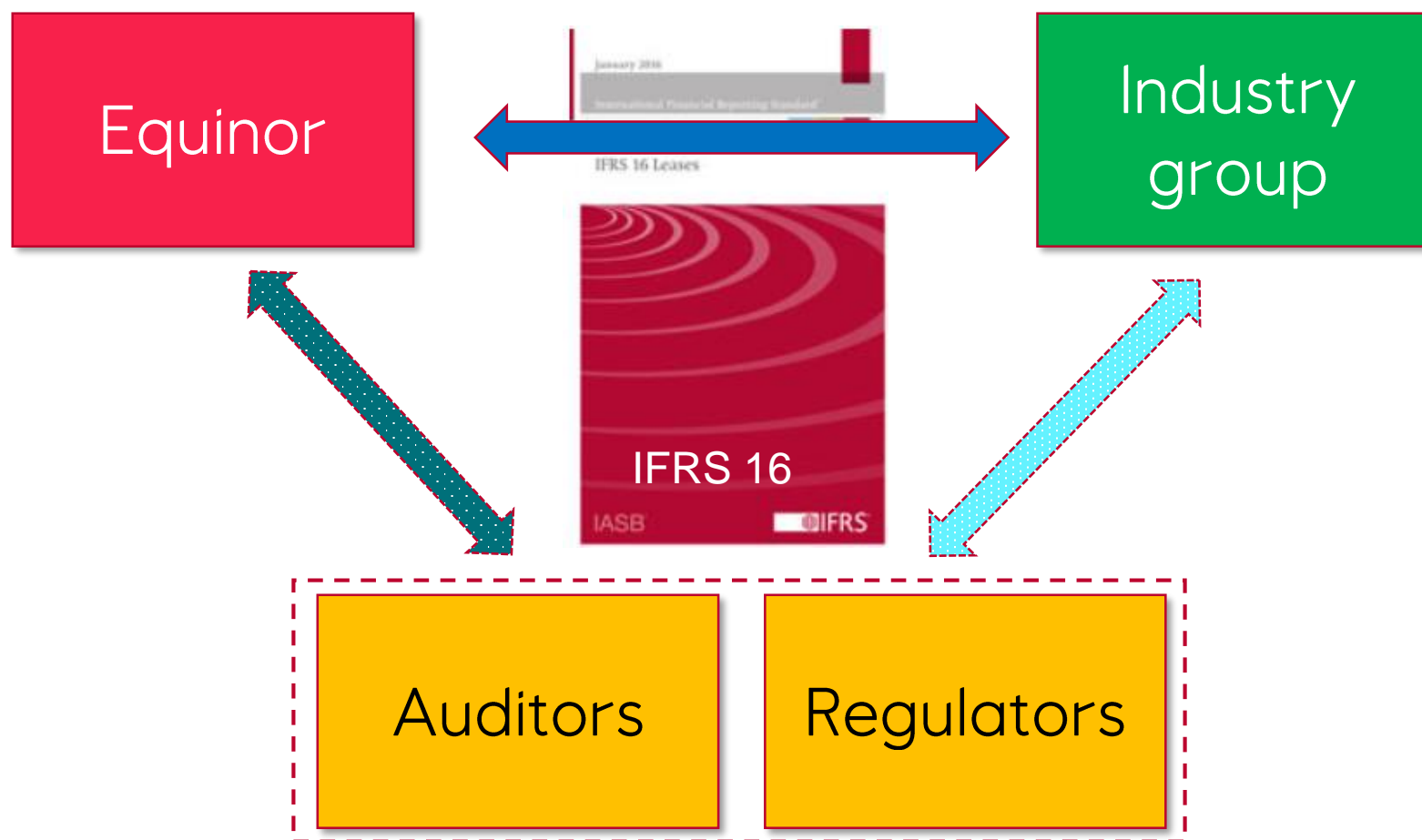
Currency impact if lease contract currency not equal to functional currency

IFRS 16 - lease or a service contract?

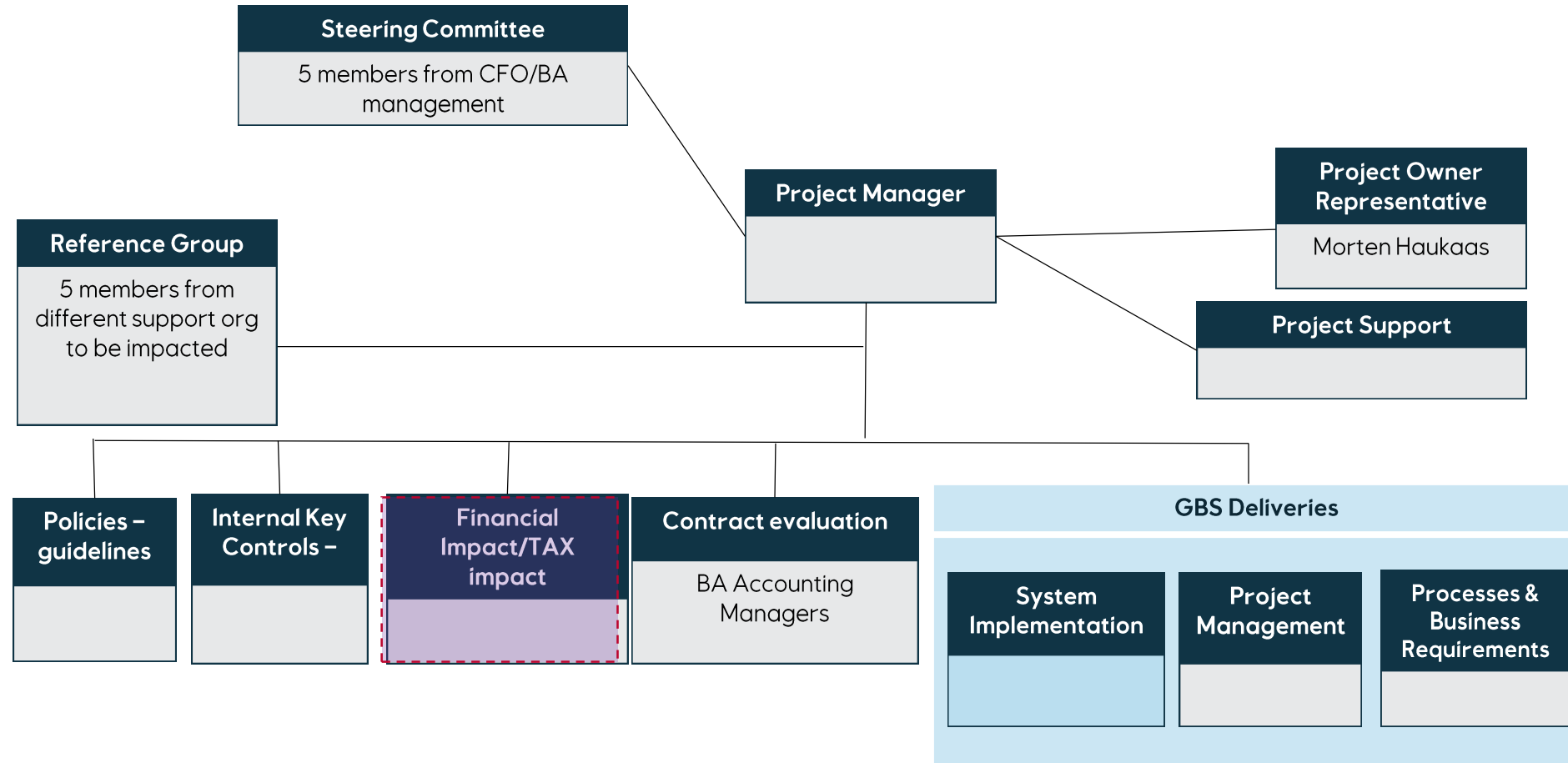
	Service	Lease	Lease +non-lease components
	Drilling services	Lease of a drilling rig	Drilling rig +operations
	Transportation services	Lease of a helicopter	Helicopter +operations and maintenance
	Storage services	Lease of a storage tank	Storage tank +operations and transportation services

“A contract that conveys the right to **control the use** of an **identified asset** for a **period of time** in exchange for **consideration**.” (IFRS 16.9)

Policy interpretations – Industry impact



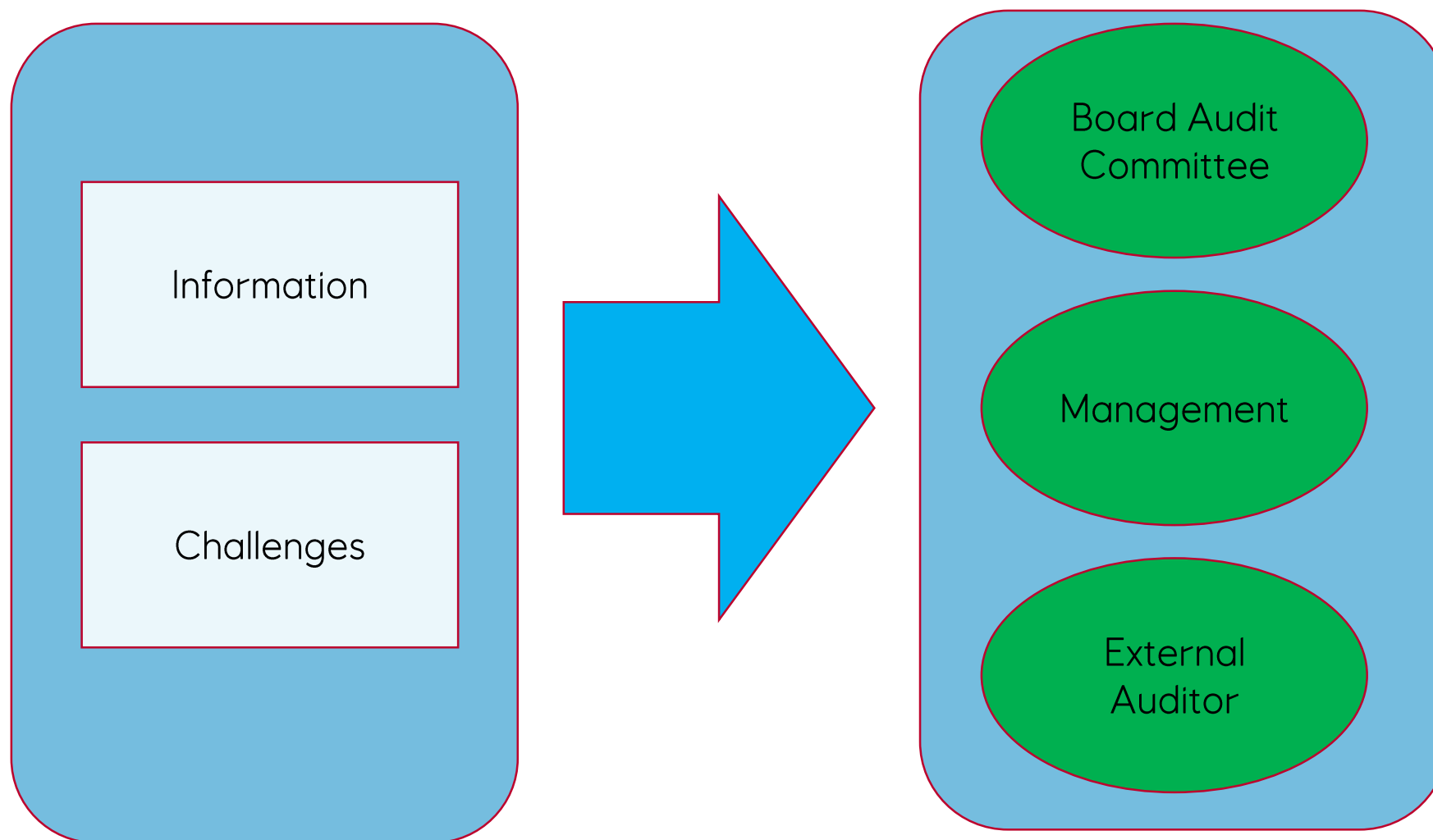
IFRS16 Project Organization @ DG2



Project Execution model



Communication with certain stakeholders



Prerequisites – impact on systems and processes



New tasks-old roles



PURCHASES

- Identification of new lease contracts
- Changes to existing lease contracts



Super users/ controllers

- IFRS 16 contract assessment and collection of necessary data
- Registration of Lease data in REFX



Lease expert accounting group

- Update interest and Valuation calculation in REFX
- Reconciliation, identify changes to existing contracts
- Follow-up and administration activities

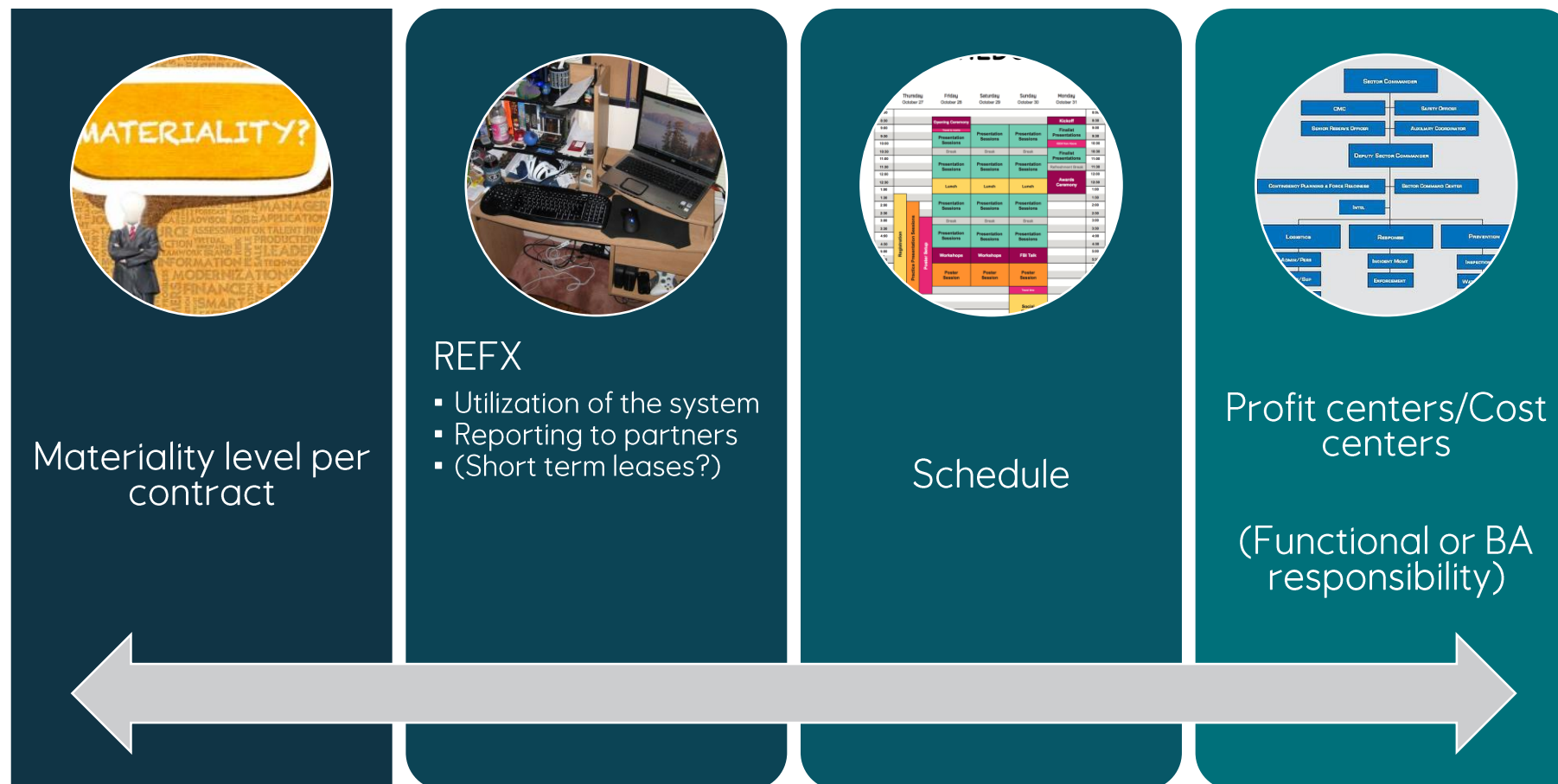
- Reconciliation



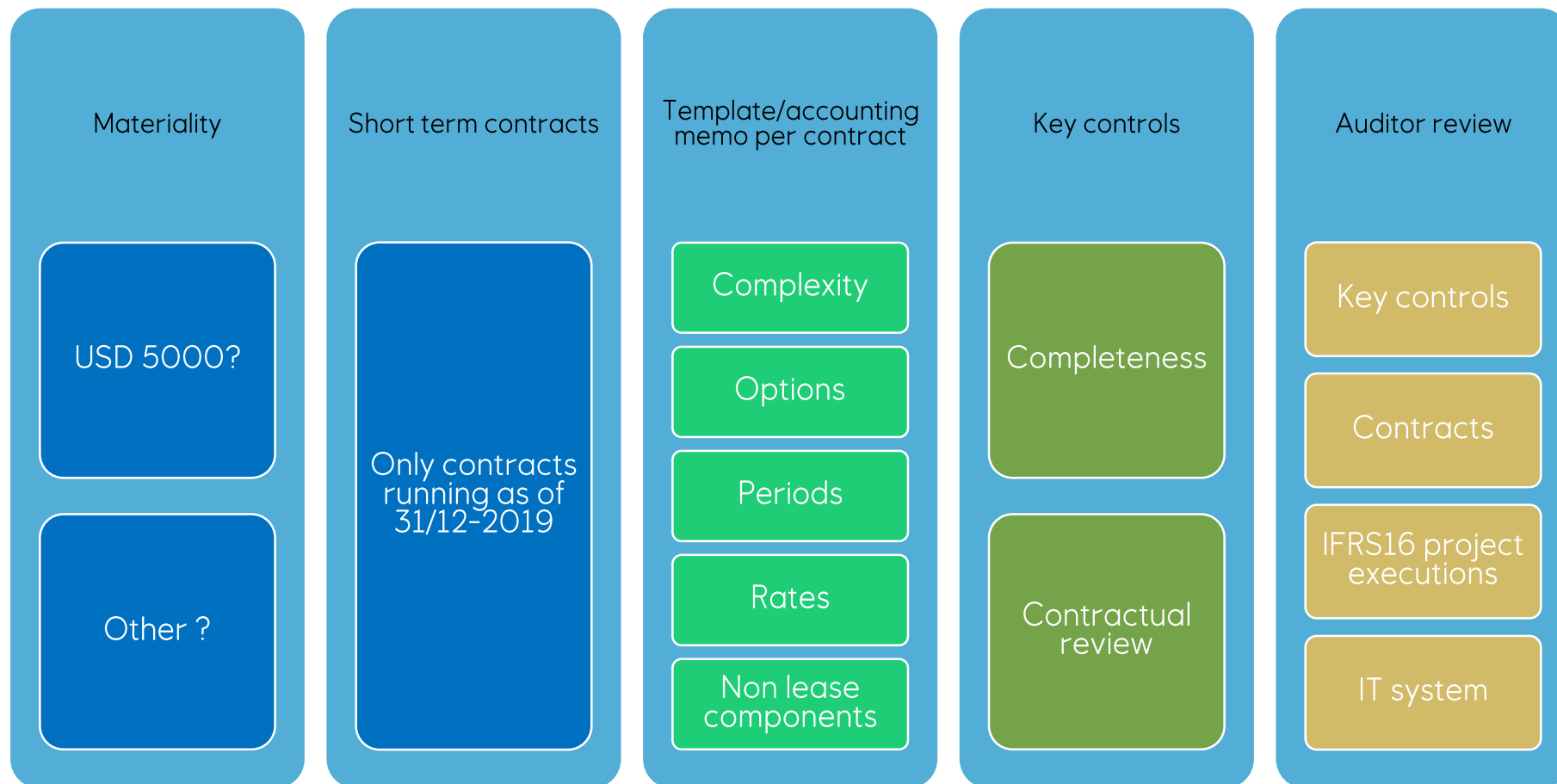
Accounting Manager

- Verification and Approval of lease contracts
- Total responsibility for BA Accounts
- Reconciliation

BA to influence



Contract evaluations



IFRS 16 - key accounting policy assessments

Identification

- Lease vs services

Valuation

Lease term

- Extension/ termination options

Lease payments

- Lease vs non-lease components
- Fixed vs variable payments

Discount rate

Presentation

Gross vs net liability in operator's balance sheet

Partner re-charges in operator's income statement

Method for allocation of lease costs to capex projects

Cost allocation (Joint operations/corporate assets)

- presentation and elimination issue

Policy choices and transition alternatives

Illustrative example – lessee accounting (ext.)

- 5 annual payments of 120-150, including:
 - **Variable elements**, expectation of 18 per year, ranging from 0-30
- Costs of operating asset 20
- Policy choice in example to separate out **non-lease components** from lease

	Cash payments / billing statement				Lease liability			RoU asset		Period expense				
	Contract payment	Non-lease components	Variable lease payments	Non-variable lease payments	Opening balance	Interests	Down-payment	Opening balance	Depreciation	Interest	Depreciation	Non-lease	Variable lease	Sum
Year 1	150	20	30	100	450	16	84	450	90	16	90	20	30	156
Year 2	130	20	10	100	366	13	87	360	90	13	90	20	10	133
Year 3	140	20	20	100	280	10	90	270	90	10	90	20	20	140
Year 4	120	20	0	100	190	7	93	180	90	7	90	20	0	117
Year 5	150	20	30	100	97	3	97	90	90	3	90	20	30	143
SUM	690	100	90	500		50	450		450	50	450	100	90	690

Lease accounting entries – opex activities

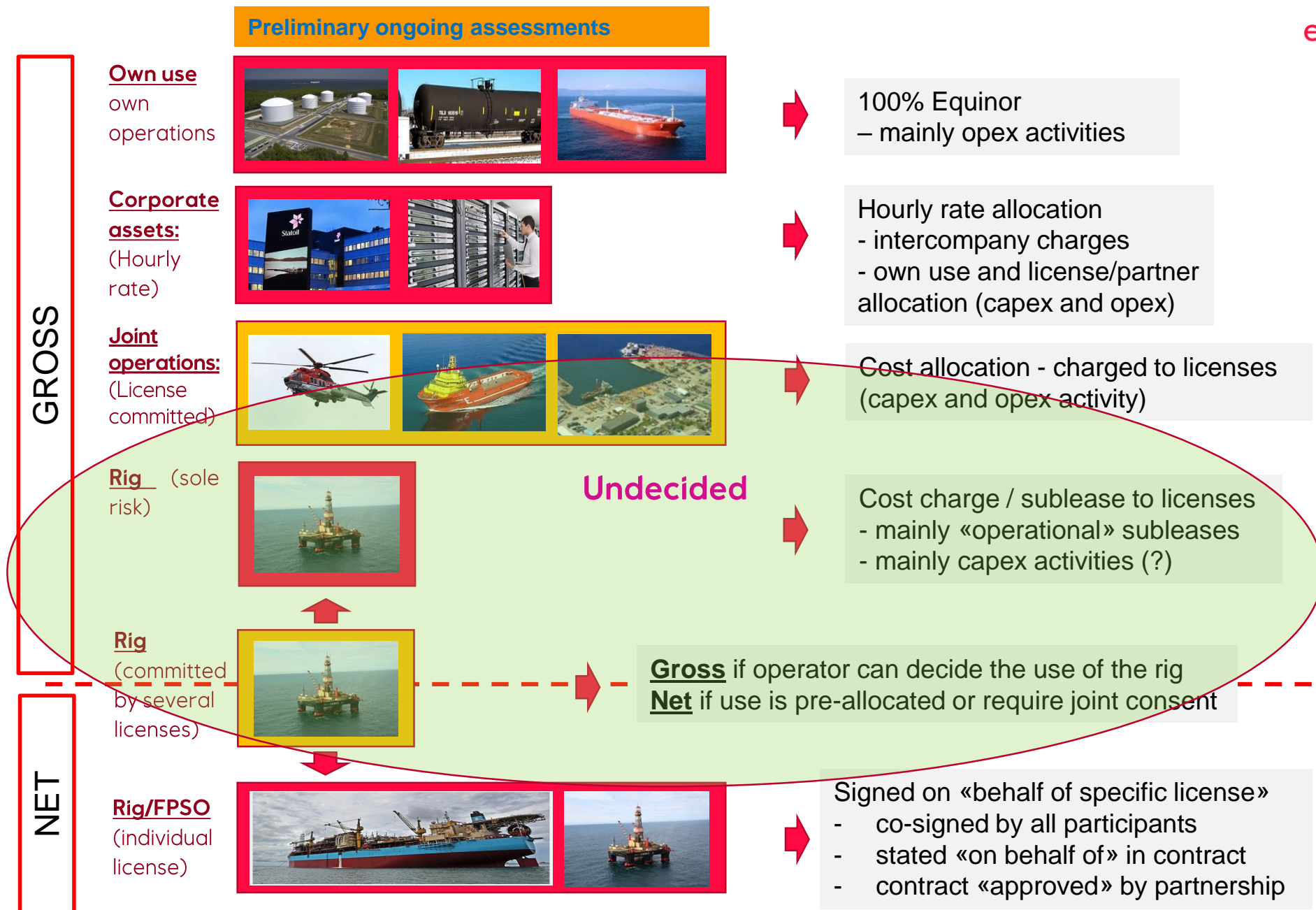
- Standard example; 5 annual payments of 100 / discount rate 3.6%, NPV=450
- Asset used in «opex activities»

	Balance sheet			Income statement			Cash flow statement		
	RoU asset	Cash	Lease liability	Opex	Depreciation	Interests	Operating	Investing	Financing
Initial recognition:	450		-450				0	0	0
Year 1	Interests (calculated)		-16			16	-16		16
	Depreciation (calculated)	-90			90				
	Invoice received/paid		-100	100			-100		
	Reclassification, lease payments		100	-100			100		-100
	Closing balance/PL year 1	360	-100	-366	0	90	16	-16	-84

Lease accounting entries – non-lease components

- Standard example; 5 annual payments of 100 + 20 of non-lease components
- Discount rate 3.6%, NPV 450
- Asset used in «opex activities»

	Balance sheet			Income statement			Cash flow statement		
	RoU asset	Cash	Lease liability	Opex	Depreciation	Interests	Operating	Investing	Financing
Initial recognition:	450		-450				0	0	0
Year 1	Interests (calculated)		-16			16	-16		16
	Depreciation (calculated)	-90			90				
	Invoice received/paid		-120	120			-120		
	Reclassification, lease payments		100	-100			100		-100
	Closing balance/PL year 1	360	-120	-366	20	90	16	-36	0



How should operator present the credit from partner billing? For leases (asset/liabilities) presented gross in operator's balance sheet

Alternative 1:
Reveneues

Alternative 2:
Credit opex
(separate
line?)

Alternative 3:
Credit to
depreciation
and interests

	Before partner billing (70)	Operator with 30% license interests		
		Alt 1	Alt 2	Alt 3
Income statement	100 %	30 %	30 %	30 %
Revenues		-70		
Opex			-70	
Depreciation	90	90	90	27
Interests	16	16	16	9
Net PL	106	36	36	36
Cash flow statement				
Operating	-16	54	54	-9
Investing				
Financing	-84	-84	-84	-21
Net CF	-100	-30	-30	-30

Cost allocation – buildings (allocated to opex activities)

Year 1: Lease payment: 100
 Depreciation: 90
 Interest expense: 16

<u>Today;</u>		Parent	Subsidiary			Elim	Group
Opex	Invoice	100					
	Allocated to cost pool	-100					
	Allocated from cost pool		30	40	30	100	100
		0	30	40	30	0	100
<u>IFRS 16;</u>							
	Depreciation	90					90
	Interests	16					16
	Own costs	0					
	Revenues	-100				100	
	Allocated from cost pool		30	40	30	-100	
Net PL		6	30	40	30	0	106

Cost allocation – buildings (use in capex activities)

	Other grp	DPN				Elim	Group PL	Group BS
	Statoil ASA	Statoil Petroleum AS						
	GBS	License 1	License 2	License 3	BA adj			
Today:								
Opex Invoice	100							
Allocated to cost pool	-100							
Allocated from cost pool								
opex		30	40				70	
capex				30				30
Opex in PL	0	30	40	30	0	0	70	70
IFRS 16;								
Depreciation	90					-27	63	
Interests	16					-3	13	
Revenues	-100					100	0	
Allocated from cost pool								
opex		30	40			-70	0	
capex (bal)				30				30
Net PL	6	30	40	30	0	0	76	

NEXT STEPS...

Equinor ASA – IFRS 16 implementation; practical experiences

Morten Haukaas, VP Accounting

© Equinor ASA

This presentation, including the contents and arrangement of the contents of each individual page or the collection of the pages, is owned by Equinor. Copyright to all material including, but not limited to, written material, photographs, drawings, images, tables and data remains the property of Equinor. All rights reserved. Any other use, reproduction, translation, adaption, arrangement, alteration, distribution or storage of this presentation, in whole or in part, without the prior written permission of Equinor is prohibited. The information contained in this presentation may not be accurate, up to date or applicable to the circumstances of any particular case, despite our efforts. Equinor cannot accept any liability for any inaccuracies or omissions.