



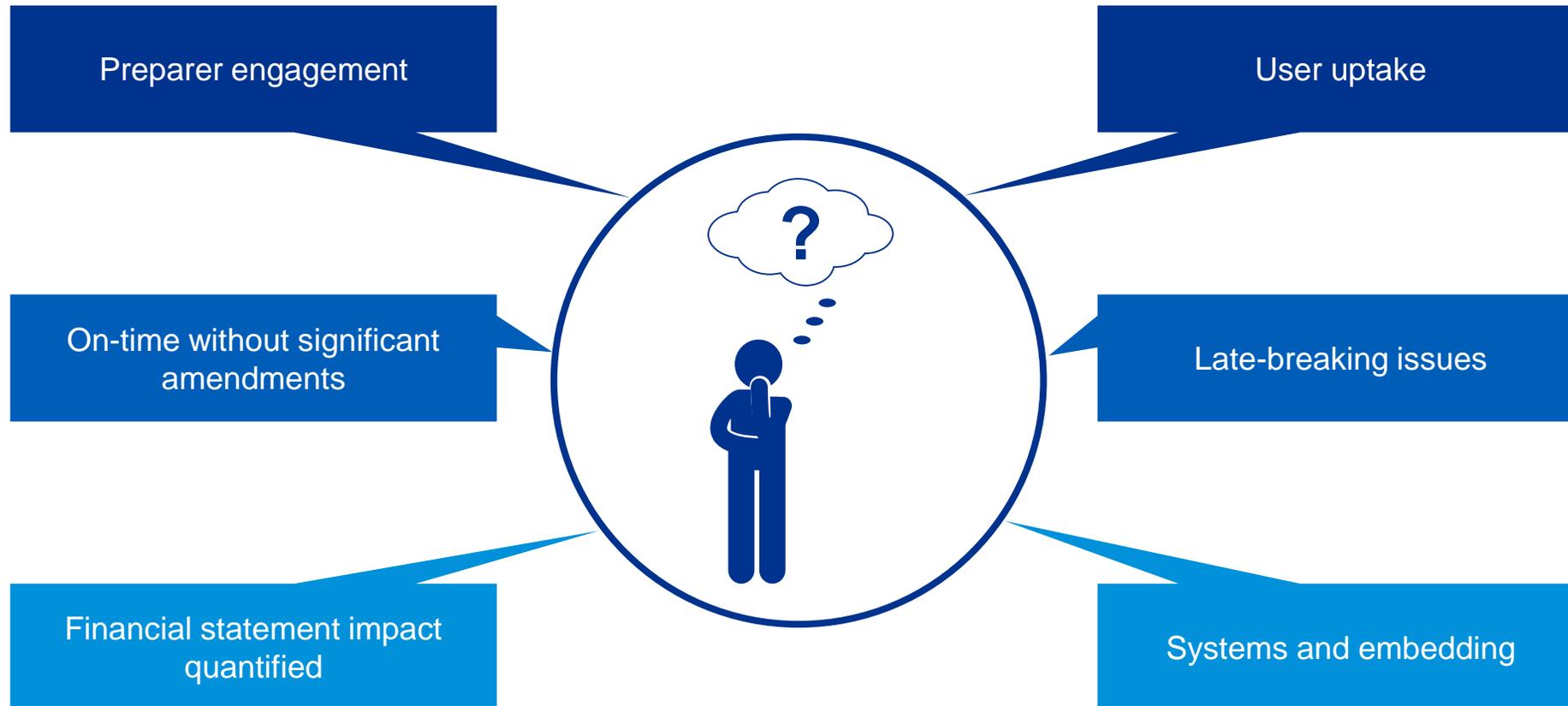
IFRS 16 *Leases* – observations and hot topics

NORSK OLJEREGNSKAPS- OG SKATTESYMPOSIUM 2019

18 June 2019



Has IFRS 16 met its objectives?





IFRS 16 in the Q1 interim report

Effect of implementation per 31 December 2018

RoU assets / total assets:

Selected OSBEX entities – significant impact (in %)

Selskap	Assets 31.12.18	IFRS 16 effekt	% vekst
Norwegian Air Shuttle ASA	55 985	32 797	58,6 %
Europris ASA	4 757	1 988	41,8 %
XXL ASA	7 662	3 195	41,7 %
Kid	2 092	667	31,9 %
Telenor ASA	191 272	57 912	30,3 %
Aker Solutions ASA	20 964	4 990	23,8 %
Evry	11 596	1 700	14,7 %

Selected OSBEX entities – less significant impact (in %)

Selskap	Assets 31.12.18	IFRS 16 effekt	% vekst
Aker BP ASA	93 254	2 090	2,2 %
Elkem ASA	31 129	556	1,8 %
Scatec Solar ASA	14 857	182	1,2 %
Agder Energi	22 616	262	1,2 %
Bakkafrost	7 730	85	1,1 %
Fjord1 ASA	6 731	65	1,0 %
DNB ASA	2 634 903	6 000	0,2 %

Implementation method

- OSBEX entities have mainly chosen modified retrospective as transition alternative without changing comparative figures
- The method provides practical benefits and is less labor intense
 - However, more challenging in terms of providing clear additional information to explain the transition
 - And, need to compensate for lack of comparative figures

Disclosure in interim financial statements

How should IAS 34 be interpreted?

- Minimum Requirements: description of the nature and effects of the changes
- Stakeholders wants full IFRS 16 notes?
- Practice is closer to the minimum requirement.

Description and quantification of the implementation effect

- All companies have disclosed the impact on important accounting items

Disclosure in interim financial statements

Varying level of disclosure on key issues and discretionary assessments

- We see great diversity in practice in disclosure related to key issues, with different 'depth' and details of information being disclosed
- General information – 'checklist approach'
- Limited disclosure on how the transition rules are applied

Reconciliation of nominal operating lease obligations reported in accordance with IAS 17 and estimated present value of future lease obligations reported in accordance with IFRS 16

- Combined with information on the weighted average discount rate, this is considered to provide good information to understand the numerical effects of the transition itself, but only a limited number of companies have presented a complete reconciliation

Comparability 2019 vs 2018

Various alternatives have been observed for specifying the effect IFRS 16 has had on the income statement in the quarterly accounts:

(Amounts in NOK million)	Q1 2019	Q1 2018	FY 2018 Audited	Q1 2019 (ex IFRS 16)
Total Operating Revenue	2 014	2 070	9 475	2 014
Cost of goods sold	1 193	1 286	5 938	1 193
Personnel expenses	413	395	1 615	413

IFRS 16 EFFECTS ON INCOME STATEMENT

(unaudited in NOK million)	Excl IFRS 16* Q1 2019	IFRS 16 effects	Q1 2019
Total operating revenue	7,991.6	0.0	7,991.6
Total operating expenses excl lease, depr. and amort.	7,963.0	-59.1	7,903.8
EBITDAR	28.6	59.1	87.8
Aircraft lease	1,263.9	-1,263.9	0.0
Depreciation and amortization	460.4	1,086.0	1,546.4
Operating profit (EBIT)	-1,695.7	237.1	-1,458.6
Net financial items	-109.8	-412.2	-522.0
Profit/loss from associated companies	3.1	0.0	3.1
Profit (loss) before tax (EBT)	-1,802.4	-175.1	-1,977.5

* Income statement effects are shown as if IAS 17 still applied, without the adoption of the new standard IFRS 16.

Net income	4 744	80	4 824	5 760
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Discount rate

Diversity in practice regarding disclosure of discount rate

- Mixed practice on providing information about discount rates
- Different degree of detail
- Large span in estimated discount rates

Examples

At the date of implementation, 1 January 2019, the company recognized right of use assets corresponding to the discounted value of lease liabilities within the scope of IFRS 16 at the time of adoption. NOK 32,797 million was recognized as right of use assets. The incremental borrowing rates applied to lease liabilities at the date of initial recognition are in the interval 5.1-5.4% for aircraft leases and in the interval 4.8-7.7% for leases other than aircraft leases.

Duration	Total adjusted undiscounted operating lease liabilities	Weighted average incremental borrowing rate	Discounted adjusted operating lease liabilities
1-3 years			
3-5 years		2.49%	
5-10 years		3.11%	
Over 10 years		3.62%	

At 1 January 2019, following the adoption of IFRS 16, the company recognized right of use assets corresponding to the discounted value of lease liabilities within the scope of IFRS 16 at the time of adoption. NOK 32,797 million was recognized as right of use assets. The incremental borrowing rates applied to lease liabilities at the date of initial recognition are in the interval 5.1-5.4% for aircraft leases and in the interval 4.8-7.7% for leases other than aircraft leases.

18 942
6%
14 079

Interim reporting 1Q 2019

Other observations:

- Key figures and APMs are not always clear
- Non-uniform practice in relation to updating definitions (non GAAP)
- Diversity in practice regarding additional presentation of comparative figures for 1Q 2019 based on IAS 17
- No examples yet of providing adjusted 2018 figures according to IFRS 16
- In the comments to the quarterly accounts, almost all companies comment on the effect on key figures during the period, excluding IFRS 16

Comparability between periods is achieved by:

- Present the full Q1 2019 result statement, including and excluding IFRS 16, or
- Presents EBITDA or other APMs/ non-GAAP performance measures according to IFRS 16 and in accordance with IAS 17

Examples 1Q 2019

Key figures

The group implemented IFRS 16 from 1.1.2019 by applying the modified retrospective approach.

(Amounts in NOK million)	Q1 2019 IFRS 16	Q1 2018 IAS 17	Full year 2018 IAS17
Revenues	298,0	274,9	1466,7
Growth	8,4%	8,3%	6,2%
LFL growth including online sales	5,1%	3,3%	3,1%
No. of shopping days in period	76	75	303
No. of physical stores at period end	142	139	143
COGS	-117,7	-114,3	-573,2
Gross profit	180,3	160,6	893,5
Gross margin (%)	60,5%	58,4%	60,9%

KEY FIGURES

Condensed Consolidated interim financial statements

STATEMENT OF PROFIT AND LOSS

(NOK)

(NOK in millions)

Revenues
Organic revenue growth
Subscription and traffic re
Organic subscription an
EBITDA before other inco
Organic EBITDA growth
EBITDA before other inco
Net income attributable t
Capex excl. licences and s
Total Capex
Free cash flow
Mobile subscriptions – Change in quarter/T

Main figures ¹⁾

EUR million

Operational revenue ²⁾

Operational EBIT ³⁾

Operational EBITDA ⁴⁾

4) Operational EBITDA: Operational EBIT plus depreciations. Effects related to IFRS 16 (leasing) are excluded.

Non-Controlling interest (Minority interest)

Earnings per share (EPS)

EBITDA - without IFRS 16

EBITDA - with IFRS 16

Note

1st Quarter

Full year

Q1 2019

979.4

196.1

233.2

280,9

344,9

2018

1 754,2

1 032,7

721,5

579,7

141,8

40,4

101,4

6,0

107,4

26,3

81,1

(4,0)

0,73

280,9

202,8

2018

8 595,8

4 913,7

3 682,1

2 429,6

1 252,5

174,1

1 078,4

(45,7)

1 032,7

253,8

778,9

(38,6)

5,01

1 531,3

1 531,3

Adjusted net pr

Like for like rever

Number of stores

New stores in the

GROUP KEY CA

Net change in working capital



Comparing oil & gas entities

Company	Modified retrospective	RoU asset vs PPE (% impact)	Discount rate
Equinor	Yes	6,1 %	3,10 %
Shell	Yes	7,0 %	7,20 %
Total	Yes	5,0 %	4,50 %
BP	Yes	6,4 %	3,50 %
Repsol	Yes	4,5 %	3,00 %
ENI	Yes	7,9 %	-
AkerBP	Yes	4,2 %	6,70 %

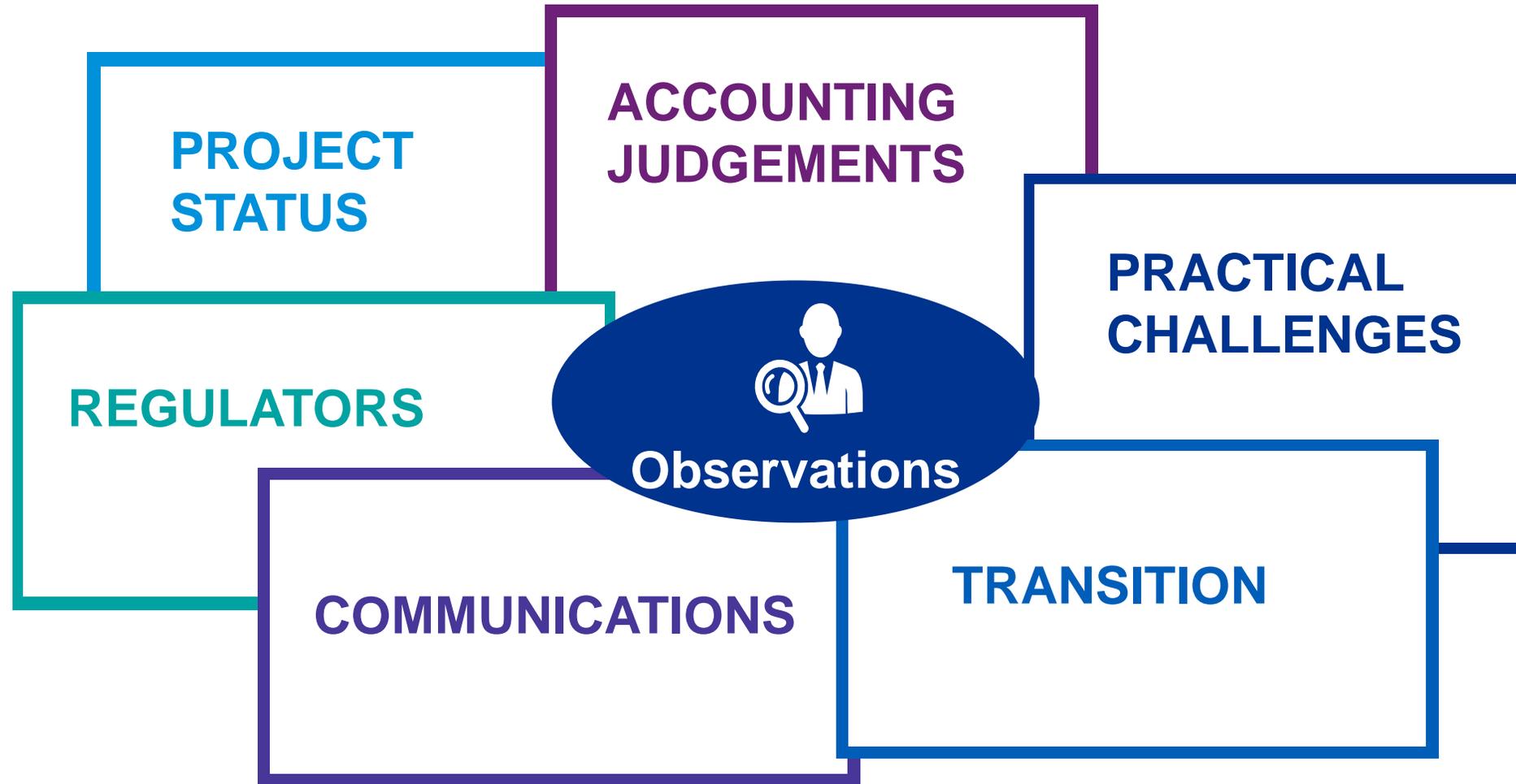
Source: 2018 annual report and/ or 1Q 2019 interim reporting

- All applied modified retrospective method for implementation
- Mostly weighted average incremental borrowing rate applied
- Great variety in level of disclosure in both 2018 annual reports and 1Q 2019 interim reporting
- Different approaches to non-GAAP performance measures



Implementation challenges

IFRS 16: One year further... some observations from KPMG





Accounting hot topics

IASB activity

Standard-setting

- Lease incentives
 - IFRS 16 Example 13
- Income taxes on leases
 - Initial recognition exemption

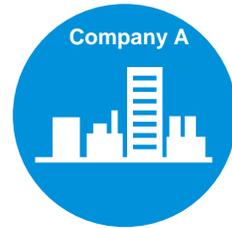
Closed IFRIC items

- Cloud computing arrangements
 - Is there a lease?
- Leases in joint arrangements
 - Who records the lease liability?

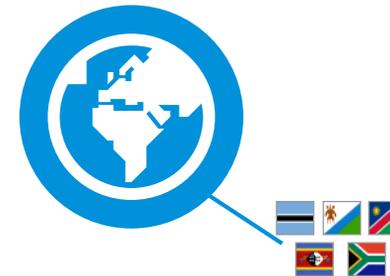
Open IFRIC items

- Subsurface rights
 - Is there a lease?
- Incremental borrowing rate
 - Term and maturity
- Lease term
 - Cancellable leases
 - Depreciation of leasehold improvements

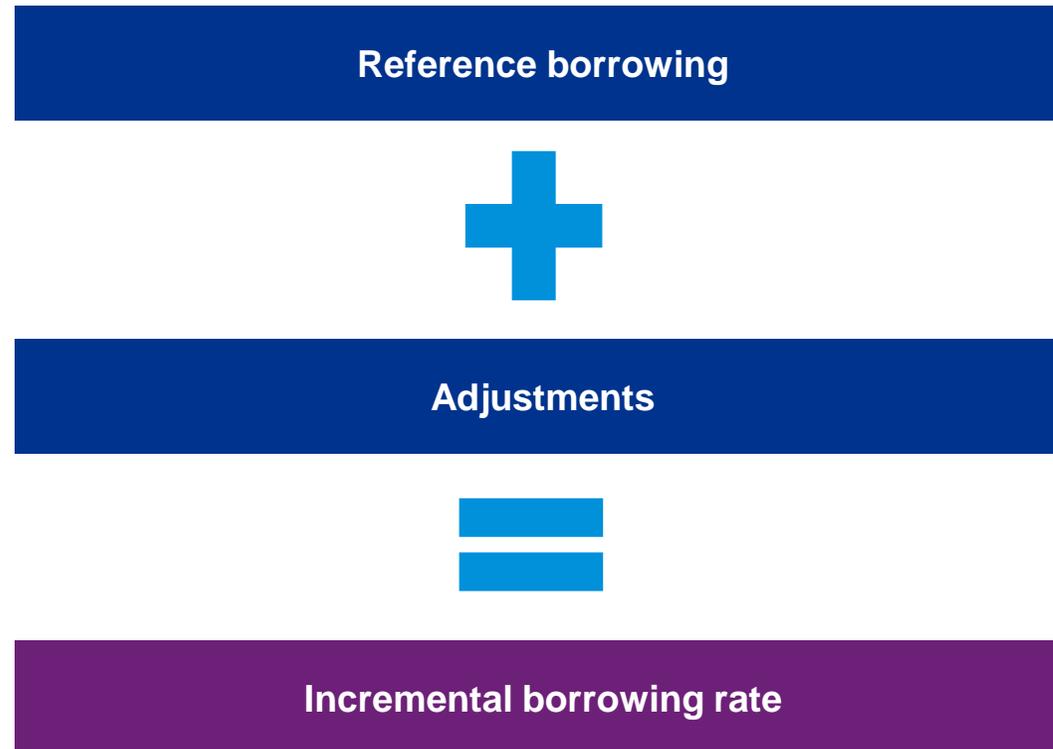
Lessee - incremental borrowing rate



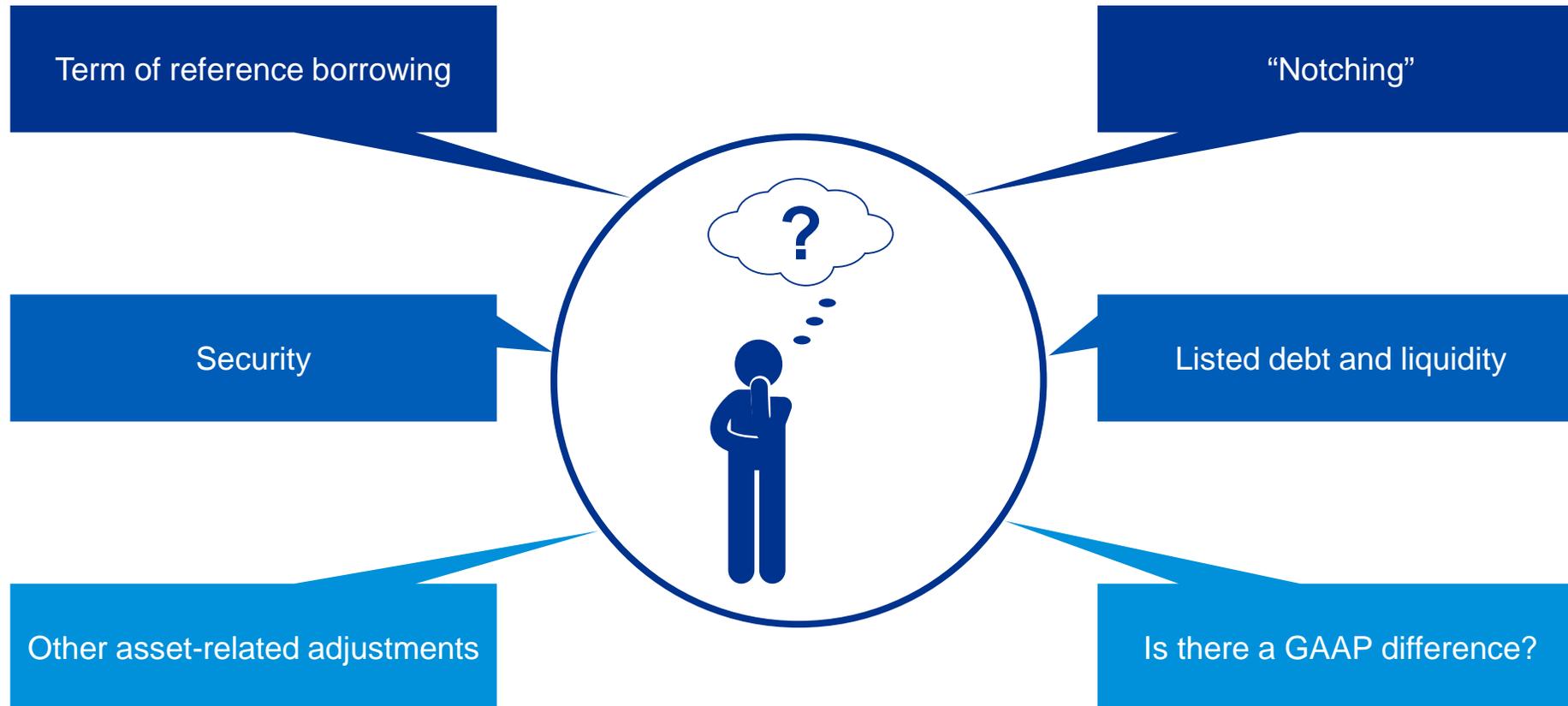
“The rate of interest that a lessee would have to pay to borrow over a similar term, and with a  similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.”



Determining the IBR



IBR - some current talking points





Your financial statements

Some key focus areas

How best to explain the change



Capturing the data for the detailed disclosures



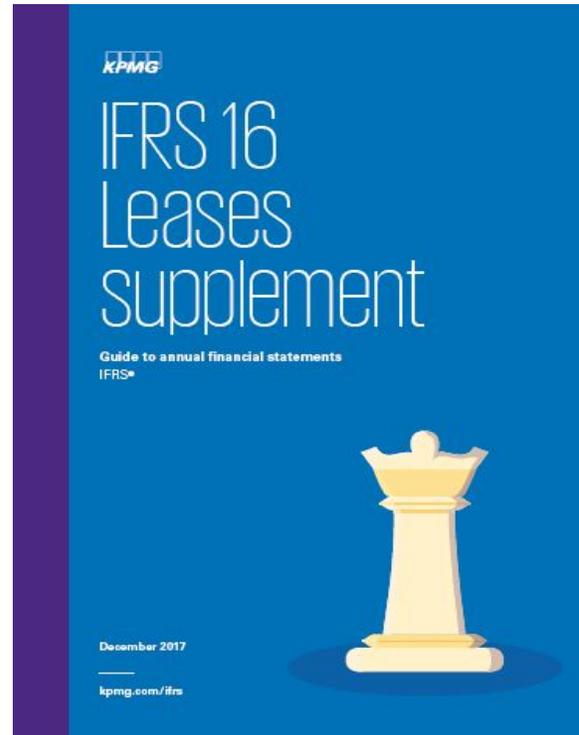
Separate presentation vs disclosure of ROU assets and lease liabilities



How to present / explain movements in KPIs



Recommended publication

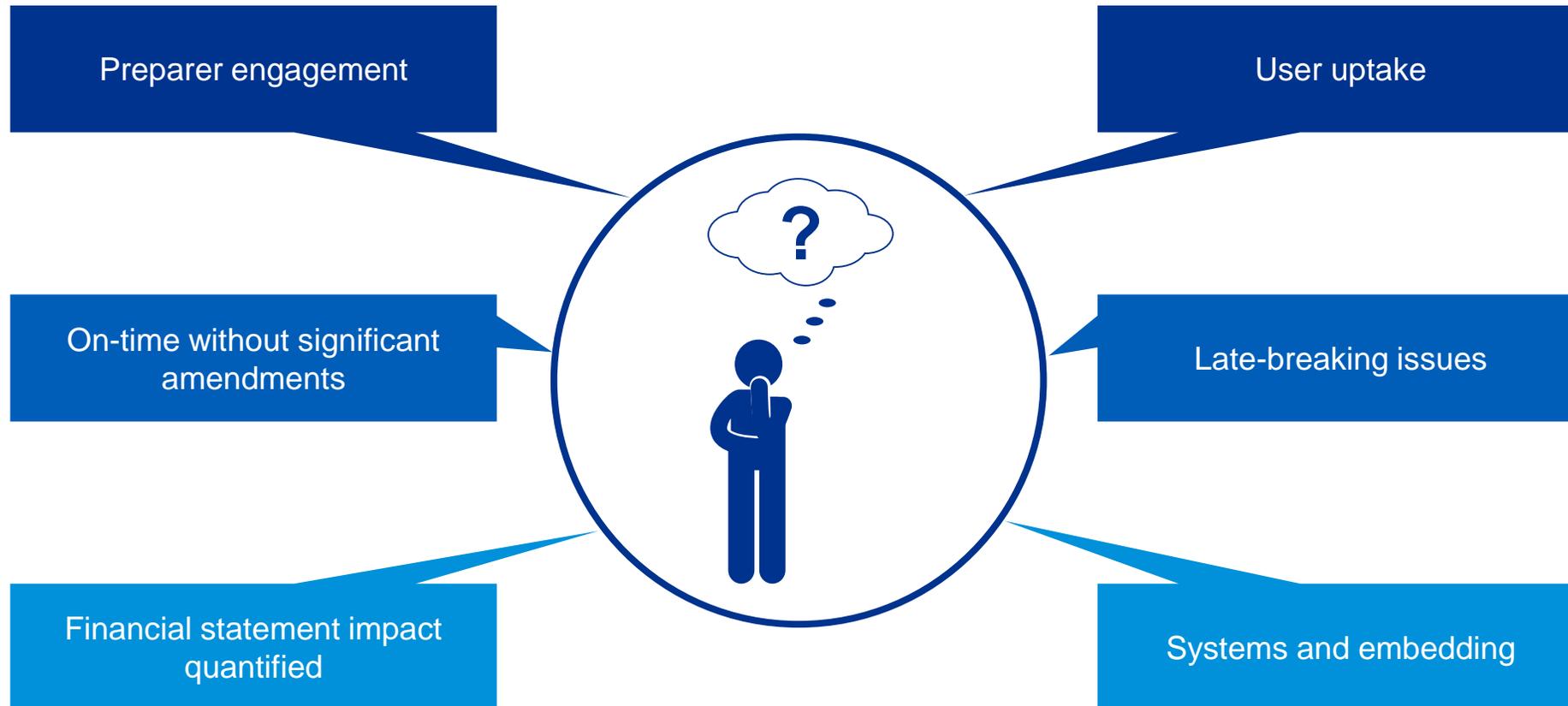


[IFRS 16 Leases Supplement : Guide to financial statements](#)



Have we met the
objectives of the
standard?

Has IFRS 16 met its objectives?





Thank you



Dave Vijfvinkel

Partner

KPMG in Norway

Member of KPMGs Global Energy Institute

+47 4063 9952

dave.Vijfvinkel@kpmg.no



kpmg.com/socialmedia



kpmg.com/app

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