

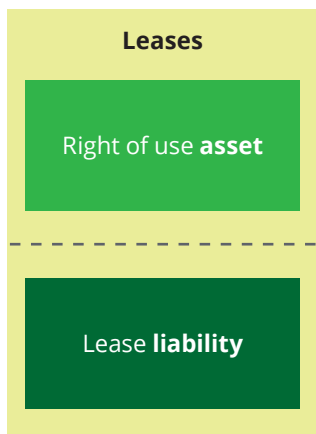
IFRS 16 – In a nutshell

Summary of technical changes

The new lease standard, as effective for periods on or after 1 January 2019, establishes a new accounting model for **lessees**, increasing transparency by eliminating substantially all off-balance sheet leasing transactions. While lessor accounting is largely unchanged from IAS 17, going forward the standard may impact contract negotiations and other areas.

Impact on lessee accounting

Most leases are now **recognised on the balance sheet** under IFRS 16:



Transition option

- Full Retrospective Approach
- Modified Retrospective Approach

Lease payments should be discounted at:

- The **implicit interest rate**; OR
- Where not readily determinable, the **incremental borrowing rate**

Exemptions available:

- Lease term is **12 months or less**; OR
- Lease is **low-value**

Substantial **disclosure requirements** for lessees' lease commitments.

Deloitte's IFRS 16 service offerings have some unique selling points:

Lease review

Need help identifying and analysing contracts containing leases?

IFRS 16 tools

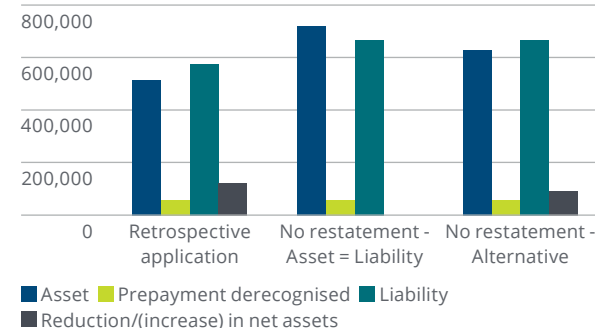
Need a new solution for lease accounting calculations to facilitate IFRS 16 adoption?

Example of IFRS 16 lease impact analysis as presented in one of our service offerings

High level indicative impact of transition to IFRS 16 - Balance sheet

| | Retrospective application | No restatement - Asset = Liability | No restatement - Alternative |
|---|---------------------------|------------------------------------|------------------------------|
| Asset | 510,213 | 717,448 | 624,973 |
| Prepayment derecognised | 56,000 | 56,000 | 56,000 |
| Liability | 572,892 | 661,448 | 661,448 |
| Reduction/(increase) in net assets | 118,679 | - | 92,475 |

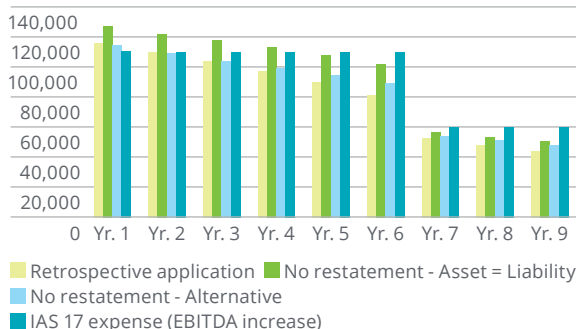
Balance sheet impact on IFRS 16 transition - All



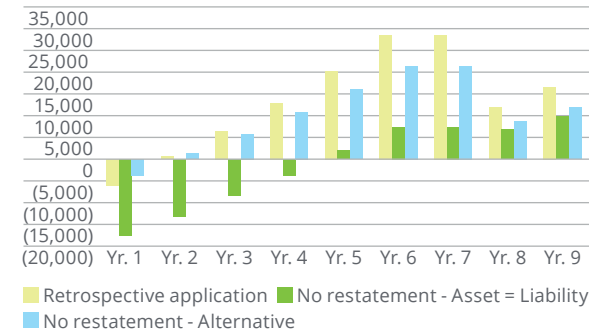
High level indicative impact of transition to IFRS 16 - Income statement

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 |
|-------------------------------------|----------|----------|---------|---------|---------|---------|--------|--------|--------|
| Income statement expense (€) | | | | | | | | | |
| Retrospective application | 116,518 | 109,992 | 103,896 | 97,192 | 89,816 | 81,703 | 52,719 | 48,402 | 43,653 |
| No restatement - Asset = Liability | 128,073 | 122,757 | 118,181 | 113,331 | 108,190 | 102,739 | 56,527 | 53,583 | 50,463 |
| No restatement - Alternative | 114,195 | 108,889 | 104,312 | 99,462 | 94,320 | 88,871 | 54,213 | 51,270 | 48,150 |
| IAS 17 expense (EBITDA increase) | 111,000 | 110,000 | 110,000 | 110,000 | 110,000 | 110,000 | 60,000 | 60,000 | 60,000 |
| PBT impact (€) | | | | | | | | | |
| Retrospective application | (5,518) | 8 | 6,104 | 12,808 | 20,184 | 28,297 | 7,281 | 11,598 | 16,347 |
| No restatement - Asset = Liability | (17,073) | (12,757) | (8,181) | (3,331) | 1,810 | 7,261 | 3,473 | 6,417 | 9,537 |
| No restatement - Alternative | (3,195) | 1,111 | 5,688 | 10,538 | 15,680 | 21,129 | 5,787 | 8,730 | 11,850 |

Income statement expense (€) - All



PBT impact (€) - All



IFRS 16 – Steps to success

There are three key phases to properly plan your implementation of IFRS 16, and in each there are numerous ways Deloitte's multifunctional team can help you:

Assess and prepare

The first critical steps for an IFRS 16 implementation are to **form a project team, gather information to assess the impact** of the standard, **analyse the data** and prepare roadmap for the **longer-term actions/decisions** needed.

Readiness assessment

Our **multifunctional team** can help conduct an **IFRS 16 readiness assessment** to identify the scale of the **impact to your business**. The scope of our review can go **beyond technical accounting** issues to consider the wider impact on **KPIs, remuneration schemes, tax and lease strategy**, to help you prepare for the road ahead.

Accounting policy review

The new standard will require changes to accounting policy and judgments. Deloitte's IFRS 16 team includes specialists close to the development of the standard. We can provide assistance from offering **general training sessions**, to **detailed accounting policy advice and accounting manual development**.

Data assurance

Businesses with substantial lease portfolios will need to consider their **lease inventory** and **data storage capacities** to facilitate financial reporting going forward. Our **data assurance specialists** can **assess the quality, integrity, completeness and robustness** of the data already existing in your business, and our **data analytics** expertise will help you understand what your data means.

Technology strategy

Deloitte can assist with a range of technology solutions, including in-house solution **Innosys for Leasing**, as well as explore your existing ERP system capabilities to meet your IFRS 16 needs.

Convert and embed

Implementation of IFRS 16 will mostly impact lessees currently holding operating leases – IFRS 16 must become part of 'Business as usual' planning. Ensure **adequate time** to **test the effectiveness** of the **implementation** ahead of transition date.

Data manipulation

After you have validated your existing data, and established your new accounting policies, businesses will need to consider **how to implement the calculations** needed for IFRS 16 in a sufficiently robust manner. You may choose to develop an **in-house tool**, or may need to consider **external software vendors** to augment your existing capabilities. We have the expertise to advise on the options for IFRS 16 calculations.

Technology implementation

Changes or upgrades to existing **ERP systems** may be required to **track the right data** across the lease portfolio and facilitate the production of IFRS 16 financial information. **Early design** of any technology solution and **dry-run testing** prior to going live with IFRS 16 implementation is vital. Our Deloitte consultants are experienced in **supporting companies through ERP system changes** whether implementing new accounting modules from third-party vendors, or with more bespoke projects.

Controls and governance

Financial reporting processes need to be updated to reflect the more complex requirements of the standard for both external and internal financial reporting. Deloitte can advise on how to implement a robust **internal control framework** to meet the accounting standard changes, and provide operational resource and project management support to you.

Mitigate and strategise

IFRS 16 has broader impacts to be effectively mitigated or managed, including **strategic decisions** on leasing and contracting arrangements. **Early consideration is key** for sound decision making to avoid surprises along the way.

Impact management

After initial application, businesses will need to consider again what consequences the adoption of IFRS 16 would have on a broader level:

- Deloitte's Tax and Employer Solutions teams can help to assess the **local and overseas tax implications** as the regulatory environment changes in response to the accounting standard.
- We can also support you to **evaluate the impact of changes to your financial metrics** (e.g. EBITDA) has on remuneration schemes, performance targets, and earn-outs.
- We can also assist in other areas impacted including the changes to management information, such as KPIs, as well as budgeting and forecasting processes.

Post-Implementation Review

Once the adoption has taken place, is everything working as it should be? **How will you face up to the first round of financial reporting under IFRS 16?** Deloitte is there to help you perform a post-implementation review to **understand how your new systems and processes** are working, and **recommend enhancements** if needs be to ensure the transition stays smooth in the future.

IFRS 16 – Key challenges

Key operational challenges

Data challenges

- Numerous lease agreements across multiple decentralized locations, in different business and operating units
- Lease data may be maintained in spreadsheets or manual documents
- Collection and abstraction of data likely be a resource intensive effort

IT systems

- New standard will likely require enhancements to a company's existing IT infrastructure to comprehend the storage, calculation and reporting requirements
- Consider modifying existing system or moving to new system
- Given the long lead times of system initiatives, may need bridge system

Process

- New controls will need to be established
- Customised reports will need to be created
- Adequate training when outlining the implementation process should be delivered

Timeline for adoption

- It can be a challenge to anticipate the data gaps and overcome the data abstraction hurdle
- A typical timeline from planning to implementation is 6-12 months

Other common challenges to IFRS 16 adoption:

1. New analytics or metrics needs
2. Key information outside of lease agreement
3. Multiple currencies and languages
4. High volume of data fields
5. Agreements aren't electronic
6. Lack of resources
7. Data in disparate systems

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