

Effects of IFRS 16 Leases

In January 2016, IASB published the new standard IFRS 16 Leases, which was approved by EU in November 2017, and is effective from annual periods beginning on or after January 1, 2019.

Contrary to the current standard IAS 17 Leases, the new standard imply that Skanska as a lessee even for operational leases, short-term and low-value leases excluded, has to report the leases in the statement of financial positions. Skanska has chosen to implement the standard retroactively with the cumulative effect, that is without restating comparative information, and to apply the standard for leases that previously were classified as operating leases according to IAS 17. The statement of financial position will be added with lines for right-of-use assets for property, plant and equipment, right-of-use assets for current-asset properties and interest-bearing lease liabilities. The right-of-use assets are depreciated over the lease term, except for current-asset properties right-of-use assets which are accounted for in the same way as current-asset properties. The lease payment is divided into an interest portion and as an amortization part. Operating income will increase and finance net will decrease. Cash flow from operations will increase and cash flow from finance activities will decrease.

At transition to IFRS 16 as of January 1, 2019, the asset increases by SEK 7.6 billion in right-of-use assets split up as follows; offices SEK 3.3 billion, cars SEK 0.5 billion, machines SEK 0.8 billion, non-current asset properties SEK 0.1 bn and current-asset properties right-of-use assets of SEK 2.9 billion. The interest-bearing lease liabilities amount to SEK 7.8 billion and equity is affected by SEK -0.1 billion. Finance leases according to IAS 17 of SEK 0.3 billion reported as non-current property, plant and equipment are moved to right-of-use assets property, plant and equipment. See the following table:

Transition effect, January 1, 2019. Balance sheet

	Construction	Residential Development	Commercial Property Development	Central incl. Infrastructure Development	Skanska Group
SEK M					
Non-current assets					
Property, plant and equipment	-282				-282
Total property, plant and equipment	-282	0	0	0	-282
Property, plant, and equipment right-of-use assets					
Property ground lease	153				153
Offices	3,196	1	20	80	3,297
Cars	524	1	14	3	542
Machinery	649				649
Other	57	64			121
Total property, plant and equipment right-of-use-assets	4,579	66	34	83	4,762
Current assets					
Current assets properties right-of-use land (ground lease)					
	0	128	2,737		2,865
Total current assets properties right-of-use land (ground lease)	0	128	2,737	0	2,865
Total right-of-use assets	4,579	194	2,771	83	7,627
Financial receivable					
	18				18
Deferred tax asset					
	14		1		15
Trade and other receivables					
	-46	-3			-49
Total other current assets	-14	-3	1	0	-16
Total assets	4,283	191	2,772	83	7,329
Equity					
	-60		-7		-67
Total equity	-60	0	-7	0	-67
Non-current liabilities					
Financial liabilities					
	-280				-280
Lease liabilities					
	4,715	191	2,779	84	7,769
Total liabilities non-current	4,435	191	2,779	84	7,489
Current liabilities					
Financial liabilities current					
	-2				-2
Trade and other payables					
	-90			-1	-91
Total liabilities current	-92	0	0	-1	-93
Total equity and liabilities	4,283	191	2,772	83	7,329

The table below shows a bridge between the discounted operating leases according to IAS 17 to the lease liability according to IFRS 16. The big difference between the obligations for operational leases of SEK 22 billion and the future minimelease payments of SEK 8.6 billion is primarily due to current-asset right-of-use assets. This type of right-of-use assets often runs over a long period of time, making the discounted present value substantially lower than the nominal one.

Bridge between the operating leases according to IAS 17 to the lease liability according to IFRS 16, bn SEK

Obligations for operating leases as of December 31, 2018	21,981
Future minimelease payments regarding non-cancellable operational leases, discounted at rates according to table below	8,626
Deducted, short-term leases	-549
Deducted, low-value leases	-458
Deducted, leases where the service component is separated	-344
Added, financial leases reclassified	282
Added, leases where an option to purchase is certain	1
Added, leases with variable lease payments that depend on an index or rate	219
Deducted, amounts not expected to be payable under residual value guarantees	-8
Lease liability according to IFRS 16	7,769

Discount rates used at transition to IFRS 16 are split up as below between currency and lease terms:

Country (currency)	Discount rate, %						
	1 yr	2 yr	3 yr	5 yr	10 yr	15 yr	30 yr
Czech republic (CZK)	3.4	3.6	3.6	3.7	4.0	4.4	4.9
- CZ (EUR)*	0.9	1.1	1.2	1.5	2.4	3.0	3.7
Denmark (DKK)	0.8	0.9	1.1	1.4	2.3	2.9	3.7
Finland (EUR)	0.8	1.0	1.1	1.4	2.3	2.9	3.6
Hungary (HUF)	2.3	2.8	3.1	3.6	4.8	5.6	6.3
- Hungary (EUR)*	1.0	1.2	1.3	1.6	2.5	3.1	3.8
Norway (NOK)	2.4	2.6	2.7	3.0	3.6	3.9	4.6
Poland (PLN)	3.0	3.1	3.4	3.7	4.4	4.9	5.5
- Poland (EUR)*	0.9	1.1	1.2	1.5	2.4	3.0	3.7
Romania (RON)	4.6	4.9	5.1	5.4	6.1	6.8	7.5
- Romania (EUR)*	1.0	1.2	1.3	1.6	2.5	3.1	3.8
Sweden (SEK)	0.9	1.1	1.3	1.7	2.6	3.2	3.9
UK (GBP)	2.2	2.3	2.4	2.6	3.1	3.4	4.0
US (USD)	4.1	4.2	4.3	4.3	4.7	5.0	5.4

* if functional currency EUR