**The challenge**

Most companies lease assets and will be affected by the standard

- Under IFRS 16, **lessees will bring leases on balance sheet** effective date 01.01.2019
- New lease definition becomes the **new on/off balance sheet test**

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**Balance Sheet**

Companies with operating leases will appear to be more asset-rich, but also more heavily indebted

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**Income Statement**

Total lease expense will be front-loaded even when cash rentals are constant

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**Leases on balance sheet**

**Balance sheet**

- **Asset** = ‘Right of use’ of underlying asset
- **Liability** = Obligation to make lease payments

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**Profit/loss**

- EBITDA
- EPS (in early years)

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**Balance sheet**

- Total assets
- Total debt

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**Ratios**

- Debt-to-Equity
- Interest cover
- Asset turnover

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**P&L**

- **Lease expense**
- Depreciation + Interest
- Front-loaded total lease expense

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What is your current view on IFRS 16 implementation?

- Do you know what the expected major impacts of the lease accounting standard are for your company?
- What is your level of preparation with respect to complying with the lease accounting standard?
- Have you started the implementation with the leasing tool and based on an integrated approach?
How to implement change

It is likely to be challenging and appropriate time is needed to choose the right options.

Are you aware of the complexity?

In large international groups the right project management is essential due to the high number of lease contracts, their content and nature, local languages and out of IT or differing IT systems.

How KPMG can help

— **High specialization** in lease accounting and tools to assess impact and facilitate calculations
— **Strong experience** in various sectors (energy, retail,..) for technical explanations, trainings, workshops
— **Structured and proven** methodology for project management, integrated approach

Your benefits

The earlier you understand the impact of the new standard on your organization, the more prepared you will be to tackle issues and reduce implementation costs and risks.

Contact

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