

Financial effects of a new lease accounting standard

Will the proposed new standard make a difference?

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Abstract

In this thesis, the financial effects of a new leasing standard are investigated. First, a method to capitalize operating lease payments is determined. This method is then used to investigate if and how a set of key ratios changes for the companies in the OMX Stockholm Large Cap index. Using statistical analysis, a minor increase in EBIT margin and an increase in the D/E-ratio are predicted. When it comes to return on total assets, a significant change cannot be observed.

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³ J Marton, "Leasingavtal och ny föreställningsram", *Balans*, no. 1, 2011, pp. 25-26.

⁴ The IFRS Foundation, <http://www.ifrs.org/The+organisation/IASCF+and+IASB.htm> (2011-02-15). In connection with the IASB changing name from IASC to its current in April 2001, the standards changed name from IAS to IFRS.

⁵ European Commission, http://ec.europa.eu/internal_market/accounting/index_en.htm (2011-02-15)

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1. Introduction

There are several ways a company can gain access to physical assets. The most obvious is for the company to buy the asset, using either its own or borrowed money. Another alternative is to lease the asset. The differences between buying and leasing an asset are many; perhaps the most obvious is that the purchase transfers the legal title of the asset from the seller to the buyer, while the lessee merely has a right-to-use the asset for a specified time. In terms of accounting, the implications of buying an asset are rather straightforward: an asset that the company has bought will be recognized on the balance sheet. Over time the asset is likely to diminish in value, which is taken into account by decreasing the book value of the asset and expensing the depreciation in the income statement.

However, when it comes to leased assets, the accounting practices, as laid out by the International Accounting Standards Board (IASB), are more complex. Depending on whether the lease is categorized as an operating or a finance lease, there are two different sets of accounting rules. In an operating lease, the lessee merely reports the lease payments for a certain year as an expense in the income statement. A finance lease resembles a debt-financed purchase since the leased asset has an impact on the income statement *and* the balance sheet. The asset side of the balance sheet increases, as does the liability side (due to the outstanding lease payments to be made during the course of the lease contract). The depreciation of the leased asset is recognized as an expense in the income statement, and an interest expense is stated in the same report in relation to the mentioned liability.

This division in the accounting of leased assets may soon be a thing of the past. IASB has proposed changes to IFRS that if enacted would mean that all leasing arrangements would adhere to a single set of rules. Preparers of financial reports would no longer be allowed to keep leased assets off-balance sheet and a liability would have to be reported as a consequence of the lease. IASB's proposed changes could have profound impact on companies that today categorize part of their leases as operating.

In the Swedish magazine "Balans", issued by the Swedish institute for authorized public accountants, Jan Marton states that the new standard increases comparability at the expense of simplicity.³ But how will companies' financial key ratios actually be affected by the

³ J Marton, "Leasingavtal och ny föreställningsram", *Balans*, no. 1, 2011, pp. 25-26.

proposed changes? In this paper we want to examine just what type of financial effects one can expect of the new standard for lease accounting.

2. Purpose

All companies listed on the Nasdaq OMX Nordic exchange must follow the IFRS when reporting their financial statements. Therefore, these companies will be affected by the suggested changes in lease accounting. In this thesis we aim to determine a suitable framework to adjust public companies' financial statements to reflect the suggested changes in lease accounting. We then plan to investigate how the largest Swedish listed companies will be affected by the change in accounting standards. The two main questions we wish to answer are as follows:

1. *Is it possible to determine a suitable method that can adequately adjust public financial statements to reflect the changes in lease accounting?*
2. *Will the companies in the OMX Stockholm Large Cap index be significantly affected by the proposed changes, with regards to the following financial key ratios: EBIT margin, return on total assets (R_T) and debt-to-equity ratio (D/E-ratio)? If there is a change in key ratios, will the companies' intergroup performance change?*

We will investigate our two main questions sequentially: Assuming it is possible, we begin by determining a method to adjust public financial statements for the new leasing standard and, secondly, apply this method to the statements of the companies in the OMX Stockholm Large Cap index.

3. Scope

In this thesis, certain limitations of the scope are made with regards to:

- **Lessee effects:** The new proposal affects both lessees and lessors. In this thesis, only the lessee effects are estimated. Most companies are lessees to a much greater extent than they are lessors. Therefore only effects resulting from the companies' role as lessees will be investigated.
- **Key ratios:** The key ratios that will be investigated are the EBIT margin, R_T and D/E-ratio. Possible effects on other key ratios will not be estimated.
- **Sample:** The sample consists of the companies included in the OMX Stockholm Large Cap index as at 1 May 2011. Companies active in the financial sector have been omitted due to their low use of leasing.
- **Time frame:** This thesis will only investigate the effects on the financial statements from the financial year ending 2009. The estimations will be made according to IASB's Exposure Draft released in August 2010; later changes in the proposal are not taken into account.

4. Background

IASB is the independent standard-setting body of the IFRS Foundation and is responsible for the development and publication of the international financial reporting standards (IFRS).⁴ As of 1 January 2005, companies listed on the EU's stock markets are obliged to apply the IFRS-framework to their consolidated financial statements.⁵ This measure was taken by the EU as a step to achieve “*greater accounting harmonisation within the EU at the same time as allowing European companies that wished to access international capital markets to comply with emerging international best practice*”⁶. Companies whose shares are listed, or want their shares listed, on the Nasdaq OMX Nordic are thus obliged to comply with the rules set forth by IASB. The relevant rule in terms of accounting for leasing is IAS 17.

4.1 IAS 17⁷

This standard classifies a lease as either a *finance lease* or an *operating lease*. The classification is based on the extent to which the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. In a finance lease substantially all the risks and rewards incidental to ownership are transferred from the lessor to the lessee. Otherwise the lease is classified as an operating lease.

4.1.1 Finance leases

Lessees should recognize finance leases as assets and liabilities in their balance sheets at the commencement of the lease term. The amount should be the lower of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. To calculate the present value, the interest rate implicit in the lease is used as the discount rate. If the implicit interest rate is impractical to determine, the lessee's incremental borrowing rate should be used. Initial direct costs should also be added to the amount recognized as an asset.

Minimum lease payments should be apportioned between the finance charge, i.e. interest on the outstanding liability, and the reduction of the outstanding liability. The finance charge should be allocated to each period during the lease term in such a way that a constant periodic

⁴ The IFRS Foundation, <http://www.ifrs.org/The+organisation/IASCF+and+IASB.htm> (2011-02-15). In connection with the IASB changing name from IASC to its current in April 2001, the standards changed name from IAS to IFRS.

⁵ European Commission, http://ec.europa.eu/internal_market/accounting/index_en.htm (2011-02-15)

⁶ http://ec.europa.eu/dgs/internal_market/docs/evaluation/2007-eu_implementation_of_ifrs.pdf (2011-02-18)

⁷ This section is simply a summary of IAS 17: The IFRS Foundation <http://eifrs.iasb.org/eifrs/bnstandards/en/ias17.pdf> (2011-02-22 - accessing the HTTP Link requires online registration with the Foundation).

rate of interest is produced on the remaining balance of the liability. Contingent rents should be charged as expenses in the periods in which they are incurred.

There are two types of expenses attributed to a finance lease: depreciation expense for depreciable assets and finance expense. The depreciation policy for depreciable leased assets should be consistent with that for depreciable assets that are owned. The asset should be fully depreciated over the shorter of the lease term and its useful life if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease.

4.1.2 Operating leases

Lease payments under an operating lease should be recognized as an expense in the income statement. Unless another systematic basis is more representative of the time pattern, the expense should be recognized on a straight-line basis over the term of the lease.

4.1.3 Disclosures regarding operating leases

According to IAS 17, companies must disclose information regarding operating leases in the following way:

- a. the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:
 - i. not later than one year;
 - ii. later than one year and not later than five years;
 - iii. later than five years.
- b. the total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period.
- c. lease and sublease payments recognized as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments.
- d. a general description of the lessee's significant leasing arrangements including, but not limited to, the following:
 - i. the basis on which contingent rent payable is determined;
 - ii. the existence and terms of renewal or purchase options and escalation clauses;
 - iii. and restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

4.2 The new standard

In July 2006, the project to develop a new single approach to lease accounting was added to the IASB's agenda. It is part of the FASB (Financial Accounting Standards Board, the IASB's American counterpart) and the IASB's work program towards accounting convergence. The aim of the project is to ensure that all assets and liabilities arising under lease contracts are recognized on the balance sheet. The process towards a new leasing standard consists of the IASB and the FASB (the Boards) jointly issuing draft papers open for comment. The Boards subsequently revise the draft based on the merit of the suggestions in the comments and then issue a new draft. "Exposure Draft Leases" (ED) is the most recent *official*⁸ publication from the Boards as at 15 April 2011. The ED was published in August 2010 and was open for comment until 15 December 2010. The new standard this thesis refers to, is the one laid out in the ED.

With the new proposed standard, IASB wants to create a single way to report leasing arrangements. IASB states that "*operating leases give rise to assets and liabilities that many investors believe should be accounted for in the financial statements of lessees*". Under IAS 17, operating leases are not recorded on the lessee's balance sheet, this is a problem since the impact of operating leases can be understated. The current standard therefore results in that "*investors have to estimate the effect of operating leases on financial leverage and earnings*"⁹.

In essence, the new standard proposes that the lessee should recognize the lease agreement on the balance sheet as well as on the income statement. When a lease agreement is signed, the lessee gains the "right-of-use" of an asset. This "right-of-use" of the underlying asset should be recorded on the balance sheet. At the same time the lessee has a liability to pay future lease payments, consequently these should be recorded on the balance sheet as well. In order to calculate the appropriate present value of the leasing arrangements, a number of factors must be considered.

⁸ Following the comments on the Exposure Draft Leases, the Boards have redeliberated and an IASB Staff Paper summarizing their tentative decisions has been published. It is not an official pronouncement of the IASB, but should be understood as an indication of how the proposals in the Exposure Draft Leases would change as a result of the IASB's and the FASB's tentative decisions made up to and including their meeting on 21-22 March 2011. Since the Staff Paper is not an official pronouncement of the IASB, we have chosen to disregard it in our thesis.

⁹ The IFRS Foundation, <http://www.ifrs.org/NR/rdonlyres/FBE30248-225B-48AF-AAE5-96494D83A978/0/LeasesSnapShot0810.pdf> (2011-02-23)

4.2.1 Discount rate

Determining the discount rate is described in the ED in the following way:

The discount rate used to determine the present value of lease payments for lessees is the lessee's incremental borrowing rate or the rate the lessor charges the lessee if that rate can be reliably determined. The lessee's incremental borrowing rate may be the same as the rate the lessor charges the lessee.

The incremental borrowing rate can be defined as the rate the lessee would have to pay, at the time of entering the lease agreement, if the asset was debt financed instead of leased.

4.2.2 Lease term

The length of the agreement is central since companies need to discount lease payments over the contract period. However, the lease term is not always trivial to determine. For instance, many lease agreements have extension or termination options that need to be accounted for. IASB suggests that the lease term should be determined as "the longest possible lease term that is more likely than not to occur".

4.2.3 Contingent rentals & residual value guarantees

If the lessee has contingent rentals, the lessee must estimate the contingent rentals payable. If the contingent rental is dependent on a rate or index, the lessee should use readily available estimates if they exist. If residual value guarantees exist, the lessee should also estimate the amounts payable to the lessor under these guarantees.

4.2.4 Option penalties

If the lessee incurs a penalty by exercising lease options, expected penalties must also be included in the present value of the lease agreement.

4.2.5 Exceptions from the proposal

Leases of intangible assets (e.g. software, patents and licences) and leases to explore for or use minerals, oil, natural gas and similar non-regenerate resources are excluded from the proposal.

4.3 Key ratios

The following section defines the key ratios used in this thesis.

4.3.1 EBIT margin

The EBIT margin is a profitability measure that is useful when comparing multiple companies, especially within an industry, and also helps evaluate how a company has grown

over time. The EBIT margin is calculated by dividing earnings before interest and taxes (EBIT) by net sales.

$$\text{EBIT margin} = \frac{\text{EBIT}}{\text{Net sales}}$$

4.3.2 Return on total assets

Return on total assets (R_T) measures how effectively a company is using its resources to generate earnings before contractual obligations must be paid. Return on total assets is calculated by dividing earnings before interest expenses (equal to the sum of EBIT and interest income) by average total assets.

$$R_T = \frac{\text{Earnings before interest expense}}{\text{Average Tot. Assets}} = \frac{\text{EBIT} + \text{interest income}}{[0,5(\text{Tot. Assets}_{OB} + \text{Tot. Assets}_{CB})]}$$

4.3.3 D/E-ratio

The debt-to-equity ratio, commonly called the D/E-ratio, illustrates the company's interest-bearing debt in relation to its equity.

$$D/E - \text{ratio} = \frac{\text{interest} - \text{bearing debt}}{\text{Equity}}$$

Debt is defined as interest bearing liabilities, including pension provision but excluding derivatives. Equity includes minority interests.

4.4 Previous research

4.4.1 “The potential impact of the ‘right-of-use model’ for lease accounting on a sample of UK companies” by the Finance and Leasing Association

The Finance and Leasing Association (FLA) commissioned the University of Winchester Business School to analyze the size of operating leasing by companies of various sizes in the UK and to estimate the changes to companies' accounts arising from the proposed new accounting standard.¹⁰ The sample consists of 97 of the FTSE100, 99 of the FTSE350 and 98 of the FTSE All Share listed companies. Data was extracted from the annual reports for the financial year ending 2009. Obtained data included information relating to operating lease commitments (OLC) where there were any. Where exact data was not provided, available

10 “The potential impact of the “right-of-use model” for lease accounting on a sample of UK companies”, Lease Accounting Research for the Finance and Leasing Association (FLA), The University of Winchester, Winchester Business School: <http://www.fla.org.uk/search?keywords=winchester> (2011-05-08). FLA is a UK trade association for the consumer credit, motor finance and asset finance sectors.

information for companies operating in the same industrial sector was used to make reasonable inferences.

Of the 294 companies in the sample, 225 companies were ultimately used in the analysis. In instances with insufficient information, an inference methodology was deployed using all available information. Sector averages were calculated and the missing data was inferred. The discarded 69 companies were left out due to absence of relevant information for direct use or for inference use.

The subsequent analysis indicates that the effect of the proposed new standard would be to increase company total assets and total liabilities by an average of approximately £463 million per company in the sample (215 companies; 10 outliers are excluded). This amount is simply the sum of nominal operating lease commitments and total assets and total liabilities respectively. The authors have not attempted to capitalize the OLCs, i.e. calculated a present value for OLCs using a discount rate. Shortcomings in simulating the effect of the proposal are acknowledged by the authors. In their conclusion they write “that the actual impact [of the proposed change in lease accounting] will depend on variables that it has not been possible to estimate from the available data sources such as the NPV effect on the OLC which will make it lower and the impact of options to extend leases which may make it higher.”¹¹ Notwithstanding these uncertainties, the authors believe that the proposed new accounting standard will have a behavioural impact on the leasing industry in Britain, the possible full effects is for other commentators from the industry to estimate.

4.4.2 “Capitalizing lease payments” by Grossman & Grossman

In the article “Capitalizing lease payments”, Grossman and Grossman investigate the financial effects of a changed standard for lease accounting. The authors choose 91 companies on the Fortune 500 and investigated how their statements would be affected if operating lease payments were capitalized.

First, the authors investigate increases in current liabilities when undiscounted lease payments are added. Using undiscounted payments, 60 of the companies will increase their current liabilities by less than 5 percentage points, 21 of the companies will see an increase by more than 10 percentage points. However, the authors recognize that lease payments need to be discounted in order to accurately see the financial effects of IASB’s proposal.

¹¹ FLA, p. 13.

When studying the effects on total liabilities, Grossman and Grossman's method for estimating the present value of operational lease payments starts with first studying finance leases. By calculating the ratio between the present value of capital lease payments and the undiscounted value of the capital lease payments, the authors find a proxy for how much the value of lease payments decrease when discounted. Grossman and Grossman use the median ratio of their sample, 63 percent, to discount the value of the operating leases. The resulting number is the estimated present value of the operating lease payments. For 50 of the companies, the increase in total liabilities was less than five percentage points. For 29 of the companies, the increase was larger than 10 percentage points.

Grossman and Grossman use a similar approach when investigating the effects on current liabilities. In this case they use only the value, and present value, of finance leases payable within one year when determining the discounting ratio. The median in this case was 58 percentage points. The effect was less than 5 percentage points for 70 of the companies but 10 percentage points or higher for 13 companies.

Although the increases in liabilities and current liabilities in general are small, the authors argue that the effects can be large for the company anyway. For instance, if a company with current ratio of 1.0 increases its current liabilities with five percent, the current ratio would drop to 0.95. Grossman and Grossman conclude that capitalizing operating leases can have substantial effects on some companies' financial indicators. However, since the present value of operating leases is not reported presently, it is hard to determine to what extent companies will be affected.

4.4.3 "Proposed lease accounting. Research of impact on companies" by PwC Research completed by PricewaterhouseCoopers (PwC) and the Rotterdam School of Management has quantified the minimal impact of the proposal on financial ratios reported by companies worldwide.¹² The research is based on the 2008 financial statements of over 3,000 listed companies in 54 countries worldwide. Out of the 3,000 companies, 2,795 remained after exclusion of companies with negative equity, companies with a market cap of less than USD 50 million and exclusion of outliers for the most important variables. On the basis of operating lease disclosures in the financial statements and certain (unspecified) assumptions, an allocation of lease payments was performed to individual years. These annual lease payments were subsequently discounted. The discount rate applied was a

¹² *Proposed lease accounting. Research of impact on companies.* PricewaterhouseCoopers 2009.

company's incremental borrowing rate taking into account a company's credit rating. If a credit rating was not available, the discount rate used was the industry average. The increase in interest-bearing debt was determined using the calculated lease liabilities for off balance operating leases and their relative impact on interest-bearing debt. Leverage was defined as interest-bearing debt divided by equity. The calculated increase in lease liabilities was used to determine the increase in leverage presented in percentage points. The increase in EBITDA was determined by adding back the disclosed rent expenses. In instances where these were not disclosed separately, the annual rent expense is approximated with reference to the disclosed first year operating lease commitments.

The authors expect the reported interest-bearing debt of these companies will increase by an average of 58 percent, a cautious estimate as only the impact of capitalizing disclosed operating leases is quantified in the research. Although the average impact on debt balances is influenced by a number of companies that will see a large relative increase in debt, 24 percent of the companies will see an increase in their debt balances of over 25 percent.

The research also shows that the impact on individual companies can be significantly different depending on the country of residence. Swedish companies are expected to see an average increase in interest bearing debt of 68 percent. A third of the companies in Sweden are expected to see an average debt balance increase of 25 percent or more. Said companies are also expected to see an average increase in leverage (interest bearing debt / equity) of 17 percentage points.

4.4.4 Lease adjustments method by White, Sondhi and Fried

White et al. discuss the effect of the different accounting treatment of finance and operating leases.¹³ In the authors' view, a non-cancellable lease in effect constitutes debt and the right-to-use an asset, independent of whether reported as a finance or operating lease. This information is on-balance-sheet if the lease is reported as a finance lease, but off-balance-sheet if it is instead reported as an operating lease. Despite the same economic consequences, finance and operating leases are treated differently in the financial statements. The authors thus propose that analysts make appropriate adjustments to the financial statements of firms who report operating leases.

The view of White et al. is closely related to that of the IASB (and FASB); the latter actually stating adjustments already being undertaken by analysts as one of the reasons to end the

¹³ White et al., p. 371.

regime of differential treatment of finance and operating leases.¹⁴ We thus find the comments of White et al. relevant with regards to the adjustments we ourselves want to do in this paper. Below we present the methods White et al. provide for making adjustments.¹⁵

Estimating the present value of the operating leases¹⁶

White et al. suggest that investors and analysts use the lease disclosures to adjust the balance sheet appropriately. The present value of the operating leases can be estimated by discounting the future minimum lease payments (MLPs). To be able to make such an estimate, assumptions need to be made about the MLPs after the first five years and the discount rate.

Assumed pattern of MLPs

Investors and analyst trying to estimate the present value of MLPs face several obstacles. The first is that the lease term and the MLPs for individual years is not specified in most cases. IAS 17 (only) requires firms to disclose MLPs due within one year; MLPs due in more than one but less than five years; MLPs due after five years.¹⁷ The number of payments implicit in the latter lump sum is needed to compute the present value. White et al. propose that either the rate of decline suggested by the cash outflows for the next years or a constant amount over the remaining term is used to derive the present value of the operating lease payments.

Constant rate

The average lease term can be estimated by computing the number of payments included in the “later years” (i.e. aggregated MLPs due after five years). This is done by assuming constant annual payments from the fifth year and onwards. A prerequisite for this method is that information on the fifth-year MLP is available. If it is, one simply divides the lump sum of the “later years” with the MLP of the fifth year and then adds the initial five years of the lease term to this number to arrive at the estimated lease term of the operating lease arrangement.

¹⁴ ED/2010/9, p. 5.

¹⁵ Concerning terminology, White et al use the term “capital lease”, whereas we use the synonymous term “finance lease” for reasons of consistency.

¹⁶ The paragraphs below until section 4.5 are based on White et al. p. 371-375.

¹⁷ Although not required, many companies choose to disclose MLPs to be made over *each* of the next five years. This way of reporting MLPs is a requirement under SFAS 13, the relevant lease accounting standard of the FASB.

Declining rate

Instead of assuming a constant rate of payment, one could assume a declining rate. If payments decline during the first reported five years, the same rate of decline is assumed for future payments.

Discount rate

According to White et al. the discount rate should reflect the risk class of the leased asset as well as the company being analyzed. The authors believe that the interest rate implicit in the reported finance leases is a good approximation of that rate. This suggestion comes with a disclaimer. *“Because the implicit rate is an average rate based on terms at inception, it may be significantly different from the reported or marginal long-term borrowing rate the company faces in the capital markets. The analyst may use a long-term borrowing rate estimated from the debt footnote or based on current market conditions”*.¹⁸

White et al. introduce two approaches that can be used to estimate the average discount rate used to capitalize a firm’s operating leases. The first approach is omitted here since it has infrequent applicability.¹⁹ The second approach estimates the interest rate by solving for the implicit interest rate that equates the MLPs and the sum of their present value of the finance leases (internal rate of return). This approach requires an assumption about the pattern of the MLPs after the first five years; White et al. suggest a *Constant rate* or *Declining rate* assumption (see above). With the present value of the finance lease given in the notes to the financial statement, and with an estimate of the pattern of the MLPs, it is possible to estimate the internal rate of return.

Finding the present value of the operating leases

To calculate the present value of the operating leases, a discount rate and the pattern of MLPs is needed. The pattern of MLPs can be estimated assuming either Constant rate or Declining rate, and to discount the MLPs White et al. suggest using the estimated internal rate of return.

¹⁸ White et al., p. 373 note 11.

¹⁹ This approach requires information about the principal portion of the coming year’s MLP (a MLP consists of a interest and a principal portion). Such information is not required under IAS 17 and is rarely stated voluntarily.

5. Adjusting the financial statements

5.1 Method

The methodology for determining an appropriate adjustment method will have two distinctive parts. First, existing research will be analyzed to investigate if the adjustment methods used are applicable given the purpose and constraints of our study (See section 4.4). Second, interviews with professionals will be used to gain knowledge in how these types of adjustments are made in practice. The resulting method will then hopefully reflect both the theoretical and practical perspective of adjusting for operating leases.

5.2 The word on the street – what professionals do

This section is a summary of the information gathered from interviews conducted with financial analysts and other stakeholders in the presumptive change to lease accounting. The interviews have been carried out to get a practitioner's point of view. The interviewees include a representative from Finansbolagens förening (*The Association of Swedish Finance Houses*) and analysts at numerous financial institutions.²⁰

According to Analyst 1 at one of Sweden's largest banks, adjustments for operating leases are not routinely done when analyzing companies. This policy regarding operating leases was reiterated by Analyst 2 at the same bank; Analyst 3 at another large financial institution; Analyst 4 at a Swedish stockbroker and the Head of research at the same broker. Analyst 2 added that the proposal definitely had negative effects for some sectors, but that the extent is dependent on the phase of the business cycle: *"In the most gloom stage of the financial crisis, there was an interest to know exactly what outstanding commitments the companies had"*. Analyst 4 believed that adjustments were more relevant when analyzing companies in sectors with greater D/E-ratios than in the construction- and real estate space.

Analyst 1 believed that the proposal would have greatest impact on retail companies like *Hennes & Mauritz*, *RnB* and *Clas Ohlson*. Analyst 3, on the other hand, said that from a stock-analysis perspective, the proposal was "not a big deal". Both analysts cover the consumer-retail sector. These two statements could be interpreted as either being contradictory, or that the possible big impact for the retail sector is uninteresting in terms of

²⁰ The interviewed analysts have been anonymized.

stock evaluation. Analyst 1 concluded the interview by stating that the proposal to change lease accounting was no longer a “hot issue” as it had been “watered down” as of late.²¹

Asked whether he knew of an average or a typical interest rate charged by lessors, Per Holmgren, at The Association of Swedish Finance Houses, answered that the rate varied not only from contract to contract; it also varied depending on lease object, over time and from lessor to lessor. To externally estimate the lessor rate is cumbersome to say the least. Regarding the discount rate for capitalizing operating leases, Mr. Holmgren recommended us to instead try to estimate the lessee’s incremental borrowing rate.

None of the interviewed analysts adjusted for operational leases. Therefore, a suitable method for adjusting must be developed with existing research as a starting point.

5.3 Developing the adjustment method

The aim of the adjustment method is to simulate the effects of IASB’s proposal. Inherently the result of our simulation will differ from the effects resulting from a correct implementation of the proposal. We will only be able to use the information companies complying with IAS 17 are required to disclose, which is insufficient for a faultless assessment of the proposal effects.²² The key ratios that are going to be investigated in this thesis require both the balance sheet and the income statement to be adjusted. In short, capitalized operating leases yields a liability and an asset of equal size on the balance sheet. This should affect the D/E-ratio and the return on total assets. In the income statement, the previous leasing fee will be split into two parts – amortization and interest expense. This split should affect the returns on total assets as well as the EBIT margins of lessees. The first step in capitalizing the lease payments is to determine the lease payment schedule.

5.3.1 Determining lease term and payment schedule

As previously stated, companies complying with IAS 17 disclose the value of operating lease payments within one year, between one and five years and payments after five years. In the FLA study, operating lease payments are not capitalized and thus determining the payment schedule was a non-issue for the authors. The PwC report does not specify the assumptions behind estimated payment schedules. Although Grossman & Grossman assume that the discount ratio for finance leases and operational leases is the same, this method is not

²¹ This last statement refers to the IASB Staff Paper, a *non-official pronouncement*. See note 5 for more information.

²² E.g. information on options to prolong operating leasing arrangements is routinely omitted in the financial statements of companies complying with current IAS/IFRS.

preferable. There is no guarantee that the payment pattern for future finance leases is the same as for operating leases, therefore to use the same discount ratio for these two present value calculations involves a gross assumption.

A better starting point is to try and estimate the payment schedule for operating leases, using the information companies are required to disclose, and then discount the estimated cash flows to find the present value. However, due to the limited information provided, the methods that White et al. suggests cannot be used without modification. Since the payments due between one and five years are given as a lump sum, it is not possible to estimate a declining rate for the lease payments. Therefore, to assume a straight-line payment schedule is the best method available.

Recognizing the strength in simplicity, the lease payments for year one to five is estimated by taking the average of the total payments during the period. For the following years, each year's lease payments are assumed to be the same amount until the total sum is accounted for. This will render an assumed payment layout that is a straight line from year one and forward, in bullet form:

- **Payments within one year**
 - As stated in the companies' financial reports
- **Payments between year one and year five**
 - Payment per year is estimated as the average of the payments during the period
- **Payments after year five**
 - Payment per year is the same as between year one to five, until entire payment value is allocated

In some cases, companies disclose more information than required; for instance, a more detailed payment scheme. For these companies, the estimation of cash flows will be done in the same way but the additional information will be taken into account. For instance, if a company reports individual payments for each of the first five years, these reported figures will be used instead of averages. Payments after the fifth year are assumed to follow a straight line until the whole commitment is allocated. Cash flows are assumed to occur at the end of each year.

5.3.2 Determining the discount rate

The discount rate used should, according to the proposal, be the actual interest paid by the lessee to the lessor for the right-to-use the leased asset, or the lessee's incremental borrowing rate. Since such information is not readily available for users of financial reports, the discounting rate must be estimated.

The method proposed by White et al. for deriving the interest rate on operating leases is suitable in this case. The interest rate for operating leases is estimated by deriving the interest rate used to discount finance leases. The information that has to be disclosed regarding finance leases is similar to that regarding the operating leases. One important difference is that finance leases are capitalized and therefore the sum of their present value is revealed. This makes it possible to find the implied interest rate that equates the MLPs and the sum of their present value.²³ Since finance leases are reported in a similar fashion as operating leases, the same assumptions regarding the payment layout will be made. In other words, payments due after one year will be assumed to be in a straight line until no residual value is left.

Once the implied interest rate for each company in our sample is inferred, we will use the median implied interest rate to discount operating lease payments. There are two main reasons for using the median implied interest rate. First, we want to mitigate the risk of possible extreme interest rates arising due to, for instance, too few significant digits in the companies' reports. Secondly, some companies do not have any finance leases, and therefore their discounting rate needs to be estimated in another way.

5.3.3 Income statement items

In the income statement, the previous leasing costs must be removed and replaced with amortization and interest expense. The leasing agreement should be amortized in a straight line over the lease term, the interest expense is equal to the present value of the operating lease multiplied by the implied interest rate. There is no guarantee that the actual lease payment a certain year matches the sum of the amortization and interest expense. However big or small the sum of the amortization and interest expense is, the cash outflow is still the operating lease payment for that year. The difference between the mentioned sum and the operating lease payment is reconciled in the balance sheet (see next section).

²³ Using for instance the Goal Seek function in Microsoft Excel.

5.3.4 Balance sheet items

As a result of operating leases being capitalized, the sum of the present value of the MLPs is reported as an asset and a liability on the balance sheet. In order to capture both income statement and balance sheet effects, the present value of the lease payments (including the current years lease expense) in the beginning of the fiscal year is calculated. On the asset side, the capitalized operating leases are subject to amortization, equal in amount to expensed amortization on the income statement. Note that the amount paid for an operating lease arrangement a certain year does not have to match the sum of amortization and interest expense resulting from the capitalized operating leases.

Adjusted equity is estimated in the following way. To begin with, the year's operating lease expense is added to equity. After that, the sum of the amortization and interest expense related to the capitalized operating lease is subtracted from equity. This operation is done to take into account the adjustments to the income statement, namely the replacement of the year's operating lease payment with an amortization and an interest expense.

Next the closing-balance liability needs to be addressed. The capitalized operating lease arrangement is an interest-bearing debt. Information on interest-bearing debt can be obtained in the sample companies' financial statements. In some cases this information is readily available with the company in question separating interest-bearing debt from non-interest bearing. In other cases some investigation needs to be applied. After reviewing the notes to the consolidated financial statements, the interest-bearing liabilities have been identified according to the definition in section 4.3.3.²⁴ During the year, a principal payment is assumed to have been paid that reduces the outstanding liability. The size of the payment is equal to the difference between the performed operating lease payment and the interest expense relating to the capitalized operating leases.

5.3.5 Calculating the change in EBIT margin

The change in EBIT margin is the difference between adjusted EBIT margin and unadjusted EBIT margin.

$$\Delta \text{EBIT margin} = \text{Adjusted EBIT margin} - \text{EBIT margin}$$

$$\text{EBIT margin} = \frac{\text{EBIT}}{\text{Net sales}}$$

²⁴ For company-specific information on what is included in the interest-bearing debt, see Appendix.

$$\text{Adjusted EBIT margin} = \frac{\text{Adjusted EBIT}}{\text{Net sales}}$$

$$\text{Adjusted EBIT} = \text{EBIT} + \text{operating lease expense} + \text{Amortization}^{25}$$

5.3.6 Calculating the change in return on assets

The change in return is the difference between the adjusted return, *Adjusted R_T*, and the unadjusted return, *R_T*. EBIT needs to be adjusted to take into account the income-statement effects of capitalizing the future operating lease commitments. What used to be the year's operating lease expense is now apportioned between amortization of the capitalized lease and an interest on the outstanding operating lease liability. By adding the operating lease expense to EBIT and then subtracting the amortization expense, EBIT is adjusted accordingly.

$$\Delta R_T = \text{Adjusted } R_T - R_T$$

$$R_T = \frac{\text{Earnings before interest expense}}{\text{Average Tot. Assets}} = \frac{\text{EBIT} + \text{interest income}}{[0,5(\text{Tot. Assets}_{OB} + \text{Tot. Assets}_{CB})]}$$

$$\text{Adjusted } R_T = \frac{\text{Adjusted EBIT} + \text{interest income}}{[0,5(\text{Adjusted Tot. Assets}_{OB} + \text{Adjusted Tot. Assets}_{CB})]}$$

$$\text{Adjusted EBIT} = \text{EBIT} + \text{operating lease expense} - \text{Amortization}^{26}$$

$$\text{Adjusted Tot. Assets}_{OB} = \text{Tot. Assets}_{OB} + \text{Sum of PV}(\text{op. leases})$$

$$\text{Adjusted Tot. Assets}_{CB} = \text{Tot. Assets}_{CB} + \text{Sum of PV}(\text{op. leases}) - \text{Amortization}^{27}$$

5.3.7 Calculating the change in D/E-ratio

Both debt and equity are closing-balance values. Change in D/E-ratio is simply the change in debt divided by the sum of equity and the change in equity:

²⁵ Amortization with regards to capitalized operating leases. Straight-line amortization over the lease term.

²⁶ See note 25.

²⁷ See note 25.

$$\Delta D/E = \frac{\Delta D}{\text{Adjusted Equity}} = \frac{PV(\text{operating leases}) - (\text{operating lease exp.} - \text{interest exp.})}{E + \Delta E}$$

The change in debt deserves some further explanation. First of all we are only concerned about the impact to debt caused by capitalizing operational leases (at the beginning of the fiscal year). The capitalization increases outstanding interest-bearing debt. At year end a principal payment reduces this debt. The size of the principal is determined by the operating-lease expense for that year. This expense is apportioned between an interest on the outstanding debt and the reduction of the outstanding debt. The principal, which reduces the outstanding debt, is simply the residual of the operating lease expense after deducting the interest expense. The interest rate used to calculate the interest expense is the median implied interest rate.

6. Applying the adjustment method

6.1 Operational definition

As stated in 2. Purpose, the aim of the thesis is to investigate if the proposed changes in lease accounting will have a significant effect on companies financial statements. To answer this question we focus on changes in a set of key ratios. These key ratios are the EBIT margin, R_T and D/E-ratio. The definition of these key ratios can be found in section 4.3.

Furthermore, we would like to investigate whether the relative performance of the companies change. In other words, if intergroup ranking changes if the new standard is implemented.

6.2 Hypothesis

The proposal's immediate effect, should it be implemented, is an equal increase in companies' total assets and liabilities. Furthermore EBIT is affected as a consequence of the operating lease expense being apportioned between an interest charge and an amortization expense. Given these predictable effects, our hypothesis is the following for the three key ratios we focus on.

We know that the EBIT margin will increase. Net sales is unaffected by our adjustments, and EBIT increases as a result of operating-lease expenses (which is above the EBIT line) being split into one part, amortization, that is above the EBIT line, and one part, interest expense, that is below the line. We would, however, like to know how big this increase is likely to be. We will therefore construct a confidence interval to measure the likely increase in the EBIT margin:

1. Search for: 95% confidence interval for average change in EBIT margin, $\mu_{\Delta EBIT \text{ margin}}$
2. No further model assumptions are needed

We expect R_T to change. Total assets will increase but so will EBIT, possibly offsetting any negative change in R_T due to an increased asset base. Because we are not sure whether the change in R_T will be positive or negative, our hypothesis is simply that it will change:

1. Search for: Test the hypothesis that the average R_T after adjustment, $\mu_{Adj. R_T}$, is equal to the average R_T before adjustment, μ_{R_T} , against the alternative that it is *not* equal to average R_T before adjustment.
2. No further model assumptions are needed
3. $H_0: \mu_{Adj. R_T} = \mu_{R_T}$ $H_1: \mu_{Adj. R_T} \neq \mu_{R_T}$ Significance level: 5% ($\alpha = 0,05$)

Following our adjustments we expect the D/E-ratio to increase. Although equity will change due to income-statement adjustments that affect net income, a possible positive change in equity is unlikely to surpass the increase in interest-bearing debt.

1. Search for: Test the hypothesis that the average D/E-ratio after adjustment, $\mu_{Adj.D/E}$, is equal to average D/E-ratio before adjustment, $\mu_{D/E}$, against the alternative that it is larger than average D/E-ratio before adjustment.
2. No further model assumptions are needed
3. $H_0: \mu_{D/E} \geq \mu_{Adj.D/E}$ $H_1: \mu_{D/E} < \mu_{Adj.D/E}$ Significance level: 5% ($\alpha = 0,05$)

The central limit theorem implies that if the sample size n is “large” then the distribution of the sample statistics is approximately normal. A sample size n of at least 30 will normally satisfy the “large”-size requirement.

In addition, we expect to see some companies being extremely affected by the adjustments we perform, whereas other companies will only be marginally affected. Nevertheless, our hypothesis is that we do not expect the companies’ intergroup performance (as measured by D/E-ratio, R_t and EBIT margin) to change. In other words we expect a strong correlation in terms of how companies perform, in relation to each other, before and after the adjustments. The basis for this inference is that we believe that, in general, companies are equally affected by the proposed change in leasing accounting.

6.3 Method

The aim of this thesis is to analyze the changes in a set of key ratios in response to adjustments to the financial statements of a sample of companies. The adjustment method described below will be applied using the software Microsoft Excel 2010. Obtained financial-statement information will be compiled in Excel and adjustments will be executed. The adjustments involve an estimate of the lease payment schedule of each company and the median implied interest rate with which to capitalize the minimum operating lease payments. The items total assets and interest-bearing debt can now be adjusted to incorporate the capitalized operating lease arrangement. The items EBIT, amortization, interest expense and equity are also adjusted according to the adjustment method. At this stage the change in key ratios can be computed.

Having produced the data for the changes in key ratios, the next step is to have them analyzed. We will use the software IBM SPSS Statistics 19 for this part. The first thing to do is to import the compiled company data from Excel.

With the data in place, the analysis in SPSS can take place. We begin with calculating the mean, the median and the quartiles for the change in implied interest rate, EBIT margin, R_T and D/E-ratio. The reason for beginning with these descriptive statistics is that we want to achieve an overview of the distribution of the occurrences.

Next we perform a Student's t-test, more specifically a paired difference test, to examine whether the differences in the key ratios are statistically significant. An average difference of zero would indicate that the adjustments had no impact on the key ratios, whereas an average value different from zero indicates that the adjustments did in fact have an impact on key ratios. The t-test requires the sample mean to follow a normal distribution. Our sample size exceeds 30 observations, which under the central limit theorem allows us to assume that the sample means are normally distributed. The t-test is appropriate to test our hypothesis concerning the change in R_T and the D/E-ratio respectively. Because we want to test whether an adjustment will decrease *or* increase R_T , in this instance we will perform a *two-tailed* paired t-test (meaning we test for both positive and negative changes). Regarding the change in the D/E-ratio we instead do a *one-tailed* test. In this case we believe that there will be an increase in the ratio and want to test whether or not it can be confirmed on statistical grounds.

When it comes to the change in EBIT margin, we are certain that such a change will occur. We are interested in measuring the likely size of the change. For this we employ a confidence interval. This interval estimate is intended to produce an observable interval that should contain the true value of a parameter (here change in EBIT margin) the proportion of the time set by the confidence level. We will use a confidence level of 95%.

In terms of intergroup performance, we do not believe the adjustments will have a significant impact. Spearman's rank correlation coefficient will be used to measure whether or not this hypothesis holds. The coefficient is a non-parametric measure of statistical dependence between two variables; in this case the two variables are each key ratio before and after adjustments. A correlation coefficient of 1, perfect correlation, can be interpreted as the companies having the same intergroup ranking in relation to the key ratios before and after adjustments have been made. A correlation coefficient of negative 1 can be interpreted as the adjustments having the effect of completely reversing the previous intergroup ranking.

Finally, a coefficient of zero would mean that there is no correlation between the ranking before and after the adjustments, i.e. the adjustments affect the companies' key ratios completely randomly.

We finish our analysis by depicting each key ratio in multiple box plots separated by industry sector. This way inferences can be made of how different sectors are affected by the proposed change in leasing accounting. There is however a danger of overstating the findings as the sample representation for each sector is unevenly spread.

7. Results

7.1 The implied interest rate

Out of the entire sample of 39 companies, the method for estimating the interest rate was applicable in 24 cases. The majority of the remaining companies did not have any finance leases and therefore an implied rate could not be calculated. In some cases, the information regarding finance leasing commitments was not sufficient to calculate the implied interest rate. These cases were also omitted.

Table 1. The implied interest rate for the companies in the sample.

Company	Implied interest rate	Company	Implied interest rate
ABB	11,5%	NCC	0,8%
Alfa Laval	2,2%	Oriflame	19,1%
ASSA ABLOY	-	Peab	1,5%
AstraZeneca	-	SAAB	-
Atlas Copco	5,5%	Sandvik	7,9%
Autoliv	3,6%	SCA	2,2%
Axfood	-	SCANIA	3,7%
Boliden	-	Seco Tools	-
Electrolux	25,0%	Securitas	-
Elekta	-	Skanska	5,7%
Ericsson	7,1%	SKF	1,9%
Getinge	0,7%	SSAB	17,1%
Hakon Invest	-	Stora Enso	3,4%
Hennes & Mauritz	-	Swedish Match	-
Hexagon	-	Tele2	2,1%
Holmen	-	TeliaSonera	3,8%
Husqvarna	12,1%	Tieto	2,0%
Meda	5,1%	Trelleborg	-
Millicom	-	Volvo	10,7%
Modern Times Group	3,4%		

The average implied interest rate of the sample is 6.6% while the median is 3.8%. The average is strongly affected by extreme values. As seen in the histogram below, six companies have an implied rate of above 10% while 13 companies have implied rates between 0.0 % and 5.0%.

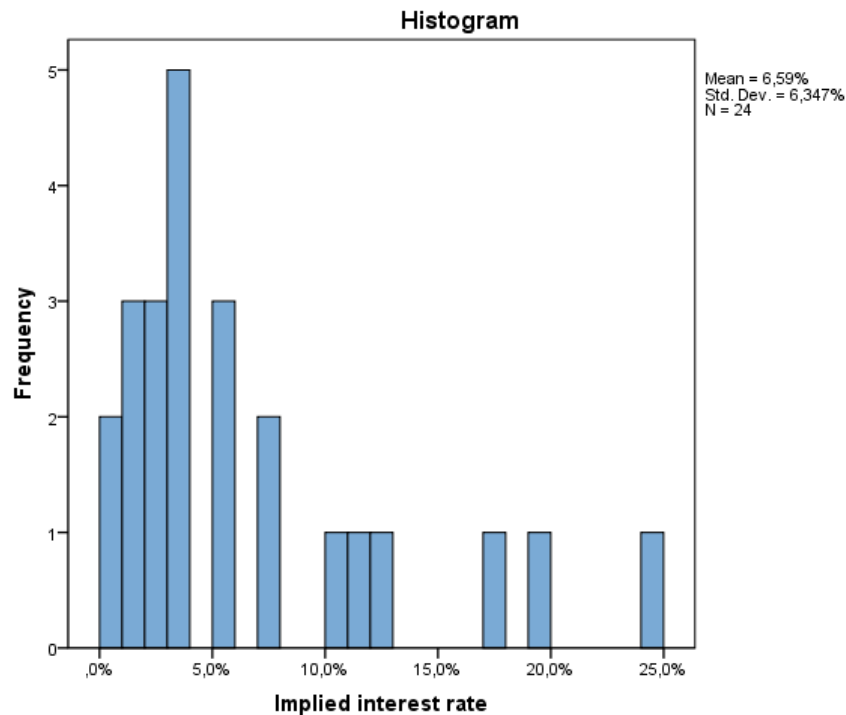


Figure 2. The distribution of the implied interest rate.

The box plot below illustrates the high concentration of occurrences between 0.0% and 5.0%. 50% of the companies have an implied rate between 2.1% and 8.6%. Electrolux has an implied rate of 25.0% and is classified as a mild outlier since it is located 1.5-3.0 interquartile ranges from the third quartile.

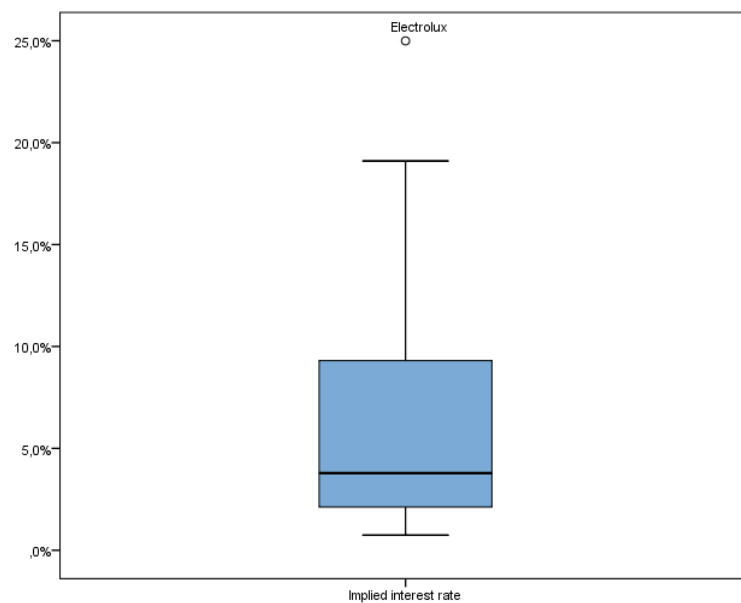


Figure 1. Box plot illustrating the dispersion of the implied interest rate.

7.2 Effects on the EBIT margin

The average change in EBIT margin is 0.88 percentage points while the median is 0.55. Most companies increase their EBIT margin with 0.0-1.0 percentage points. Only eight companies increase their margin with more than one percentage point. Figure 3 below illustrates the distribution of the occurrences.

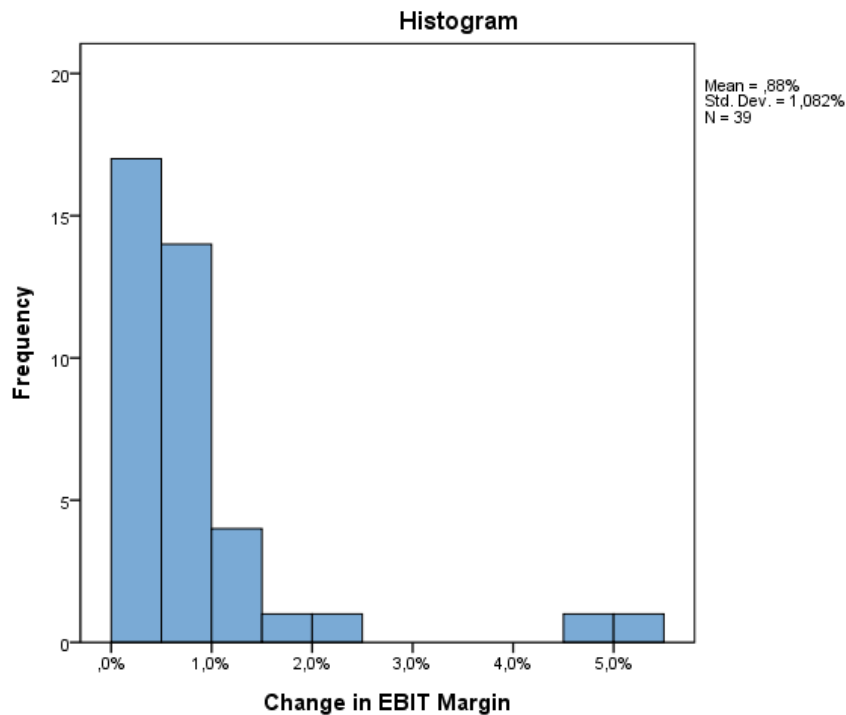


Figure 3. The distribution of the change in EBIT margin.

The first quartile is located at 0.36 and the third quartile is located at 0.90 percentage points, i.e. 50% of the occurrences are gathered in a 0.54 percentage points wide interval. As seen in the box plot below, there are two extreme outliers: Tele2 and Hennes & Mauritz.

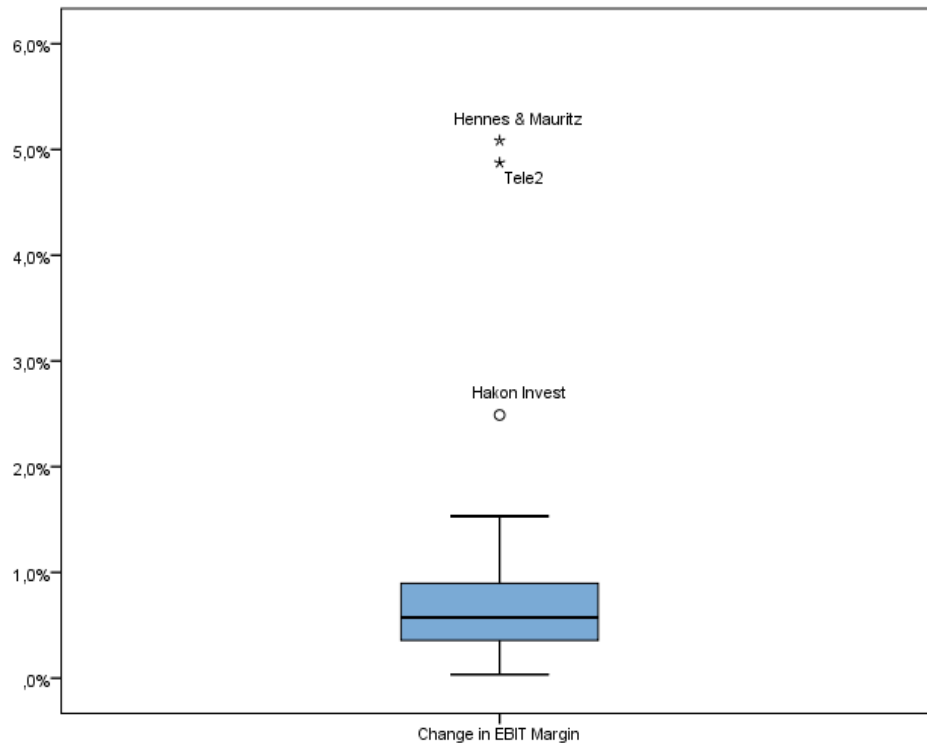


Figure 4. Box plot illustrating the concentration of occurrences for the change in EBIT margin.

7.2.1 Confidence interval

A 95% confidence interval of the change in percentage points is formed with its lower bound located at 0.52 and its upper bound at 1.23. There is a 95% chance that the average increase in EBIT margin is located within this interval.

7.2.2 Spearman's rank correlation

Table 2 shows the Spearman's rank correlation between the EBIT margin and the Adjusted EBIT margin. The correlation is significant between the two factors.

Table 2. The Spearman correlation between EBIT margin and Adjusted EBIT margin.

Correlations			Margin	Adj. Margin
Spearman's rho	Margin	Correlation Coefficient	1,000	,994**
		Sig. (2-tailed)	.	,000
		N	39	39
	Adj. Margin	Correlation Coefficient	,994**	1,000
		Sig. (2-tailed)	,000	.
		N	39	39

**. Correlation is significant at the 0.01 level (2-tailed).

7.2.3 EBIT margin by sector

When examining the change in EBIT margin divided by sector (see Figure 5), the Telecommunications sector has the largest interval of occurrences. All sectors except Consumer Staples and Telecommunications have a median change below one percentage point.

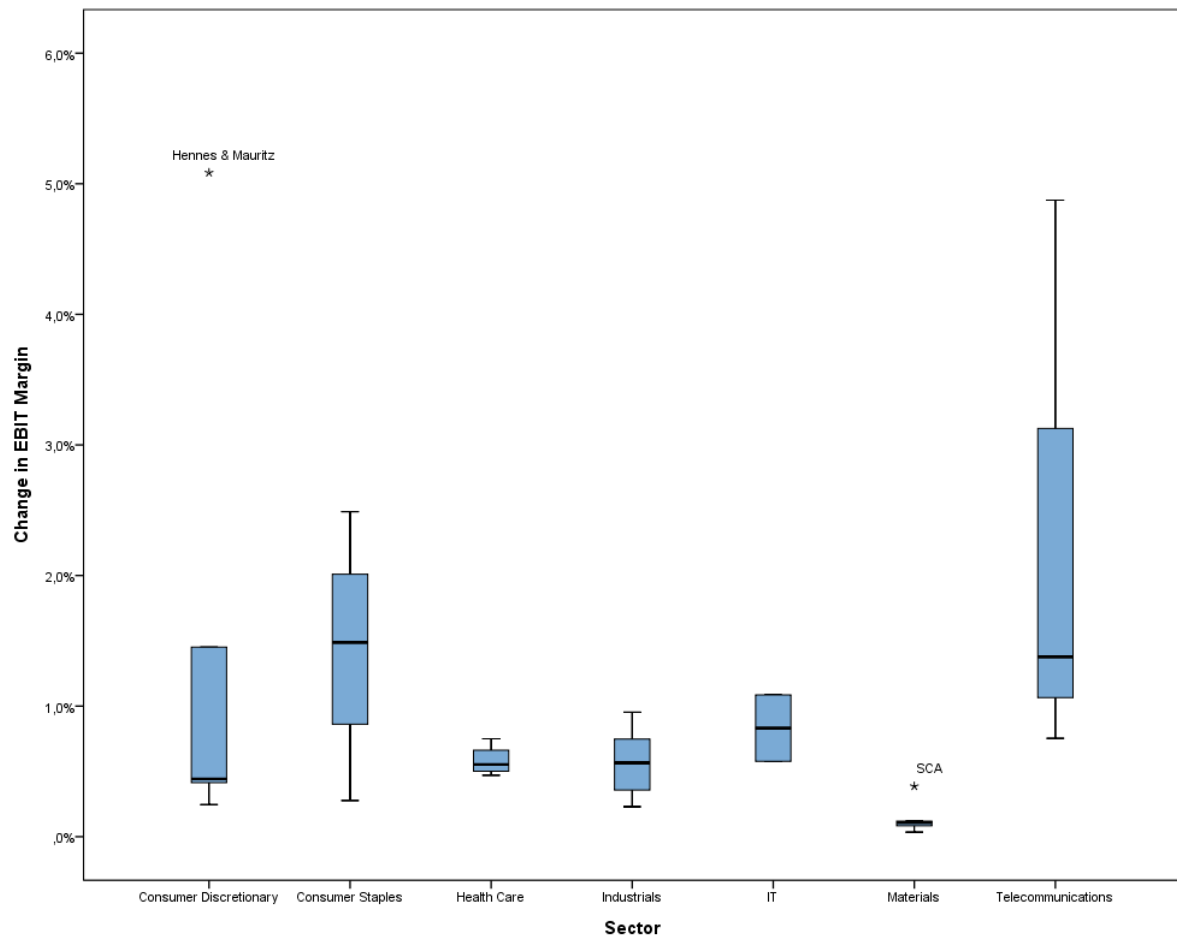


Figure 5. Change in EBIT margin divided by sector.

7.3 Effects on R_T

Both positive and negative changes in return on total assets exist in the sample. The average change is 0.21 percentage points while the median is 0.19 percentage points. Only one company, Hennes & Mauritz, is not located within ± 2 percentage points (see Figure 6).

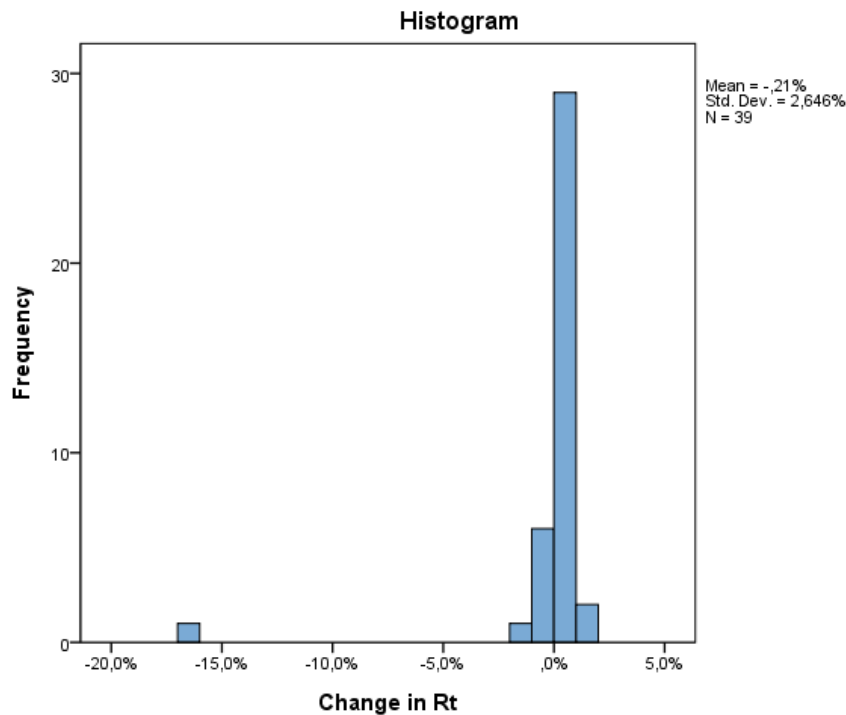


Figure 6. The distribution of the change in R_T .

The high concentration of occurrences around ± 2 percentage points generates a tight box plot, as seen in Figure 7. The first quartile is located at 0.05 and the third is located at 0.31. The short interquartile range results in a large amount of outliers. Two companies increase their margin substantially more than the rest of the sample: Modern Times Group and Tele2. Hennes & Mauritz on the other hand sees its margin deteriorate.

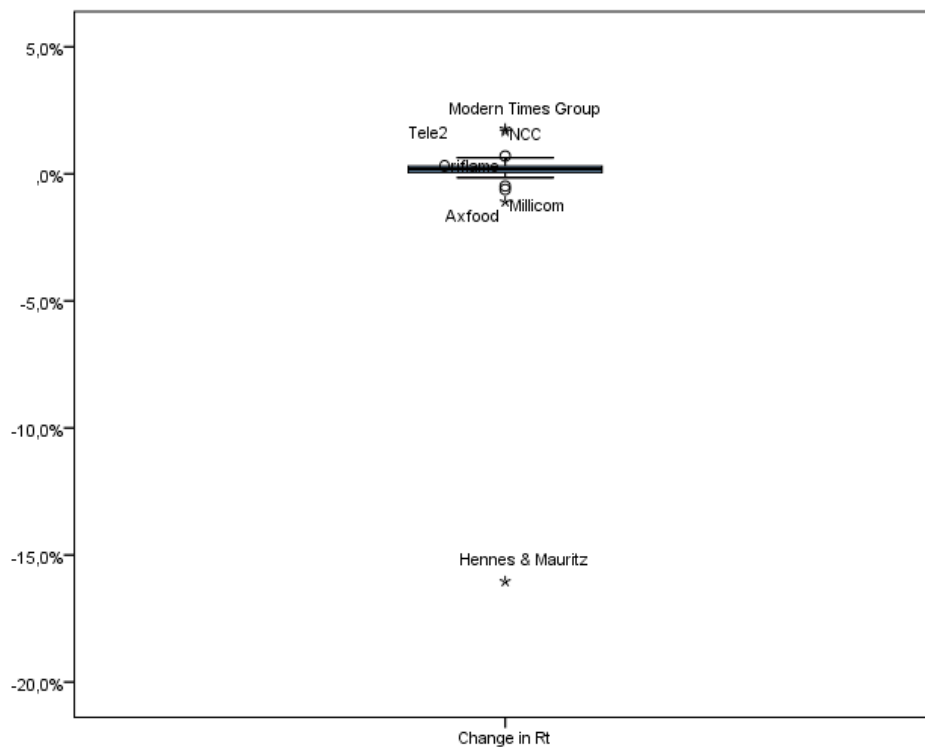


Figure 7. Box plot illustrating the concentration of occurrences for the change in R_T .

7.3.1 Student's t-test

Table 3 shows the result from the t-test. The null hypothesis cannot be rejected because the significance of the test is too low. In other words, there is no statistical support that R_T has changed.

Table 3. The result of the t-test of the change in R_T .

Paired Samples Test									
		Paired Differences					t	df	Sig. (2-tailed)
				Std. Error Mean	95% Confidence Interval of the Difference				
					Mean	Std. Deviation			
Pair 1	Adj. RT - RT	-,20518%	2,64614%	,42372%	-1,06296%	,65260%	-,484	38	,631

7.3.2 Spearman's rank correlation

The Spearman's rho indicates a significant correlation between the return on assets and the adjusted return on assets (See Table 4). The companies are ranked in a similar way, when it comes to R_T , both before and after adjustments.

Table 4. The Spearman correlation of R_T and Adjusted R_T .

Correlations			RT	Adj. RT
Spearman's rho	RT	Correlation Coefficient	1,000	,997**
		Sig. (2-tailed)	.	,000
		N	39	39
	Adj. RT	Correlation Coefficient	,997**	1,000
		Sig. (2-tailed)	,000	.
		N	39	39

** . Correlation is significant at the 0.01 level (2-tailed).

7.3.3 Change in return divided by sector

Dividing the results by sector illustrates that the Consumer Discretionary sector has a much wider spectrum of changes than the other sectors (See Figure 8). Hennes & Mauritz is the only Consumer-Discretionary company with a negative change in return.

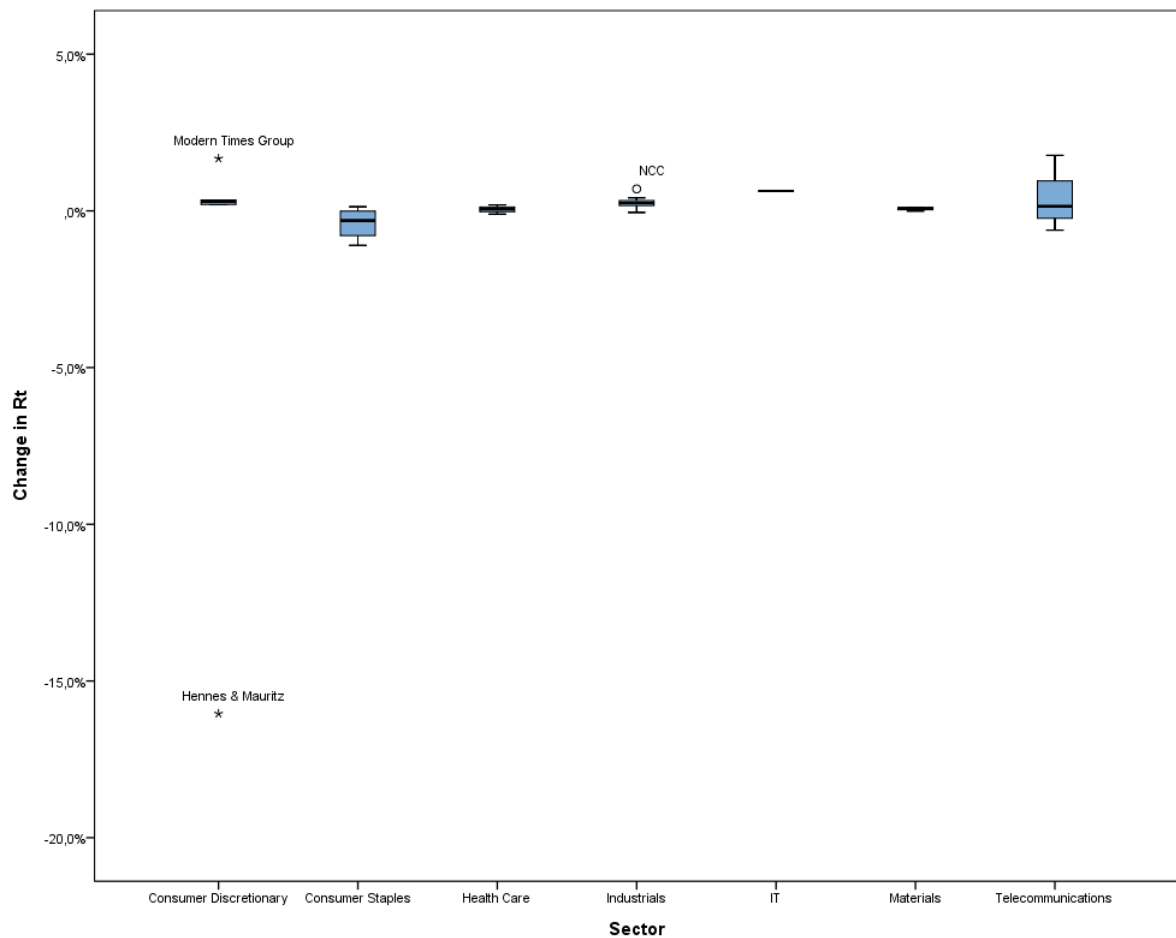


Figure 8. The change in R_T divided by sector.

7.4 Effects on the D/E-ratio

The change in D/E-ratio ranges from 0.00 to 1.12 throughout the sample. The average change in D/E-ratio is 0.15 and the median change is 0.07. Two companies increase their D/E-ratio with more than 0.80: Hennes & Mauritz and Axfood.

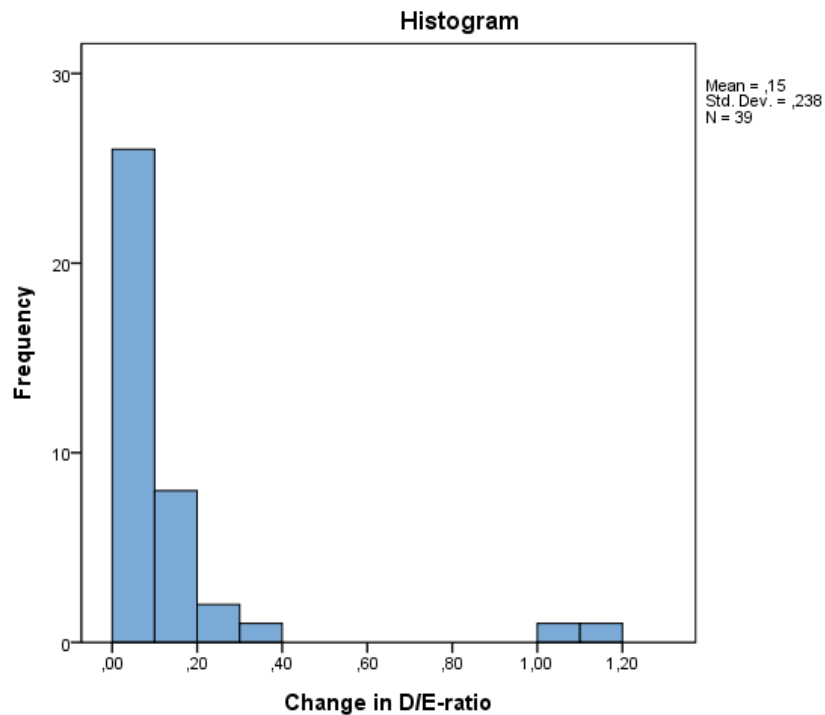


Figure 9. The distribution of the change in D/E-ratio.

Hennes & Mauritz and Axfood are defined as extreme outliers, while Oriflame is identified as a mild outlier, as seen in Figure 10 below. 50% of the occurrences are located within an increase of 0.04 and 0.16.

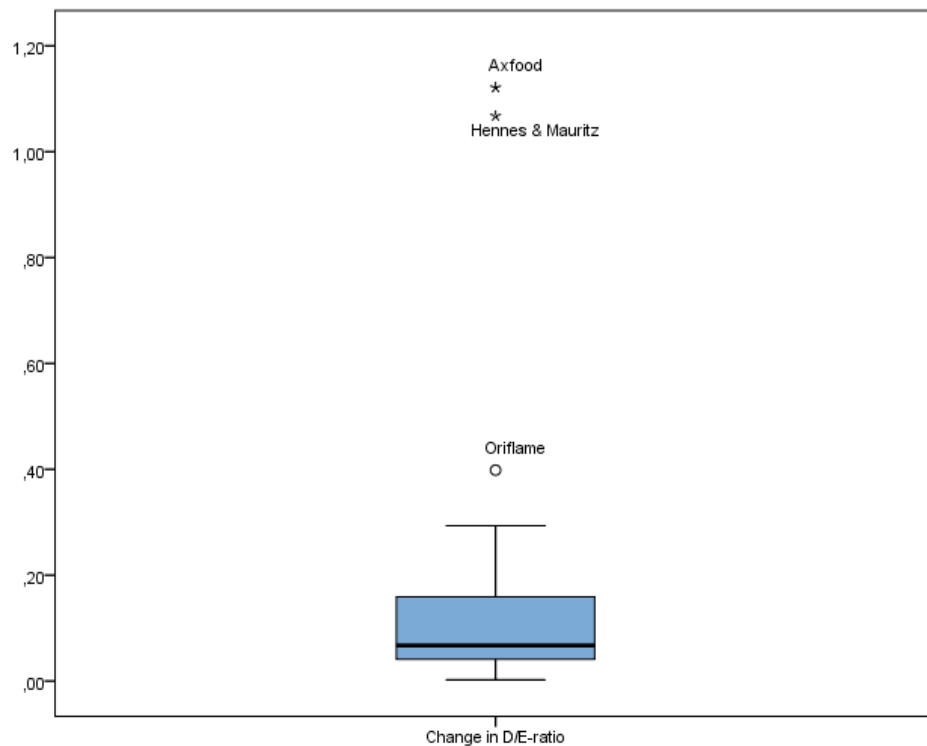


Figure 10. Box plot illustrating the concentration of occurrences for the change in D/E-ratio.

7.4.1 Student's t-test

Table 5 display the results of the t-test of the change in average D/E-ratio. The t-test indicates that the null hypothesis can be rejected; average D/E-ratio is not equal to (or larger than) average adjusted D/E-ratio. The increase in the average D/E-ratio is statistically significant on a 99.9% level.

Table 5. The result of the t-test of the change in D/E-ratio.

Paired Samples Test									
		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Adj. D/E Ratio - D/E Ratio	,1469411	,2383984	,0381743	,0696613	,2242209	3,849	38	,000

7.4.2 Spearman's rank correlation

The Spearman's rank correlation between the D/E-ratio and the adjusted D/E-ratio indicates significant correlation. The companies are to a high degree ranked in the same way before and after adjustments.

Table 6. The Spearman's correlation between the D/E-ratio and the Adjusted D/E-ratio.

Correlations			D/E Ratio	Adj. D/E Ratio
Spearman's rho	D/E Ratio	Correlation Coefficient	1,000	,834**
		Sig. (2-tailed)	.	,000
		N	39	39
	Adj. D/E Ratio	Correlation Coefficient	,834**	1,000
		Sig. (2-tailed)	,000	.
		N	39	39

**. Correlation is significant at the 0.01 level (2-tailed).

7.4.3 Change in D/E-ratio divided by sector

Figure 11 below separates the change in D/E-ratio by sector. The Consumer Staples sector show more scattered results than the other sectors.

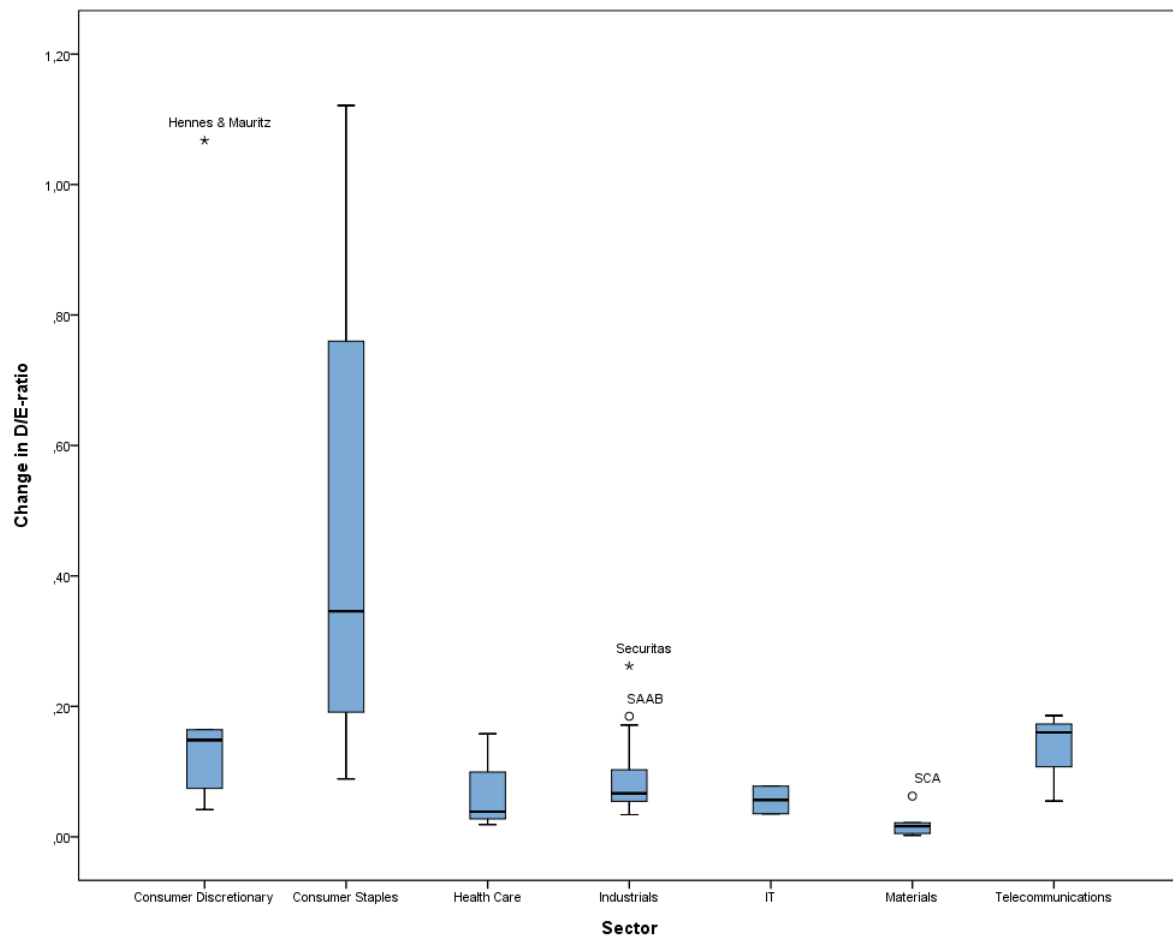


Figure 11. The change in D/E-ratio divided by sector.

8. Analysis

The results show that, by using the proposed adjustment method, an increase in EBIT margin and D/E-ratio can be forecasted when adapting to the new lease accounting standards. However, the effect on R_T cannot be statistically separated from zero. The results also indicate that the relative performance evaluation of the companies will not change.

These results are dependent on the adjustment method chosen, and the operational definitions made. Therefore, it is of importance to evaluate how different assumptions could affect the results of the thesis.

8.1 Robustness

8.1.1 The adjustment method

There are several ways to adjust for operating leases. The method chosen in this thesis is primarily affected by assumptions regarding the interest rate and the lease term. In this thesis the median implied interest rate has been used for discounting future cash flows, however, other assumptions regarding the interest rate can be made. Other studies have estimated each companies borrowing rate, industry average or just chosen a fixed rate.²⁸ The present value of operating leases will increase if a lower interest rate is chosen, and vice versa. Therefore, if a lower interest rate was used, it is likely that the effects on the examined key ratios would be larger.

The lease term has been derived by assuming “straight line” payments. If other assumptions were to be made, both shorter and longer estimated lease terms could arise. Using the present model, a shorter lease term would have two different effects. First, the implied interest rate would increase resulting in a decrease in the PV of operating leases. Second, operating lease payments would be assumed to occur during a shorter period of time resulting in a higher PV of the capitalized leases. Which one of these effects that take the upper hand is hard to determine.

8.1.2 Outliers in the data

Outliers are present when examining all of the different changes in key ratios. Without speculating as to why these outliers occur in the sample, their impact on the statistical results can be investigated. By removing the extreme outliers (occurrences more than 3 interquartile ranges from the third quartile), and then performing the same tests as before, the results' dependence on these outliers can be estimated. The outliers for the different ratios are:

²⁸ See 4.4 Previous research.

- Change in EBIT margin:
 - H&M and Tele2
- Change in R_T :
 - Axfood, H&M, Modern Times Group and Tele2
- Change in D/E-ratio:
 - Axfood and H&M

H&M is an extreme outlier for all of the examined key ratios, while Axfood and Tele2 qualify as outliers for two out of three ratios. For a discussion regarding why these outliers occur, please see section 9.

When excluding the outliers, a 95% confidence interval for the increase in EBIT margin reaches from 0.49-0.81 percentage points. The increase is smaller and the interval tighter than with the outliers included. The average change in margin reduces to 0.65 percentage points from previous 0.87. The median, however, only decreases to 0.53 percentage points from 0.57. It is clear that the outliers represent a fairly large part of the mean increase in EBIT margin. Therefore, for a general case, the actual size of the increase in EBIT margin should not be overestimated.

When performing a new t-test for the average change in R_T , the result differs from before. Previously, a change in the return on total assets could not be statistically proven. With the outliers removed, the change in return is statistically separated from zero. As Table 7 shows, the significance of this result is high. However, this does not directly suggest that the outliers should be disregarded from the sample, i.e. the reason for the outliers' occurrence is still uncertain.

Table 7. The t-test for change in R_T with outliers removed.

Paired Samples Test									
		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Adj. RT - RT	,2050%	,3591%	,0599%	,0835%	,3265%	3,425	35	,002

With outliers removed, the average increase in the D/E-ratio is still statistically significant. Table 8 shows the result from the t-test. Although the average increase is smaller, the

significance is higher. As with the EBIT margin, the average increase is statistically strong, but the outliers affect the actual amplitude of the increase.

Table 8. The t-test for the change in D/E-ratio with outliers removed.

Paired Samples Test									
		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Adj. D/E Ratio - D/E Ratio	,0957061	,0859218	,0141255	,0670583	,1243538	6,775	36	,000

8.2 Conclusions

8.2.1 Inference

The purpose of this thesis was to design a method for adjusting financial statements that would reflect the changes proposed by IFRS to lease accounting. Given that such a method was possible to design, our next ambition was to make the adjustments and see whether the companies in our sample were significantly affected with regards to three financial key ratios. We succeeded in determining an adjustment method, the power of which is analyzed above (Section 8.1) in more detail. When it comes to key ratios, two out of three are estimated to be significantly affected by the new lease accounting proposal. Average EBIT margin is estimated to increase by 0.52-1.23 percentage points. Average D/E-ratio is estimated to increase while average return on assets is not estimated to change.

The statistical inferences apply to the companies in our sample, namely Large Cap, the biggest companies on the Stockholm Stock Exchange. It is not clear whether the same results can be expected for smaller companies or privately held companies, and we prefer not to speculate on the subject.

8.2.2 Reliability

For a study to be considered reliable, it should be possible to repeat the study and get the same result each time. We believe our study to have a high degree of reliability. However, it is not the results per se that should determine whether this study is reliable, it is the adjustment method. The adjustment method we have determined should deliver the same results every time it is used on the same data. The reason for this is that the method leaves little to no space for discretionary judgment.

8.2.3 Validity

In science, validity refers to the extent to which a concept corresponds correctly to the real world. In the case of our thesis, validity primarily measures to which degree our adjustment method reflects the effects of the proposed changes in lease accounting to financial-statement items and certain key ratios. Admittedly the validity could be stronger. To begin with, the proposal requires preparers to capitalize implied MLPs contained in prolongation options, if it is more likely than not that these options will be exercised. The adjustment method we have developed does not incorporate such options. Nor does our adjustment method deal with contingent rentals and residual-value guarantees that, under the proposal, should be capitalized. The reason for this is that preparers seldom provide such lease-arrangement specific information (nor are they obliged to) under current disclosure requirements.

Another potential source of error is the interest rate used to discount the MLPs. The proposal requires preparers to use their incremental borrowing rate, or the interest rate charged by the lessor, for discounting MPLs. Because such information is not publicly available, we have developed a method to estimate an appropriate discounting interest rate. There is an obvious risk that whatever interest rate is obtained with our method differs from the interest rate prescribed by the proposal. Our method uses the median implied interest rate from a set of companies. The implied interest rate derived from the present value of finance leases is itself susceptible to inaccuracies. To calculate the implied interest rate using our adjustment method, assumptions about the (finance) lease payment schedule are required. Each time an assumption replaces hard fact, one takes an apparent risk of taking a step in the direction of error. However, when making assessments in the face of information constraint, assumptions are a necessity. Good reason can alleviate the risk of making faulty assessments. It is difficult to determine whether an assumption about average or constant payment is reasonable. We use the sample median to discount operating MLPs, instead of using each company's own implied interest rate. It is reasonable to expect that companies of approximately the same size borrow at approximately the same rates, and there is a risk that individual implied interest rates are under-or overstated. The reason we do not use the average implied interest rate, is that there are outliers that have a significant impact on that metric. A problem related to that of estimating a discount rate is rounding. Most companies report in whole millions, and when their leasing arrangements are in the one-digits, rounding can have great impact. Consider Electrolux for example. In its 2009 Annual Report it states having only one future finance lease commitment, 5 MSEK due in 2010. The present value is reported to be 4 MSEK. It is

not reasonable that Electrolux discounts its FLC at a rate of 25 percent. For all we know, the FLC could be rounded up from 4.51 and the PV rounded down from 4.49 (the reverse, 5.49 and 3.51 respectively, can in theory also be true). This kind of imprecise data can have profound implications for whether or not the adjustment method succeeds in reflecting the effects of the proposal.

After the discount rate is estimated, the next step is to capitalize the operating MPLs. Yet again a lease payment schedule is required and, as in the case of finance MLPs, assumptions have to be made. With regards to validity the same critique as above towards the use of assumptions can be raised. It is however just as inevitable as before, that assumptions are used when there is no other information available.

To conclude, due to the heavy dependence on assumptions the validity of this study can be put to question. It is, however, in our view a matter of necessity and not choice that drives the heavy use of assumptions. This thesis aims at providing a method to adjust financial statements, according to the proposal, using only public information. As we write the final parts of this paper in May 2011 disclosure requirements under IFRS do not oblige preparers to reveal detailed information on prolongation options or lease payments schedules. Until there is a change in this regard, there will be a need for users of financial statements to make assumptions if they want to assess the impact of the proposal. Our adjustment method is a framework involving such assumptions.

8.2.4 Applicability

The results in this thesis have a high degree of applicability. Here, by results we mean the adjustment method, and by applicability we refer to the possibility to apply the results to other populations or time periods. There are however some conditions that should be met. Companies that comply with IFRS (or another framework of standards with similar disclosure requirements) provide the information essential to make the adjustments. Also, the applicability is probably higher if the companies in the sample have a common denominator, e.g. size or industry. Otherwise there is a risk that the median implied interest rate is misrepresentative for some of the companies in the sample.

9. Discussion and further research

The results contained in this thesis are an adjustment method for financial statements and an estimation of the change in three financial key ratios after adjustments have been made. We consider our adjustment method to be reliable and of acceptable validity, given that assumptions are necessary under current disclosure requirements. The average EBIT margin and D/E-ratio were significantly affected by the adjustments, while average return on assets was not. However, when excluding extreme outliers, all three key ratios were significantly affected. This result raises some interesting questions regarding the properties of the outliers.

Hennes & Mauritz is an extreme outlier for all of the examined key ratios. Axfood and Tele2 each qualify as extreme outliers for two key ratios. In the case of Axfood, the two key ratios are change in R_T and change in D/E-ratio. For Tele2, the two ratios are R_T and EBIT margin. In 2009 Hennes & Mauritz, a clothing retailer, had 55,000 MSEK in total assets. Future MLPs totaled 54,345 MSEK, while interest-bearing debt amounted to 254 MSEK. Obviously, H&M would see its D/E-ratio go through the roof if capitalized operating leases were added to debt. Total assets would nearly double which would have an impact on R_T . After reducing 11,361 MSEK for operating lease expenses, EBIT was 21,644 MSEK in 2009. Most of that reduction would be added back if the proposal was implemented, causing a substantial increase in the EBIT margin. Although the company had 2,000 stores worldwide, the item building and land only accounted for 500 MSEK in that financial year. This is no coincidence. H&M states quite clearly that it is not in the business of owning its own stores or factories; instead it rents its premises.²⁹ The rental costs for 2009 amounted to 12,250 MSEK, which frankly dwarfs the book value of the company's real estate. No wonder that H&M would be significantly affected should the proposal be implemented.

Axfood, a food retailer, had rental costs for premises (operating lease) of 1,086 MSEK in 2009, while land and building was valued at only 15 MSEK. The sum of future MLPs was 3,735 MSEK, while closing-balance interest-bearing debt was 848 MSEK. This helps to explain the relatively sharp increase in Axfood's D/E-ratio. As total assets amounted to 7,173 MSEK, it is easy to understand how the capitalizing of MLPs could have such a big effect on Axfood's R_T .

²⁹ H&M Annual Report 2009, p. 11.

Tele2's, a telecommunication operator, main objectives are to be perceived as a supplier of attractively priced services and securing high quality mobile networks.³⁰ In addition to owning, and co-owning, its networks, Tele2 leases capacity to meet mobile-traffic demand. Operating lease expenses pertaining to leased capacity was 2,185 MSEK in 2009. Future MLPs amounted to 6,451 MSEK, while total assets amounted to 40,379 MSEK. EBIT, including an operating lease payment of 2,814 MSEK, amounted to 5,527 MSEK. EBIT will increase when the financing costs of the operating leases are removed. This would naturally have repercussions for the two key ratios EBIT margin and R_T .

To conclude, the chosen ways of doing business seem to be the reason Hennes & Mauritz, Axfood and Tele2 are labeled outliers. It is clear that Axfood and Hennes & Mauritz, both retailers and thus dependent on stores as a sales channel, prefer to lease their premises instead of owning them. Tele2 is dependent on physical network equipment to be able to provide mobile services to its customers. The company has chosen a business model where it owns some of the network it needs, and leases the remaining part. Relative to other companies in our sample, leasing for the outlier companies has apparently proven to be more conducive for business. Why certain companies have made this judgment is outside of the scope of this paper.

In our opinion, there are many more interesting issues that can be studied related to our thesis. Assuming our results are accurate, it would be useful to know what the likely consequences are for all of the companies whose key ratios change as a result of a new lease accounting standard. Would some companies risk breaching their loan covenants? Would investors punish companies on the stock exchange for their worsen D/E-ratio, or would some companies benefit from an increase in their EBIT margin? We have not taken upon us to answer such questions, but consider them important as the final proposal is ever closer to being issued. Further research on this specific topic is recommended.

Furthermore, this thesis studied the *lessee* effects of a new lease accounting standard. A study concerning the *lessor* effect would give further insights on the magnitude of the current lease accounting overhaul.

When the final proposal is issued, companies will be given time before the new rules are set to apply. During this space of time, it would be interesting to study if companies change their

³⁰ Tele2 Annual Report 2009, p. 3.

behavior. One can for example imagine that for some companies the allure of leasing diminishes as they no longer can have operating-lease assets off-balance sheet. Yet other companies might still recognize the value of flexibility inherent in leasing an asset as opposed to owning it, and still stick with leasing.

A qualitative study could be conducted concerning the terms of lease arrangements. Will they in any way be altered in the wake of the new standard in order for lessees to avoid having leased assets on the balance sheet? Another approach could be to perform a case study at one or several companies who are willing to provide private company information, so that an even more accurate assessment could be made as to how much the participating companies would be affected by the new standard.

In conclusion, there is much more to study when it comes to lease accounting. That specific part of accounting is in a very dynamic phase right now, which brings with it both excitement for the people studying the field and some degree of anxiety for preparers and users alike due to uncertainty regarding the full effects. All the more reason then for scholars to carry out research to shed more light on the issue. In all humility, that is precisely what we hoped to achieve with this thesis; shed some light on a matter that can have immense consequences for a great deal of companies.

10. References

10.1 Annual reports

The companies studied in this thesis are presented in section A of the Appendix. The annual report for 2009 of each of these companies is available on their respective websites.

10.2 Articles

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10.5 Interviews

Analyst 1, consumer-retail sector at Bank 1, telephone interview 2011-04-13

Analyst 2, consumer-retail sector at Bank 1, telephone interview 2011-04-13

Analyst 3, consumer-retail sector at Bank 2, telephone interview 2011-04-12

Analyst 4, construction- and real estate sector at Stockbroker 1, telephone interview 2011-04-19

Head of equity research at Stockbroker 1, telephone interview 2011-04-19

Per Holmgren, chancellery clerk, Finansbolagens förening (The Association of Swedish Finance Houses), telephone interview 2011-04-19

Appendix

A. The sample

The sample consists of the following 39 companies:

Company	Sector	Company	Sector
ABB	Industrials	NCC	Industrials
Alfa Laval	Industrials	Oriflame	Consumer Staples
ASSA ABLOY	Industrials	Peab	Industrials
AstraZeneca	Health Care	SAAB	Industrials
Atlas Copco	Industrials	Sandvik	Industrials
Autoliv	Consumer Discretionary	SCA	Materials
Axfood	Consumer Staples	SCANIA	Industrials
Boliden	Materials	Seco Tools	Industrials
Electrolux	Consumer Discretionary	Securitas	Industrials
Elekta	Health Care	Skanska	Industrials
Ericsson	Information Technology	SKF	Industrials
Getinge	Health Care	SSAB	Materials
Hakon Invest	Consumer Staples	Stora Enso	Materials
Hennes & Mauritz	Consumer Discretionary	Swedish Match	Consumer Staples
Hexagon	Industrials	Tele2	Telecom
Holmen	Materials	TeliaSonera	Telecom
Husqvarna	Consumer Discretionary	Tieto	Information Technology
Meda	Health Care	Trelleborg	Industrials
Millicom	Telecom	Volvo	Industrials
Modern Times Group	Consumer Discretionary		

The following companies have been omitted from the original sample (OMX Stockholm Large Cap):

Company	Reason
Castellum	Active in the financial sector
Fabege	Active in the financial sector
Hufvudstaden	Active in the financial sector
Industrivärden	Active in the financial sector
Investor	Active in the financial sector
Kinnevik	Active in the financial sector
Latour	Active in the financial sector
Lundbergföretagen	Active in the financial sector
Lundin Mining	Complies to Canadian GAAP
Lundin Petroleum	No operating leases
Melker Schörling	Active in the financial sector
Nordea	Active in the financial sector
Ratos	Active in the financial sector
SEB	Active in the financial sector
Handelsbanken	Active in the financial sector
Swedbank	Active in the financial sector

B. Company specific adjustments

1. ABB

Leases	2008	2009	2010	2011	2012	2013	2014	>2015
Financial leases			42	39	34	22	17	148
Operational leases		509	461	393	325	264	228	460
PV financial leases		170						
Implied interest rate		11,5%						
PV operational leases*	2300							
Balance Sheet	2008	2009				2009		
Assets	33011	34728		Equity		14473		
				Debt		3940		
Income Statement	2008	2009						
Sales		31795						
EBIT		4126						
Interest income		121						
Adjustments	2008	2009						
Δ Amortization		256						
Δ Operational lease cost		-509						
Δ Interest expense		87						
Δ Assets	2300	2044						
Δ Equity		166						
Δ Debt		1878						
2009 Key ratios								
EBIT margin		13,0%		R _T		12,5%		
Adjusted EBIT margin		13,8%		Adjusted R _T		12,5%		
D/E ratio		0,27						
Adjusted D/E ratio		0,40						

*Median implied interest rate used

Debt calculated as Total debt 2,333 MUSD; Pensions and employee benefits 1,179 MUSD.

2. Alfa Laval

Leases	2008	2009	2010	2011	2012	2013	2014	>2015
Financial leases			27	21	18	16	15	58
Operational leases		380	236	196	149	133	118	162
PV financial leases		141						
Implied interest rate		2,2%						
PV operational leases*	1218							
Balance Sheet	2008	2009				2009		
Assets	29032	26206		Equity		12229		
				Debt		2867		
Income Statement	2008	2009						
Sales		26039						
EBIT		4030						
Interest income		404						
Adjustments	2008	2009						
Δ Amortization		152						
Δ Operational lease cost		-380						
Δ Interest expense		46						
Δ Assets	1218	1065						
Δ Equity		182						
Δ Debt		884						
2009 Key ratios								
EBIT margin		15,5%		R _T		16,1%		
Adjusted EBIT margin		16,4%		Adjusted R _T		16,2%		
D/E ratio		0,23						
Adjusted D/E ratio		0,31						

*Median implied interest rate used

Debt calculated as Total debt 1,947 MSEK; Pensions and similar commitments 920 MSEK.

3. ASSA ABLOY

Leases	2008	2009	2010	2011	2012	2013	2014	>2015
Financial leases			-	-	-	-	-	-
Operational leases		304	297	231	169	127	97	131
PV financial leases		-						
Implied interest rate		-						
PV operational leases*	1204							
Balance Sheet	2008	2009				2009		
Assets	44960	42618		Equity		19334		
				Debt		16537		
Income Statement	2008	2009						
Sales		34963						
EBIT		4374						
Interest income		130						
Adjustments	2008	2009						
Δ Amortization		151						
Δ Operational lease cost		-304						
Δ Interest expense		46						
Δ Assets	1204	1054						
Δ Equity		108						
Δ Debt		946						
2009 Key ratios								
EBIT margin		12,5%		R _T		10,3%		
Adjusted EBIT margin		12,9%		Adjusted R _T		10,4%		
D/E ratio		0,86						
Adjusted D/E ratio		0,90						

*Median implied interest rate used

Debt calculated as Interest-bearing liabilities – long-term 7,766 MSEK and short-term 7,589 MSEK; Pensions 1,182 MSEK.

4. AstraZeneca

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			-	-	-
Operational leases		198	132	131	208
PV financial leases		-			
Implied interest rate		-			
PV operational leases*	570				
Balance Sheet	2008	2009			2009
Assets	46950	54920		Equity	20821
				Debt	12491
Income Statement	2008	2009			
Sales		32804			
EBIT		11543			
Interest income		462			
Adjustments	2008	2009			
Δ Amortization		44			
Δ Operational lease cost		-198			
Δ Interest expense		22			
Δ Assets	570	526			
Δ Equity		133			
Δ Debt		393			
2009 Key ratios					
EBIT margin		35,2%		R _T	23,6%
Adjusted EBIT margin		35,7%		Adjusted R _T	23,6%
D/E ratio		0,60			
Adjusted D/E ratio		0,62			

*Median implied interest rate used

Debt calculated as Interest-bearing liabilities; 9,137 MUSD; Pensions 3,354 MUSD.

5. Atlas Copco

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			57	76	4
Operational leases		717	502	875	407
PV financial leases		120			
Implied interest rate		5,5%			
PV operational leases*	2207				
Balance Sheet	2008	2009			2009
Assets	75394	67874		Equity	25671
				Debt	25735
Income Statement	2008	2009			
Sales		63762			
EBIT		9090			
Interest income		1352			
Adjustments	2008	2009			
Δ Amortization		276			
Δ Operational lease cost		-717			
Δ Interest expense		83			
Δ Assets	2207	1931			
Δ Equity		358			
Δ Debt		1573			
2009 Key ratios					
EBIT margin		14,3%		R _T	14,6%
Adjusted EBIT margin		14,9%		Adjusted R _T	14,8%
D/E ratio		1,00			
Adjusted D/E ratio		1,06			

*Median implied interest rate used

Debt calculated as Borrowings (excl. pensions) 23,967 MSEK; Post-employment benefits 1,768 MSEK.

6. Autoliv

Leases	2008	2009	2010	2011	2012	2013	2014	>2015
Financial leases			1,7	1,4	1,2	1,1	0,8	0,8
Operational leases		28,3	22,4	20,2	18	15,7	14,1	26,1
PV financial leases		6,3						
Implied interest rate		3,6%						
PV operational leases*	126							
Balance Sheet	2008	2009	2009					
Assets	5205,6	5185,6	Equity		2436			
			Debt		1374,7			
Income Statement	2008	2009						
Sales		5120,7						
EBIT		68,9						
Interest income		9,7						
Adjustments	2008	2009						
Δ Amortization		16						
Δ Operational lease cost		-28						
Δ Interest expense		5						
Δ Assets	126	110						
Δ Equity		8						
Δ Debt		102						
2009 Key ratios								
EBIT margin		1,3%	R _T		1,5%			
Adjusted EBIT margin		1,6%	Adjusted R _T		1,7%			
D/E ratio		0,56						
Adjusted D/E ratio		0,61						

*Median implied interest rate used

Debt calculated as Interest-bearing liabilities – non-current 1,056.1 MSUD and current 318.6 MUSD.

7. Axfood

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			36	30	-
Operational leases		1106	1030	2182	523
PV financial leases		66			
Implied interest rate		0,0%			
PV operational leases*	4273				
Balance Sheet	2008	2009			2009
Assets	7350	7173	Equity		2635
			Debt		848
Income Statement	2008	2009			
Sales		32378			
EBIT		1128			
Interest income		5			
Adjustments	2008	2009			
Δ Amortization		610			
Δ Operational lease cost		-1106			
Δ Interest expense		162			
Δ Assets	4273	3663			
Δ Equity		334			
Δ Debt		3329			
2009 Key ratios					
EBIT margin		3,5%	R _T		15,6%
Adjusted EBIT margin		5,0%	Adjusted R _T		14,5%
D/E ratio		0,32			
Adjusted D/E ratio		1,44			

*Median implied interest rate used

Debt calculated as Interest-bearing liabilities – non-current 189 MSEK and current 302 MSEK; Pensions 357 MSEK.

8. Boliden

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			7	-	-
Operational leases		25	32	61	2
PV financial leases		6			
Implied interest rate		16,7%			
PV operational leases*	107				
Balance Sheet	2008	2009			2009
Assets	30252	33258		Equity	16257
				Debt	8264
Income Statement	2008	2009			
Sales		27635			
EBIT		3623			
Interest income		11			
Adjustments	2008	2009			
Δ Amortization		15			
Δ Operational lease cost		-25			
Δ Interest expense		4			
Δ Assets	107	92			
Δ Equity		6			
Δ Debt		86			
2009 Key ratios					
EBIT margin		13,1%	R _T		11,4%
Adjusted EBIT margin		13,1%	Adjusted R _T		11,4%
D/E ratio		0,51			
Adjusted D/E ratio		0,51			

*Median implied interest rate used

Debt calculated as Liabilities to credit institutions 7,585 MSEK; Other interest-bearing liabilities 94 MSEK; Pension liabilities 585 MSEK.

9. Electrolux

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			5	-	-
Operational leases		903	812	1663	758
PV financial leases		4			
Implied interest rate		25,0%			
PV operational leases*	3607				
Balance Sheet	2008	2009			2009
Assets	73323	72696		Equity	18841
				Debt	13903
Income Statement	2008	2009			
Sales		109132			
EBIT		3761			
Interest income		256			
Adjustments	2008	2009			
Δ Amortization		451			
Δ Operational lease cost		-903			
Δ Interest expense		136			
Δ Assets	3607	3156			
Δ Equity		316			
Δ Debt		2841			
2009 Key ratios					
EBIT margin		3,4%		R _T	5,5%
Adjusted EBIT margin		3,9%		Adjusted R _T	5,9%
D/E ratio		0,74			
Adjusted D/E ratio		0,89			

*Median implied interest rate used

Debt calculated as Interest-bearing liabilities 11,735 MSEK; Post-employment benefits 2,168 MSEK.

10. Elekta

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			-	-	-
Operational leases		113	107	251	108
PV financial leases		-			
Implied interest rate		-			
PV operational leases*	503				
Balance Sheet	2008	2009	2009		
Assets	6322	7951	Equity		2555
			Debt		1680
Income Statement	2008	2009			
Sales		6689			
EBIT		830			
Interest income		51			
Adjustments	2008	2009			
Δ Amortization		63			
Δ Operational lease cost		-113			
Δ Interest expense		19			
Δ Assets	503	440			
Δ Equity		31			
Δ Debt		409			
2009 Key ratios					
EBIT margin		12,4%	R _T		12,3%
Adjusted EBIT margin		13,2%	Adjusted R _T		12,2%
D/E ratio		0,66			
Adjusted D/E ratio		0,82			

*Median implied interest rate used

Debt calculated Total interest-bearing liabilities 1,627 MSEK; Pensions 53 MSEK.

11. Ericsson

Leases	2008	2009	2010	2011	2012	2013	2014	>2015
Financial leases			177	168	166	164	209	1186
Operational leases		3839	3185	2611	2102	1270	935	2371
PV financial leases		1394						
Implied interest rate		7,1%						
PV operational leases*	14381							
Balance Sheet	2008	2009				2009		
Assets	285684	269809		Equity		141027		
				Debt		42688		
Income Statement	2008	2009						
Sales		206477						
EBIT		5918						
Interest income		1874						
Adjustments	2008	2009						
Δ Amortization		1598						
Δ Operational lease cost		-3839						
Δ Interest expense		544						
Δ Assets	14381	12783						
Δ Equity		1697						
Δ Debt		11086						
2009 Key ratios								
EBIT margin		2,9%		R _T		2,8%		
Adjusted EBIT margin		4,0%		Adjusted R _T		3,4%		
D/E ratio		0,30						
Adjusted D/E ratio		0,38						

*Median implied interest rate used

Debt calculated as Borrowings - non-current 29,996 MSEK and current borrowings 2,124 MSEK; Post-employment benefits 8,533 MSEK; Other non-current liabilities 2,035 MSEK.

12. Getinge

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			7	11	12
Operational leases		234	222	295	52
PV financial leases		29			
Implied interest rate		0,7%			
PV operational leases*	722				
Balance Sheet	2008	2009			2009
Assets	33032	37498		Equity	12562
				Debt	17686
Income Statement	2008	2009			
Sales		22816			
EBIT		3070			
Interest income		249			
Adjustments	2008	2009			
Δ Amortization		103			
Δ Operational lease cost		-234			
Δ Interest expense		27			
Δ Assets	722	618			
Δ Equity		104			
Δ Debt		515			
2009 Key ratios					
EBIT margin		13,5%		R _T	9,4%
Adjusted EBIT margin		14,0%		Adjusted R _T	9,6%
D/E ratio		1,41			
Adjusted D/E ratio		1,45			

*Median implied interest rate used

Debt calculated as Net debt 16,297 MSEK plus Cash and cash equivalents 1,389 MSEK.

13. Hakon Invest

Leases	2008	2009	2010	2011	2012	2013	2014	>2015
Financial leases			-	-	-	-	-	-
Operational leases		215	310	230	146	81	84	-
PV financial leases		-						
Implied interest rate		-						
PV operational leases*	1088							
Balance Sheet	2008	2009				2009		
Assets	10021	11383	Equity			10281		
			Debt			427		
Income Statement	2008	2009						
Sales		2392						
EBIT		423						
Interest income		47						
Adjustments	2008	2009						
Δ Amortization		155						
Δ Operational lease cost		-215						
Δ Interest expense		41						
Δ Assets	1088	933						
Δ Equity		18						
Δ Debt		914						
2009 Key ratios								
EBIT margin		17,7%	R _T			4,4%		
Adjusted EBIT margin		20,2%	Adjusted R _T			4,5%		
D/E ratio		0,04						
Adjusted D/E ratio		0,13						

*Median implied interest rate used

Debt calculated total Interest bearing liabilities - non-current 303 MSEK and current 124 MSEK.

14. Hennes & Mauritz

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			-	-	-
Operational leases		11361	9383	26416	18546
PV financial leases		-			
Implied interest rate		0,8%			
PV operational leases*	55850				
Balance Sheet	2008	2009			2009
Assets	51243	54363		Equity	40613
				Debt	254
Income Statement	2008	2009			
Sales		101393			
EBIT		21644			
Interest income		467			
Adjustments	2008	2009			
Δ Amortization		6206			
Δ Operational lease cost		-11361			
Δ Interest expense		2113			
Δ Assets	55850	49645			
Δ Equity		3043			
Δ Debt		46602			
2009 Key ratios					
EBIT margin		21,3%		R _T	41,9%
Adjusted EBIT margin		26,4%		Adjusted R _T	25,8%
D/E ratio		0,01			
Adjusted D/E ratio		1,07			

*Median implied interest rate used

Debt calculated as Pension provisions 254 MSEK.

15. Hexagon

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			8	7	4
Operational leases		226	194	384	91
PV financial leases		-			
Implied interest rate		-			
PV operational leases*	793				
Balance Sheet	2008	2009	2009		
Assets	27501	25426	Equity		12484
			Debt		9816
Income Statement	2008	2009			
Sales		11811			
EBIT		1600			
Interest income		9			
Adjustments	2008	2009			
Δ Amortization		113			
Δ Operational lease cost		-226			
Δ Interest expense		30			
Δ Assets	793	680			
Δ Equity		83			
Δ Debt		597			
2009 Key ratios					
EBIT margin		13,5%	R _T		6,1%
Adjusted EBIT margin		14,5%	Adjusted R _T		6,3%
D/E ratio		0,79			
Adjusted D/E ratio		0,83			

*Median implied interest rate used

Debt calculated as Pension obligations, net, and other interest-bearing provisions and liabilities 9,816 MSEK.

16. Holmen

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			-	-	-
Operational leases		25	21	19	0
PV financial leases		-			
Implied interest rate		-			
PV operational leases*	60				
Balance Sheet	2008	2009	2009		
Assets	34602	32176	Equity		16504
			Debt		6090
Income Statement	2008	2009			
Sales		18071			
EBIT		1620			
Interest income		12			
Adjustments	2008	2009			
Δ Amortization		10			
Δ Operational lease cost		-25			
Δ Interest expense		2			
Δ Assets	60	50			
Δ Equity		13			
Δ Debt		37			
2009 Key ratios					
EBIT margin		9,0%	R _T		4,9%
Adjusted EBIT margin		9,0%	Adjusted R _T		4,9%
D/E ratio		0,37			
Adjusted D/E ratio		0,37			

*Median implied interest rate used

Debt calculated as Borrowings - non-current 3,472 MSEK and current 2,298 MSEK; Pension provisions 320 MSEK.

17. Husqvarna

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			63	426	-
Operational leases		320	296	648	68
PV financial leases		344			
Implied interest rate		12,1%			
PV operational leases*	1184				
Balance Sheet	2008	2009	2009		
Assets	34337	30229	Equity		12126
			Debt		10210
Income Statement	2008	2009			
Sales		34074			
EBIT		1560			
Interest income		36			
Adjustments	2008	2009			
Δ Amortization		169			
Δ Operational lease cost		-320			
Δ Interest expense		45			
Δ Assets	1184	1015			
Δ Equity		106			
Δ Debt		909			
2009 Key ratios					
EBIT margin		4,6%	R _T		4,9%
Adjusted EBIT margin		5,0%	Adjusted R _T		5,2%
D/E ratio		0,84			
Adjusted D/E ratio		0,92			

*Median implied interest rate used

Debt calculated as Interest-bearing liabilities 9,094 MSEK; Pensions 1,116 MSEK.

18. Meda

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			21	25	-
Operational leases		161	148	363	46
PV financial leases		41			
Implied interest rate		5,1%			
PV operational leases*	635				
Balance Sheet	2008	2009			2009
Assets	35815	33023	Equity		13664
			Debt		13599
Income Statement	2008	2009			
Sales		13178			
EBIT		2902			
Interest income		27			
Adjustments	2008	2009			
Δ Amortization		91			
Δ Operational lease cost		-161			
Δ Interest expense		24			
Δ Assets	635	545			
Δ Equity		46			
Δ Debt		498			
2009 Key ratios					
EBIT margin		22,0%	R _T		8,5%
Adjusted EBIT margin		22,6%	Adjusted R _T		8,6%
D/E ratio		1,00			
Adjusted D/E ratio		1,03			

*Median implied interest rate used

Debt calculated as Borrowings - non-current 10,200 MSEK and current 2,478 MSEK;
Pension provisions 882 MSEK; Other non-current liabilities 39 MSEK.

19. Millicom

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			-	-	-
Operational leases		73	66,223	226,289	139,894
PV financial leases		-			
Implied interest rate		-			
PV operational leases*	428				
Balance Sheet	2008	2009	2009		
Assets	5220,808	5991,018	Equity	2310,13	
			Debt	2423,104	
Income Statement	2008	2009			
Sales		3372,727			
EBIT		851,023			
Interest income		14,103			
Adjustments	2008	2009			
Δ Amortization		48			
Δ Operational lease cost		-73			
Δ Interest expense		16			
Δ Assets	428	381			
Δ Equity		9			
Δ Debt		371			
2009 Key ratios					
EBIT margin		25,2%	R _T	15,4%	
Adjusted EBIT margin		26,0%	Adjusted R _T	14,8%	
D/E ratio		1,05			
Adjusted D/E ratio		1,21			

*Median implied interest rate used

Debt calculated as total borrowings 2,346.9 MUSD; Long-term portion of asset retirement obligations 76.2 MUSD.

20. Modern Times Group

Leases	2008	2009	2010	2011-2014	>2015		
Financial leases			4	8	-	-	-
			2010	2011	2012	2013	2014
Operational leases		330	342	304	154	76	81
PV financial leases		11					
Implied interest rate		3,4%					
PV operational leases*	1242						258
Balance Sheet	2008	2009	2009				
Assets	19232	14651	Equity		5680		
			Debt		3577		
Income Statement	2008	2009					
Sales		14173					
EBIT		-1428					
Interest income		36					
Adjustments	2008	2009					
Δ Amortization		124					
Δ Operational lease cost		-330					
Δ Interest expense		47					
Δ Assets	1242	1118					
Δ Equity		159					
Δ Debt		1083					
2009 Key ratios							
EBIT margin		-10,1%	R _T		-8,2%		
Adjusted EBIT margin		-8,6%	Adjusted R _T		-6,5%		
D/E ratio		0,63					
Adjusted D/E ratio		0,79					

*Median implied interest rate used

Debt calculated as interest-bearing liabilities 3,563 MSEK; Pension 14 MSEK.

21. NCC

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			66	126	-
Operational leases		546	465	630	474
PV financial leases		188			
Implied interest rate		0,8%			
PV operational leases*	1843				
Balance Sheet	2008	2009			2009
Assets	36247	29976		Equity	7685
				Debt	3350
Income Statement	2008	2009			
Sales		51817			
EBIT		2150			
Interest income		70			
Adjustments	2008	2009			
Δ Amortization		184			
Δ Operational lease cost		-546			
Δ Interest expense		70			
Δ Assets	1843	1658			
Δ Equity		292			
Δ Debt		1366			
2009 Key ratios					
EBIT margin		4,1%		R _T	6,7%
Adjusted EBIT margin		4,8%		Adjusted R _T	7,4%
D/E ratio		0,44			
Adjusted D/E ratio		0,61			

*Median implied interest rate used

Debt is calculated as Interest-bearing liabilities – long-term 2,941 MSEK and short-term 391 MSEK; Provision for pensions and similar obligations 18 MSEK.

22. Oriflame

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			0	0	-
Operational leases		29,6	18,361	26,346	16,513
PV financial leases		0			
Implied interest rate		19,1%			
PV operational leases*	95				
Balance Sheet	2008	2009	2009		
Assets	580,178	615,24	Equity	158,121	
			Debt	263,404	
Income Statement	2008	2009			
Sales		1316,595			
EBIT		145,441			
Interest income		3,059			
Adjustments	2008	2009			
Δ Amortization		11			
Δ Operational lease cost		-30			
Δ Interest expense		4			
Δ Assets	95	85			
Δ Equity		15			
Δ Debt		69			
2009 Key ratios					
EBIT margin		11,0%	R _T	24,8%	
Adjusted EBIT margin		12,5%	Adjusted R _T	24,4%	
D/E ratio		1,67			
Adjusted D/E ratio		2,06			

*Median implied interest rate used

Debt is calculated as Interest-bearing liabilities – long-term 260.1 MEUR and short-term 2.2 MEUR; Pension reserve 1.1 MEUR.

23. Peab

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			217	309	44
Operational leases		274	231	346	1
PV financial leases		548			
Implied interest rate		1,5%			
PV operational leases*	772				
Balance Sheet	2008	2009			2009
Assets	25692	26308		Equity	7709
				Debt	7732
Income Statement	2008	2009			
Sales		35140			
EBIT		1601			
Interest income		321			
Adjustments	2008	2009			
Δ Amortization		110			
Δ Operational lease cost		-274			
Δ Interest expense		29			
Δ Assets	772	662			
Δ Equity		134			
Δ Debt		527			
2009 Key ratios					
EBIT margin		4,6%	R _T		7,4%
Adjusted EBIT margin		5,0%	Adjusted R _T		7,8%
D/E ratio		1,00			
Adjusted D/E ratio		1,07			

*Median implied interest rate used

Debt is calculated as Interest-bearing liabilities – long-term 5,670 MSEK and short-term 2,042 MSEK; Provision for pensions and similar obligations 20 MSEK.

24. SAAB

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			-	-	-
Operational leases		582	546	489	473
PV financial leases		-			
Implied interest rate		1,9%			
PV operational leases*	2486				
Balance Sheet	2008	2009			2009
Assets	32890	3645		Equity	10682
				Debt	3649
Income Statement	2008	2009			
Sales		24647			
EBIT		1374			
Interest income		50			
Adjustments	2008	2009			
Δ Amortization		355			
Δ Operational lease cost		-582			
Δ Interest expense		94			
Δ Assets	2486	2131			
Δ Equity		133			
Δ Debt		1999			
2009 Key ratios					
EBIT margin		5,6%	R _T		7,8%
Adjusted EBIT margin		6,5%	Adjusted R _T		8,0%
D/E ratio		0,34			
Adjusted D/E ratio		0,53			

*Median implied interest rate used

Debt is calculated as Interest-bearing liabilities – long-term 1,126 MSEK and short-term 2,519 MSEK; Provision for pensions and similar obligations 4 MSEK.

25. Sandvik

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			34	117	98
Operational leases		560	609	1234	469
PV financial leases		178			
Implied interest rate		7,9%			
PV operational leases*	2394				
Balance Sheet	2008	2009			2009
Assets	103227	91575		Equity	29957
				Debt	39381
Income Statement	2008	2009			
Sales		71937			
EBIT		-1412			
Interest income		438			
Adjustments	2008	2009			
Δ Amortization		299			
Δ Operational lease cost		-560			
Δ Interest expense		91			
Δ Assets	2394	2095			
Δ Equity		170			
Δ Debt		1924			
2009 Key ratios					
EBIT margin		-2,0%		R _T	-1,0%
Adjusted EBIT margin		-1,6%		Adjusted R _T	-0,7%
D/E ratio		1,31			
Adjusted D/E ratio		1,38			

*Median implied interest rate used

Debt is calculated as Interest-bearing liabilities (incl. pension provisions) – non-current 31,807 MSEK and current 7,574 MSEK.

26. SCA

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			121	1213	48
Operational leases		990	994	2402	1528
PV financial leases		1285			
Implied interest rate		2,2%			
PV operational leases*	5054				
Balance Sheet	2008	2009			
Assets	158968	149859	Equity		67906
			Debt		47671
Income Statement	2008	2009			
Sales		110857			
EBIT		8190			
Interest income		158			
Adjustments	2008	2009			
Δ Amortization		562			
Δ Operational lease cost		-990			
Δ Interest expense		191			
Δ Assets	5054	4493			
Δ Equity		237			
Δ Debt		4255			
2009 Key ratios					
EBIT margin		7,4%	R _T		5,4%
Adjusted EBIT margin		7,8%	Adjusted R _T		5,5%
D/E ratio		0,70			
Adjusted D/E ratio		0,76			

*Median implied interest rate used

Debt is calculated as Financial liabilities – non-current 30,343 MSEK and current 13,761 MSEK; Pension provision 3,567 MSEK.

27. SCANIA

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			44	150	2
Operational leases		345	339	856	604
PV financial leases		176			
Implied interest rate		3,7%			
PV operational leases*	1822				
Balance Sheet	2008	2009			2009
Assets	110035	98451		Equity	23302
				Debt	51415
Income Statement	2008	2009			
Sales		62074			
EBIT		2473			
Interest income		634			
Adjustments	2008	2009			
Δ Amortization		202			
Δ Operational lease cost		-345			
Δ Interest expense		69			
Δ Assets	1822	1620			
Δ Equity		74			
Δ Debt		1546			
2009 Key ratios					
EBIT margin		4,0%	R _T		3,0%
Adjusted EBIT margin		4,2%	Adjusted R _T		3,1%
D/E ratio		2,21			
Adjusted D/E ratio		2,27			

*Median implied interest rate used

Debt is calculated as Interest-bearing liabilities – non-current 26,504 MSEK and current 19,928 MSEK; Pension provision 4,983 MSEK.

28. Seco Tools

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			1	-	-
Operational leases		53	49	82	25
PV financial leases		-			
Implied interest rate		-			
PV operational leases*	185				
Balance Sheet	2008	2009			2009
Assets	6412	5389		Equity	2230
				Debt	2108
Income Statement	2008	2009			
Sales		4889			
EBIT		307			
Interest income		18			
Adjustments	2008	2009			
Δ Amortization		23			
Δ Operational lease cost		-53			
Δ Interest expense		7			
Δ Assets	185	162			
Δ Equity		23			
Δ Debt		139			
2009 Key ratios					
EBIT margin		6,3%	R _T		5,5%
Adjusted EBIT margin		6,9%	Adjusted R _T		5,8%
D/E ratio		0,95			
Adjusted D/E ratio		1,01			

*Median implied interest rate used

Debt calculated as total interest bearing liabilities (incl. pensions) 2,108 MSEK.

29. Securitas

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			-	-	-
Operational leases		819,4	652,6	1465,4	604,3
PV financial leases		-			
Implied interest rate		-			
PV operational leases*	3096				
Balance Sheet	2008	2009			2009
Assets	35718,9	32795,9		Equity	8821
				Debt	12313,8
Income Statement	2008	2009			
Sales		62666,7			
EBIT		3612,3			
Interest income		75,8			
Adjustments	2008	2009			
Δ Amortization		387			
Δ Operational lease cost		-819			
Δ Interest expense		117			
Δ Assets	3096	2709			
Δ Equity		315			
Δ Debt		2393			
2009 Key ratios					
EBIT margin		5,8%	R _T		10,8%
Adjusted EBIT margin		6,5%	Adjusted R _T		11,1%
D/E ratio		1,40			
Adjusted D/E ratio		1,66			

*Median implied interest rate used

Debt is calculated Other long-term liabilities 8,357.5 MSEK; Other short-term liabilities 2,770.0 MSEK; Pension provisions 1,186.3 MSEK.

30. Skanska

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			55	71	41
Operational leases		553	469	717	429
PV financial leases		139			
Implied interest rate		5,7%			
PV operational leases*	1897				
Balance Sheet	2008	2009			2009
Assets	83478	81410		Equity	19249
				Debt	5126
Income Statement	2008	2009			
Sales		136803			
EBIT		5222			
Interest income		294			
Adjustments	2008	2009			
Δ Amortization		211			
Δ Operational lease cost		-553			
Δ Interest expense		72			
Δ Assets	1897	1687			
Δ Equity		270			
Δ Debt		1416			
2009 Key ratios					
EBIT margin		3,8%	R _T		6,7%
Adjusted EBIT margin		4,1%	Adjusted R _T		7,0%
D/E ratio		0,27			
Adjusted D/E ratio		0,34			

*Median implied interest rate used

Debt is calculated as Total carrying amount for financial liabilities less total non-interest-bearing financial current liabilities 2,834 MSEK; Interest-bearing pensions and provisions 2,292 MSEK.

31. SKF

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			12	39	58
Operational leases		500	357	794	504
PV financial leases		98			
Implied interest rate		1,9%			
PV operational leases*	1863				
Balance Sheet	2008	2009			
Assets	56100	51015	Equity		18280
			Debt		18025
Income Statement	2008	2009			
Sales		56227			
EBIT		3203			
Interest income		45			
Adjustments	2008	2009			
Δ Amortization		207			
Δ Operational lease cost		-500			
Δ Interest expense		70			
Δ Assets	1863	1656			
Δ Equity		223			
Δ Debt		1433			
2009 Key ratios					
EBIT margin		5,7%	R _T		6,1%
Adjusted EBIT margin		6,2%	Adjusted R _T		6,4%
D/E ratio		0,99			
Adjusted D/E ratio		1,06			

*Median implied interest rate used

Debt is calculated as Financial liabilities – long-term 8,987 MSEK and short-term 2,018 MSEK; Provision for post-employment benefits 7,020 MSEK.

32. SSAB

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			11	42	8
Operational leases		93	95	267	234
PV financial leases		37			
Implied interest rate		17,1%			
PV operational leases*	576				
Balance Sheet	2008	2009			2009
Assets	69255	60419		Equity	31002
				Debt	19011
Income Statement	2008	2009			
Sales		29838			
EBIT		-1592			
Interest income		50			
Adjustments	2008	2009			
Δ Amortization		58			
Δ Operational lease cost		-93			
Δ Interest expense		22			
Δ Assets	576	518			
Δ Equity		14			
Δ Debt		505			
2009 Key ratios					
EBIT margin		-5,3%	R _T		-2,4%
Adjusted EBIT margin		-5,2%	Adjusted R _T		-2,3%
D/E ratio		0,61			
Adjusted D/E ratio		0,63			

*Median implied interest rate used

Debt is calculated as Interest-bearing borrowings – long-term 14,878 MSEK and short-term 3,998 MSEK; Pension provision 135 MSEK.

33. Stora Enso

Leases	2008	2009	2010	2011	2012	2013	2014	>2015
Financial leases			12,3	6	6	20,3	5,6	34,4
Operational leases		28,9	27,2	24,1	21,4	15,3	9,9	8,6
PV financial leases		71,3						
Implied interest rate		3,4%						
PV operational leases*	135							
Balance Sheet	2008	2009	2009					
Assets	12240,8	11593,2	Equity			5182,5		
			Debt			4241,7		
Income Statement	2008	2009						
Sales		8945,1						
EBIT		-607,6						
Interest income		209,3						
Adjustments	2008	2009						
Δ Amortization		19						
Δ Operational lease cost		-29						
Δ Interest expense		5						
Δ Assets	135	116						
Δ Equity		5						
Δ Debt		111						
2009 Key ratios								
EBIT margin		-6,8%	R _T			-3,3%		
Adjusted EBIT margin		-6,7%	Adjusted R _T			-3,2%		
D/E ratio		0,82						
Adjusted D/E ratio		0,84						

*Median implied interest rate used

Debt is calculated as Interest-bearing liabilities – non-current 2,898.4 MEUR and current 814.8 MEUR; Post-employment benefit provisions 305 MEUR; interest bearing liabilities 210.1 MEUR; Bank overdrafts 13.4 MEUR

34. Swedish Match

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			-	-	-
Operational leases		82	82	168	58
PV financial leases		-			
Implied interest rate		-			
PV operational leases*	342				
Balance Sheet	2008	2009			2009
Assets	18355	16337		Equity	903
				Debt	10545
Income Statement	2008	2009			
Sales		14204			
EBIT		3417			
Interest income		86			
Adjustments	2008	2009			
Δ Amortization		43			
Δ Operational lease cost		-82			
Δ Interest expense		13			
Δ Assets	342	299			
Δ Equity		26			
Δ Debt		273			
2009 Key ratios					
EBIT margin		24,1%		R _T	20,2%
Adjusted EBIT margin		24,3%		Adjusted R _T	20,1%
D/E ratio		11,68			
Adjusted D/E ratio		11,97			

*Median implied interest rate used

Debt is calculated as Loans and borrowings – non-current 8,252 MSEK and current 1,002 MSEK; Pension provision 1,291 MSEK.

35. Tele2

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			65	64	55
Operational leases		2814	1234	919	864
PV financial leases		214			
Implied interest rate		2,1%			
PV operational leases*	8100				
Balance Sheet	2008	2009			2009
Assets	47133	40379		Equity	28465
				Debt	3631
Income Statement	2008	2009			
Sales		39265			
EBIT		5527			
Interest income		212			
Adjustments	2008	2009			
Δ Amortization		900			
Δ Operational lease cost		-2814			
Δ Interest expense		306			
Δ Assets	8100	7200			
Δ Equity		1608			
Δ Debt		5592			
2009 Key ratios					
EBIT margin		14,1%		R _T	13,1%
Adjusted EBIT margin		19,0%		Adjusted R _T	14,9%
D/E ratio		0,13			
Adjusted D/E ratio		0,31			

*Median implied interest rate used

Debt is calculated as Total interest-bearing liabilities – long-term 3,188 MSEK and short-term 443 MSEK.

36. TeliaSonera

Leases	2008	2009	2010	2011	2012	2013	2014	>2015
Financial leases			31	21	8	6	5	4
Operational leases		2627	2002	1655	1329	1086	920	1932
PV financial leases		69						
Implied interest rate		3,8%						
PV operational leases*	10113							
Balance Sheet	2008	2009				2009		
Assets	264286	269670		Equity		142499		
				Debt		72513		
Income Statement	2008	2009						
Sales		109161						
EBIT		30324						
Interest income		481						
Adjustments	2008	2009						
Δ Amortization		1124						
Δ Operational lease cost		-2627						
Δ Interest expense		383						
Δ Assets	10113	8990						
Δ Equity		1121						
Δ Debt		7869						
2009 Key ratios								
EBIT margin		27,8%		R _T		11,5%		
Adjusted EBIT margin		29,2%		Adjusted R _T		11,7%		
D/E ratio		0,51						
Adjusted D/E ratio		0,56						

*Median implied interest rate used

Debt is calculated as Long-term borrowings 63,664 MSEK; Short-term borrowings 8,169 MSEK; Provision for pensions and employment contract 680 MSEK.³¹

³¹ Typically financial instruments are not considered to be interest-bearing debt. In the case of TeliaSonera it is different. *Long-term and short-term borrowings* are broken down in note C21 in the Annual Report 2009. The borrowings consist of open-market financing (corporate bonds), interest-rate swaps and currency interest-rate swaps. The two latter are classified as interest-bearing items under note C3. Significant Accounting Policies (*Derivatives and hedge accounting— measurement and classification*).

37. Tieto

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			6	4	0
Operational leases		14,4	11,3	8,8	0
PV financial leases		10			
Implied interest rate		2,0%			
PV operational leases*	32				
Balance Sheet	2008	2009			2009
Assets	1254,5	1195,3		Equity	518,3
				Debt	217,2
Income Statement	2008	2009			
Sales		1706,3			
EBIT		75,3			
Interest income		5,8			
Adjustments	2008	2009			
Δ Amortization		5			
Δ Operational lease cost		-14			
Δ Interest expense		1			
Δ Assets	32	27			
Δ Equity		9			
Δ Debt		19			
2009 Key ratios					
EBIT margin		4,4%	R _T		6,6%
Adjusted EBIT margin		5,0%	Adjusted R _T		7,3%
D/E ratio		0,42			
Adjusted D/E ratio		0,45			

*Median implied interest rate used

Debt is calculated as interest-bearing liabilities - non-current 150 MEUR and current 38.8 MEUR; Pension obligation 9.5 MEUR.

38. Trelleborg

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			3	6	-
Operational leases		157	140	282	185
PV financial leases	-				
Implied interest rate		-			
PV operational leases*	554				
Balance Sheet	2008	2009			2009
Assets	33769	29539		Equity	12267
				Debt	9851
Income Statement	2008	2009			
Sales		27059			
EBIT		773			
Interest income		23			
Adjustments	2008	2009			
Δ Amortization		62			
Δ Operational lease cost		-157			
Δ Interest expense		21			
Δ Assets	554	492			
Δ Equity		74			
Δ Debt		418			
2009 Key ratios					
EBIT margin		2,9%		R _T	2,5%
Adjusted EBIT margin		3,2%		Adjusted R _T	2,8%
D/E ratio		0,80			
Adjusted D/E ratio		0,84			

*Median implied interest rate used

Debt is calculated as interest-bearing liabilities - non-current 6,516 MSEK and current 2,529 MSEK; Pension obligation 806 MSEK.

39. Volvo

Leases	2008	2009	2010	2011-2014	>2015
Financial leases			501	500	85
Operational leases		950	894	1702	453
PV financial leases		852			
Implied interest rate		10,7%			
PV operational leases*	3535				
Balance Sheet	2008	2009			
Assets	372419	332265	Equity		67034
			Debt		164903
Income Statement	2008	2009			
Sales		218361			
EBIT		-17013			
Interest income		530			
Adjustments	2008	2009			
Δ Amortization		442			
Δ Operational lease cost		-950			
Δ Interest expense		134			
Δ Assets	3535	3093			
Δ Equity		374			
Δ Debt		2719			
2009 Key ratios					
EBIT margin		-7,8%	R _T		-4,7%
Adjusted EBIT margin		-7,6%	Adjusted R _T		-4,5%
D/E ratio		2,46			
Adjusted D/E ratio		2,50			

*Median implied interest rate used

Debt is calculated as corporate-bond borrowings 49,191 MSEK; Long-term borrowings 56,035 MSEK; Short-term borrowings 51,626 MSEK; Provision for pensions and similar benefits 8,051 MSEK.