

Implementation of IFRS 16 Leases

IFRS 16 shall be applied as of 1 January 2019. Implementation of the standard requires that essentially all leases will be recognised on the balance sheet, as there is no longer any distinction between operating leases and finance leases. IFRS 16 requires all assets and liabilities attributable to leases, unless the lease term is twelve months or less or the underlying asset has a low value, are recognised as assets and liabilities on the balance sheet. The accounting is based on the view that the lessee has the right to control the use of an identified asset (the right of use asset) during a specific period of time and a simultaneous obligation to pay for that right (a lease liability). Exceptions are permitted for short-term leases and leases of low value. Attendo has chosen to apply the retrospective approach and has thus restated the comparison figures as if the standard had always been applied.

Attendo provides care services through two contract models: own operations and outsourcing. In the own operations contract model, Attendo provides care services on Attendo's own premises, i.e., premises that Attendo in most cases rents from external property owners. In outsourcing, Attendo provides care services in the local authorities' premises and thus has no rental agreements for these premises. A lease under IFRS 16 is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Attendo's analysis shows that the majority of the contracts classified as leases under IFRS 16 refer to premises where Attendo provides services under the contract model own operations, cars used in home care operations and a few other assets.

As of 31 December 2018, Attendo had about 600 rental agreements related to premises that in accordance with IFRS 16 will be reported in the balance sheet. These leases constitute the majority of the leased assets and liabilities. The rental agreements related to premises usually have terms of 10-15 years and those for cars have terms of 3 years. Leases for premises also normally include one or more extension options. Because exercise of an extension option requires a new investment decision, IFRS 16 does not apply to the calculation of the extension option until a decision to continue the operation is made.

Variable costs, such as property tax, VAT and other variable property costs, such as the costs of maintenance, electricity, heat and water, etc., are excluded from the lease liability calculation to the extent those costs can be separated from the cost of rent. Attendo is using an external benchmark for public properties yields as the discount rate to calculate the lease liability (the present value of future lease payments) related to properties. The yield requirement differs among geographical areas and Attendo's leases have consequently been categorized based on their geographical location. For 2018, an interest rate of 4.9-5.75 percent is used for property leases in Sweden, 4.1-5.6 percent in Finland, 4.75-7 percent in Denmark and 4.0-5.25 percent in Norway. The discount rate for Attendo's leased cars in Sweden is based on the interest in the respective lease contract and in Denmark on the incremental borrowing rate amounting to 2.16 percent in 2018.

The majority of Attendo's leases contain some form of annual indexation, main part using the consumer price index. In Finland there are some leases for which indexation is based on occupancy. Attendo has applied the exemption permitting the exclusion of leases of assets of low value, below SEK 50,000, and leases with terms of less than twelve months. Commitments according to IFRS 16 only contain leasing contracts which has been taken into use. This is a difference compared to the current disclosures of future minimum lease payments, see note K7 in the Annual Report 2017. Consequently do not the IFRS 16 disclosures contain leasing contracts of low value, or shorter than 12 months, or signed leasing contracts that will be taken into use in future periods.

The consequence from implementing IFRS 16 is that both assets and liabilities increase significantly in accordance with what has been described above. At the same time, the operating profit before amortizations and depreciations (EBITDA) increases considerably given that main part of the rental payments no longer will be reported as other external costs. Also the operating profit (EBITA) increases but not with the same amount, since it contains depreciations and impairment of the right

of use asset. The profit for the period is however negatively affected, which is a consequence of the aging structure in Attendo's contract portfolio. Attendo is in an expansion phase with several lease contracts still relatively early during the contract cycle and thereby charged with a higher interest expense compared to leasing contracts during the latter part of the contract cycle. Implementation of IFRS 16 has for one single lease contract no positive nor negative impact on the net profit for the period. Attendo's financing agreements are not affected by the implementation of IFRS 16 since they are regulated based on a principle of unchanged accounting standard ("frozen GAAP").

As Attendo has chosen to apply the full retrospective approach, the transition to IFRS 16 will occur on 1 January 2018 and all balance sheets and income statements as of that date and later have been restated. The income statement and balance sheet items affected by the transition to IFRS 16 upon implementation, i.e., the opening balance on 1 January 2018 and complete income statements and balance sheets for all quarters in 2018 are presented below.

Income statement adjusted for IFRS 16

	Q1 2018			Q2 2018			Q3 2018			Q4 2018			Full year 2018		
	Reported	IFRS 16	Adjusted	Reported	IFRS 16	Adjusted	Reported	IFRS 16	Adjusted	Reported	IFRS 16	Adjusted	Reported	IFRS 16	Adjusted
SEKm															
Net sales	2 624		2 624	2 743		2 743	2 802		2 802	2 818		2 818	10 987		10 987
Other operating income	5		5	3		3	4		4	12		12	24		24
Total revenue	2 629	0	2 629	2 746	0	2 746	2 806	0	2 806	2 830	0	2 830	11 011		11 011
Personnel costs	-1 761		-1 761	-1 871		-1 871	-1 781		-1 781	-1 862		-1 862	-7 275		-7 275
Other external costs	-619	247	-372	-696	262	-434	-682	286	-396	-821	286	-535	-2 818	1 081	-1 737
Operating profit (EBITDA)	249	247	496	179	262	441	343	286	629	147	286	433	918	1 081	1 999
Amortization and depreciation of tangible and intangible assets	-61	-177	-238	-51	-191	-242	-46	-208	-254	-49	-208	-257	-207	-784	-991
Operating profit (EBITA)	188	70	258	128	71	199	297	78	375	98	78	176	711	297	1 008
<i>Operating margin (EBITA), %</i>	7,2%		9,8%	4,7%		7,3%	10,6%		13,4%	3,5%		6,3%	6,5%		9,2%
Amortization of acquisition related intangible assets	-33		-33	-36		-36	-37		-37	-36		-36	-142		-142
Operating profit (EBIT)	155	70	225	92	71	163	260	78	338	62	78	140	569	297	866
<i>Operating margin (EBIT), %</i>															
Net financial items	-34	-87	-121	-39	-95	-134	-35	-106	-141	-38	-106	-144	-146	-394	-540
Profit before tax	121	-17	104	53	-24	29	225	-28	197	24	-28	-4	423	-97	326
Income tax	-29	3	-26	-13	5	-8	-54	6	-48	-6	6	0	-102	20	-82
Profit for the period from continuing operations	92	-14	78	40	-19	21	171	-22	149	18	-22	-4	321	-77	244
<i>Profit margin, %</i>	3,5%		3,0%	1,5%		0,8%	6,1%		5,3%	0,6%		-0,1%	2,9%		2,2%
Divested operations															
Profit for the period from divested operations	37		37	31		31	38		38	605		605	711		711
Net profit for the period	129	-14	115	71	-19	52	209	-22	187	623	-22	601	1 032	-77	955
Profit for the period attributable to the parent company shareholders															
	129	-14	115	71	-19	52	209	-22	187	623	-22	601	1 032	-77	955
Basic earnings per share, continuing operations, SEK	0,57		0,49	0,25		0,13	1,07		0,93	0,11		-0,02	2,00		1,52
Diluted earnings per share, continuing operations, SEK	0,57		0,49	0,25		0,13	1,06		0,93	0,11		-0,02	2,00		1,52
Average number of shares outstanding, basic, thousands	160 413		160 413	160 414		160 414	160 414		160 414	160 577		160 577	160 455		160 455
Average number of shares outstanding, diluted, thousands	160 748		160 748	160 722		160 722	160 592		160 592	160 736		160 736	160 702		160 702

Balance sheet adjusted for IFRS 16

Mkr	Opening balance Jan -18			mar-18			jun-18			sep-18			dec-18		
	Reported	IFRS 16	Adjusted	Reported	IFRS 16	Adjusted	Reported	IFRS 16	Adjusted	Reported	IFRS 16	Adjusted	Reported	IFRS 16	Adjusted
ASSETS															
Non-current assets															
Goodwill	8 541		8 541	8 808		8 808	7 207		7 207	7 178		7 178	7 339		7 339
Other intangible assets	717		717	733		733	687		687	651		651	673		673
Equipment	559	-82	477	576	-78	498	552	-78	474	546	-76	470	677	-71	606
Right of use assets	0	5 664	5 664	0	6 289	6 289	0	7 061	7 061	0	7 402	7 402	0	7 533	7 533
Other non-current assets	109	84	193	113	89	202	105	94	199	118	99	217	137	105	242
Total non-current assets	9 926	5 666	15 592	10 230	6 300	16 530	8 551	7 077	15 628	8 493	7 425	15 918	8 826	7 567	16 393
Current assets															
Trade receivables	1 204		1 204	1 205		1 205	1 042		1 042	1 081		1 081	1 050		1 050
Other current assets	411	-98	313	629	-97	532	602	-103	499	560	-103	457	544	-107	437
Cash and cash equivalents	475		475	718		718	557		557	519		519	2 896		2 896
	2 090	-98	1 992	2 552	-97	2 455	2 201	-103	2 098	2 160	-103	2 057	4 490	-107	4 383
Assets held for sale	786		786	578		578	397		397	462		462	446		446
Assets in divested operations							2 333		2 333	2 323		2 323	0		0
Total current assets	2 876	-98	2 778	3 130	-97	3 033	4 931	-103	4 828	4 945	-103	4 842	4 936	-107	4 829
Total assets	12 802	5 568	18 370	13 360	6 203	19 563	13 482	6 974	20 456	13 438	7 322	20 760	13 762	7 460	21 222
EQUITY AND LIABILITIES															
Equity	5 369	-328	5 041	5 623	-347	5 276	5 515	-368	5 147	5 691	-388	5 303	6 211	-410	5 801
Non-current liabilities															
Liabilities to credit institutions	5 171	-63	5 108	5 363	-50	5 313	5 409	-52	5 357	5 295	-54	5 241	3 211	-53	3 158
Long-term lease liabilities	0	5 338	5 338		5 929	5 929	0	6 702	6 702	0	7 052	7 052	0	7 196	7 196
Provisions for post-employment benefits	52		52	57		57	60		60	52		52	43		43
Other provisions	11		11	17		17	18		18	18		18	54		54
Other non-current liabilities	131		131	131		131	123		123	119		119	162		162
Total non-current liabilities	5 365	5 275	10 640	5 568	5 879	11 447	5 610	6 650	12 260	5 484	6 998	12 482	3 470	7 143	10 613
Current liabilities															
Liabilities to credit institutions	65	-19	46	71	-28	43	68	-25	43	73	-22	51	2 138	-18	2 120
Short-term lease liabilities	0	640	640		699	699	0	717	717		734	734	0	745	745
Trade payables	281		281	287		287	199		199	209		209	259		259
Other current liabilities	1 648		1 648	1 764		1 764	1 740		1 740	1 657		1 657	1 657		1 657
	1 994	621	2 615	2 122	671	2 793	2 007	692	2 699	1 939	712	2 651	4 054	727	4 781
Liabilities held for sale	74		74	47		47	19		19	27		27	27		27
Liabilities in divested operations				0		0	331		331	297		297			0
Total current liabilities	2 068	621	2 689	2 169	671	2 840	2 357	692	3 049	2 263	712	2 975	4 081	727	4 808
Total equity and liabilities	12 802	5 568	18 370	13 360	6 203	19 563	13 482	6 974	20 456	13 438	7 322	20 760	13 762	7 460	21 222