

Press release

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NCC – comparative figures for 2017 according to IFRS 15

NCC is applying IFRS 15 as of January 1, 2018 and is hereby publishing comparative figures for 2017 according to IFRS 15.

NCC has two material revenue flows that could be impacted by IFRS 15.

Revenues from contracting operations

Revenues from construction contracts in the Building and Infrastructure business areas are currently recognized by means of percentage-of-completion profit recognition in accordance with IAS 11 Construction Contracts, assuming that certain conditions are met.

According to IFRS 15, revenues are to be recognized either by NCC's performance obligations being fulfilled over time (on a percentage-of-completion basis) or at a point in time. Since the construction contracts mean that NCC performs work on land belonging to the customer, NCC creates an asset that is controlled by the customer in pace with the asset's completion. In turn this means that NCC can continue to recognize revenues from construction contracts by applying percentage-of-completion profit recognition.

However, IFRS 15 differs from IAS 11 in one respect that will impact NCC's revenue recognition. This applies to contract modifications related to alterations and supplementary work, compensation for shortcomings in tender specifications and similar items. According to IAS 11, revenues in such cases are to be recognized when it is regarded as probable that they will be approved by the customer.

According to IFRS 15, a contractual modification may exist if the parties dispute the scope and/or the price of the modification. When assessing whether the modifications are enforceable, NCC must take all relevant facts and circumstances into account. If the parties fail to agree on the price, the revenue is only to be recognized insofar as it is highly probable that a significant reversal of accumulated recognized revenues will not arise when the parties reach agreement.

Requirements to recognize revenue in the aforementioned situations are higher under IFRS 15 than under IAS 11. NCC has estimated the effect of these stricter requirements at SEK 448 M for contracts that were not completed on January 1, 2018 (which results in a decrease in equity at January 1, 2018 of SEK 349 M net after tax), of which contracts amounting to SEK 286 M were not completed on January 1, 2017. In total, this entails a reduction in operating profit for 2017 of SEK 167 M and a reduction in equity on January 1, 2017 of SEK 220 M, net after tax.

The effects for 2017 for the Group and the business areas are presented in the attached Excel file and can be found at <https://www.ncc.group/investor-relations/interim-reports/>.

Revenues from commercial property development

NCC is investigating the issue of applying IFRS 15 to revenues from commercial property development. NCC will not adjust any figures for commercial property development until this investigation has been completed.

The Property Development business area sells commercial buildings, including land, to various types of investors. At present, revenue is normally recognized on completion of the property and handover to the customer. This complies with IFRIC 15 which, since the buyer has limited power to influence the design of the building, states that IAS 18 is to be applied and thus that the revenue is to be recognized upon handover to the customer.

According to IFRS 15, the revenue is to be recognized over time (percentage-of-completion) in connection with a gradual transition of control, unless NCC has an alternative use for the sold property and NCC is entitled to payment from the customer for work performed at a point in time. If any of these criteria is not fulfilled, the revenue, like today, is to be recognized at a point in time – on completion and handover to the customer.

Since NCC always agrees on delivery of a certain property to the customer, and it cannot be sold to anyone else, NCC, according to the definition in IFRS 15, never has an alternative use for the sold property. Whether or not NCC is entitled to payment from the customer for work performed at a point in time depends on the contractual conditions and on legislation at the point in time, and this is an assessment that has to be made from contract to contract. NCC is analyzing and investigating how the transition of control to customers should be interpreted according to IFRS 15, given the legal and commercial conditions in the Nordic property market. In NCC's opinion, actual control is transferred to the buyer when a property development project is completed and handed over to the customer. NCC's aim is that the forthcoming application of IFRS 15 will coincide with when actual control is transferred and that it will also match the way it is applied by other major listed companies. Inquiry and analysis are still in progress and NCC will communicate its conclusion as soon as possible.

Should the conclusion be that NCC Property Development's revenues have to be recognized over time (percentage-of-completion), the transition to IFRS 15 will not impact equity at December 31, 2017 but it will result in a decrease in operating profit for 2017 by slightly more than SEK 500 M and a corresponding increase of 1 January 2017 shareholders' equity. Regardless of the conclusion, NCC Property Development in its segment reporting will continue to recognize the revenue on completion and handover to the customer.

The attached comparative figures for 2017 have not been adjusted for a transition to recognition of NCC Property Development's revenues over time.

For further information, please contact:

Mattias Lundgren, Chief Financial Officer, NCC AB, 070 228 88 81

Johan Bergman, Head of Investor Relations, NCC AB, 070 354 80 35

NCC's press telephone: +46 8 585 519 00, E-mail: press@ncc.se

All of NCC's press releases are available at www.ncc.se/press.

About NCC. Our vision is to renew our industry and provide superior sustainable solutions.

NCC is one of the leading companies in construction, infrastructure and property development in the Nordic region, with sales of almost SEK 55 billion and 17,800 employees in 2017. The NCC share is listed on Nasdaq Stockholm.