

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers, replaces as of 2018 previous standards related to income recognition such as IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 15 Agreements for the construction of real estate. No material effects have been identified. According to IFRS 15 income is recognized when control over a product or service is transferred to a customer, which is a change from the previous reporting standards that are based on the transfer of risks and benefits. Even if IFRS 15 entails a new method of determining how and when income is recognized, it has not led to any material effects for the Peab Group.

Peab has chosen to apply IFRS 15 retroactively by recalculating the financial reports for 2017.

Until the end of 2017 there were differences between operative and legal reporting in business area Project Development. The differences was also reflected in how executive management and the Board followed up the Group on the whole. Peab applies IFRIC 15, Agreements for the construction of real estate, in legal reporting. This principle required applying IAS 18, Revenue, for housing projects in Finland and Norway as well as our own singlehome developments in Sweden, which means income from projects is first recognized when the home is turned over. Operative and segment reporting was based on the percentage of completion. After implementing IFRS 15 our own single home developments in Sweden will be reported according to so-called "income over time". IFRS 15 will not lead to any changes in reporting regarding housing projects in Finland and Norway compared to the current application since income is first recognized when the home is turned over to the buyer. After implementation of IFRS 15 the segment reporting reflects legal reporting. The differences between operative and legal reporting will therefore no longer exist for either business area Project Development or the Group as a whole.

According to IFRS 15 the sales price of the identified performance obligations in contracts with customers is divided up. Income is recognized when a performance obligation is met, which can be at a certain point in time or over time. In regards to Peab's construction contract operations in business area Construction and Civil Engineering IFRS 15 does not entail any material change regarding when the income is recognized or for what amount. Business area Industry recognizes income according to both IFRS 15 and IAS 17 but the shift to IFRS 15 does not entail any material change in the way income is recognized. In business area Project Development most income is recognized over time. Swedish tenant-owner projects are reported according to IFRS 15 over time, which is the same as previously. Contracts with the tenant-owned association are all signed at the same time, they are priced as one unit and considered to be one performance obligation. This means that income is recognized depending on the project's level of completion based on accrued expenses in relation to the project's total calculated costs. Land is sold and buildings are constructed according to the contract with the tenant-owner association, which is an independent legal entity.

As previously, feared costs are expensed as soon as they are known. According to IFRS 15 the part of a feared loss that has not been worked-up is recognized as a provision. This is a change compared to IAS 11 where the part of a feared loss that has not been worked-up is recognized as Worked-up but not invoiced income among current assets or Invoiced but not worked-up income among current liabilities.

No material effects have been identified due to Peab's recalculation to IFRS 15. As of 1 January 2017 the recalculation effected equity by SEK -40 million. The recalculation to IFRS 15 reduced net sales in 2017 by SEK 109 million to SEK 49,981 million and operating profit improved by SEK 13 million to SEK 2,418 million. Total comprehensive income for the year 2017 improved by SEK 10 million and therefore equity at the end of 2017 amounted to SEK 10,332 million.

In connection with implementation of IFRS 15 the previous balance item Work-in-progress has been included in the balance item Project and development properties. As of 1 January 2017 the recalculated reported amount was SEK 1,203 million.

Cash flow was not affected by the recalculation but it causes some deferment within changes in working capital primarily because work-in-progress is reclassified to project and development property.

Disclosures

Implementation of IFRS 15 also entails new disclosures demands primarily regarding income allocation into categories, contract balances and performance obligations, which will affect Peab's Annual Report for 2018.

Orders received and order backlog

Implementation of IFRS 15 Revenue from contracts with customers entails new disclosures demands. One of the disclosures demands refers to remaining performance obligations, more often called order backlog. In quarterly reports Peab has previously chosen to present information on orders received and order backlog in business areas Construction, Civil Engineering and Project Development. As of 2018 Industry will also present orders received and order backlog for product areas Asphalt, Construction System and part of Rentals. Comparable figures regarding orders received and order backlog have been recalculated for 2017.

Recalculation to new accounting principles - IFRS 15

Balance sheet	2017-01-01		
	Reported balance sheet	Adjustment IFRS 15	Adjusted balance sheet
MSEK			
Assets			
Intangible assets	2,036		2,036
Tangible assets	3,648		3,648
Investment property	629		629
Interest-bearing long-term receivables	1,762		1,762
Other financial fixed assets	1,757		1,757
Deferred tax recoverables	69		69
Total fixed assets	9,901	0	9,901
Project and development properties	7,007	911	7,918
Inventories	364		364
Work-in-progress	1,203	-1,203	–
Interest-bearing current receivables	336		336
Other current receivables	11,736	32	11,768
Liquid funds	1,062		1,062
Total current assets	21,708	-260	21,448
Total assets	31,609	-260	31,349
Equity and liabilities			
Equity	9,380	-40	9,340
Liabilities			
Interest-bearing long-term liabilities	2,728		2,728
Deferred tax liabilities	372	-12	360
Other long-term liabilities	776		776
Total long-term liabilities	3,876	-12	3,864
Interest-bearing current liabilities	2,294		2,294
Other current liabilities	16,059	-208	15,851
Total current liabilities	18,353	-208	18,145
Total liabilities	22,229	-220	22,009
Total equity and liabilities	31,609	-260	31,349

Recalculation to new accounting principles - IFRS 15

Income statement	Jan-Mar 2017			Jan-Jun 2017		
	Reported income statement	Adjustment IFRS 15	Adjusted income statement	Reported income statement	Adjustment IFRS 15	Adjusted income statement
MSEK						
Net Sales	11,151	-46	11,105	24,004	-108	23,896
Production costs	-10,279	45	-10,234	-21,794	99	-21,695
Gross profit	872	-1	871	2,210	-9	2,201
Sales and administrative expenses	-657	1	-656	-1,394	3	-1,391
Other operating income	118		118	156		156
Other operating expenses	-13		-13	-15		-15
Operating income	320	-	320	957	-6	951
Financial income	20		20	56		56
Financial expenses	-29		-29	-79		-79
Net finance	-9	-	-9	-23	-	-23
Pre-tax profit	311	0	311	934	-6	928
Tax	-34		-34	-127	1	-126
Profit for the period	277	0	277	807	-5	802
Profit for the period attributable to:						
Shareholders in parent company	277	0	277	807	-5	802
Non controlling interests	-		-	-		-
Profit for the period	277	0	277	807	-5	802
Statement of comprehensive income						
MSEK						
Profit for the period	277	0	277	807	-5	802
Translation differences for the period	-19		-19	-54		-54
Other changes in other comprehensive income	-39		-39	144		144
Other comprehensive income for the period	-58	0	-58	90	0	90
Total comprehensive income for the period	219	0	219	897	-5	892
Total comprehensive income for the period attributable to						
Shareholders in parent company	219	0	219	897	-5	892
Non controlling interests	-		-	-		-
Total comprehensive income for the period	219	-	219	897	-5	892
Balance sheet						
	2017-03-31			2017-06-30		
	Reported balance sheet	Adjustment IFRS 15	Adjusted balance sheet	Reported balance sheet	Adjustment IFRS 15	Adjusted balance sheet
MSEK						
Assets						
Intangible assets	2,038		2,038	2,025		2,025
Tangible assets	4,912		4,912	5,137		5,137
Investment property	704		704	792		792
Interest-bearing long-term receivables	1,724		1,724	1,670		1,670
Other long-term receivables	1,412		1,412	1,663		1,663
Deferred tax recoverables	65	-2	63	61		61
Total fixed assets	10,855	-2	10,853	11,348	0	11,348
Project and development properties	5,472	813	6,285	6,127	957	7,084
Inventories	390		390	420		420
Work-in-progress	1,059	-1,059	-	1,152	-1,152	-
Interest-bearing current receivables	77		77	84		84
Other current receivables	9,914	34	9,948	12,092	28	12,120
Liquid funds	1,725		1,725	243		243
Assets available-for-sale	-		-	-		-
Total current assets	18,637	-212	18,425	20,118	-167	19,951
Total assets	29,492	-214	29,278	31,466	-167	31,299
Equity and liabilities						
Equity	9,599	-40	9,559	9,215	-45	9,170
Liabilities						
Interest-bearing long-term liabilities	2,570		2,570	2,743		2,743
Deferred tax liabilities	340	-13	327	268	-12	256
Other long-term liabilities	755		755	762		762
Total long-term liabilities	3,665	-13	3,652	3,773	-12	3,761
Interest-bearing current liabilities	1,372		1,372	1,961		1,961
Other current liabilities	14,856	-161	14,695	16,517	-110	16,407
Total current liabilities	16,228	-161	16,067	18,478	-110	18,368
Total liabilities	19,893	-174	19,719	22,251	-122	22,129
Total equity and liabilities	29,492	-214	29,278	31,466	-167	31,299

Recalculation to new accounting principles - IFRS 15

Income statement	Jan-Sep 2017			Jan-Dec 2017		
	Reported income statement	Adjustment IFRS 15	Adjusted income statement	Reported income statement	Adjustment IFRS 15	Adjusted income statement
MSEK						
Net Sales	35,534	-43	35,491	50,090	-109	49,981
Production costs	-32,170	44	-32,126	-45,345	116	-45,229
Gross profit	3,364	1	3,365	4,745	7	4,752
Sales and administrative expenses	-1,920	1	-1,919	-2,620	6	-2,614
Other operating income	234		234	305		305
Other operating expenses	-15		-15	-25		-25
Operating income	1,663	2	1,665	2,405	13	2,418
Financial income	73		73	191		191
Financial expenses	-105		-105	-151		-151
Net finance	-32	-	-32	40	-	40
Pre-tax profit	1,631	2	1,633	2,445	13	2,458
Tax	-245	-1	-246	-388	-3	-391
Profit for the period	1,386	1	1,387	2,057	10	2,067
Profit for the period attributable to:						
Shareholders in parent company	1,386	1	1,387	2,057	10	2,067
Non controlling interests	-	-	-	0	0	0
Profit for the period	1,386	1	1,387	2,057	10	2,067
Statement of comprehensive income						
MSEK						
Profit for the period	1,386	1	1,387	2,057	10	2,067
Translation differences for the period	-49		-49	-53		-53
Other changes in other comprehensive income	139		139	39		39
Other comprehensive income for the period	90	0	90	-14	0	-14
Total comprehensive income for the period	1,476	1	1,477	2,043	10	2,053
Total comprehensive income for the period attributable to						
Shareholders in parent company	1,476	1	1,477	2,043	10	2,053
Non controlling interests	0	0	0	0	0	0
Total comprehensive income for the period	1,476	1	1,477	2,043	10	2,053
Balance sheet						
	2017-09-30			2017-12-31		
	Reported balance sheet	Adjustment IFRS 15	Adjusted balance sheet	Reported balance sheet	Adjustment IFRS 15	Adjusted balance sheet
MSEK						
Assets						
Intangible assets	2,056		2,056	2,167		2,167
Tangible assets	5,216		5,216	5,508		5,508
Investment property	840		840	871		871
Interest-bearing long-term receivables	1,778		1,778	1,520		1,520
Other long-term receivables	1,222		1,222	1,147		1,147
Deferred tax recoverables	67	-1	66	15	-2	13
Total fixed assets	11,179	-1	11,178	11,228	-2	11,226
Project and development properties	6,528	901	7,429	6,439	1,173	7,612
Inventories	448		448	399		399
Work-in-progress	1,154	-1,154	-	1,349	-1,349	0
Interest-bearing current receivables	301		301	411		411
Other current receivables	11,859	55	11,914	11,855	27	11,882
Liquid funds	255		255	595		595
Assets available-for-sale	585		585	-		0
Total current assets	21,130	-198	20,932	21,048	-149	20,899
Total assets	32,309	-199	32,110	32,276	-151	32,125
Equity and liabilities						
Equity	9,796	-39	9,757	10,362	-30	10,332
Liabilities						
Interest-bearing long-term liabilities	2,688		2,688	2,573		2,573
Deferred tax liabilities	273	-12	261	211	-10	201
Other long-term liabilities	733		733	840		840
Total long-term liabilities	3,694	-12	3,682	3,624	-10	3,614
Interest-bearing current liabilities	1,993		1,993	1,169		1,169
Other current liabilities	16,826	-148	16,678	17,121	-111	17,010
Total current liabilities	18,819	-148	18,671	18,290	-111	18,179
Total liabilities	22,513	-160	22,353	21,914	-121	21,793
Total equity and liabilities	32,309	-199	32,110	32,276	-151	32,125

Quarterly data, Group

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Jun	Jan-Sep	Jan-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Jun	Jan-Sep	Jan-Dec
MSEK	2017	2017	2017	2017	2017	2017	2017	2016	2016	2016	2016	2016	2016	2016
Net sales	11,105	12,791	11,595	14,490	23,896	35,491	49,981	8,584	12,600	11,197	13,673	21,184	32,381	46,054
Production costs	-10,234	-11,461	-10,431	-13,103	-21,695	-32,126	-45,229	-7,869	-11,323	-10,107	-12,409	-19,192	-29,299	-41,708
Gross profit	871	1,330	1,164	1,387	2,201	3,365	4,752	715	1,277	1,090	1,264	1,992	3,082	4,346
Sales and administrative expenses	-656	-735	-528	-695	-1,391	-1,919	-2,614	-564	-697	-478	-700	-1,261	-1,739	-2,439
Other operating income	118	38	78	71	156	234	305	23	37	30	59	60	90	149
Other operating costs	-13	-2	0	-10	-15	-15	-25	-5	0	-3	-4	-5	-8	-12
Operating profit	320	631	714	753	951	1,665	2,418	169	617	639	619	786	1,425	2,044
Financial income	20	36	17	118	56	73	191	65	40	24	66	105	129	195
Financial expenses	-29	-50	-26	-46	-79	-105	-151	-76	-59	-37	-71	-135	-172	-243
Net finance	-9	-14	-9	72	-23	-32	40	-11	-19	-13	-5	-30	-43	-48
Pre-tax profit	311	617	705	825	928	1,633	2,458	158	598	626	614	756	1,382	1,996
Tax	-34	-92	-120	-145	-126	-246	-391	-25	-94	-96	-96	-119	-215	-311
Profit for the period	277	525	585	680	802	1,387	2,067	133	504	530	518	637	1,167	1,685
Profit for the period, attributable to:														
Shareholders in parent company	277	525	585	680	802	1,387	2,067	133	504	530	518	637	1,167	1,685
Non-controlling interests	-	-	-	0	-	-	0	0	0	0	0	0	0	0
Profit for the period	277	525	585	680	802	1,387	2,067	133	504	530	518	637	1,167	1,685
Key ratios														
Earnings per share before and after dilution, SEK	0.94	1.78	1.98	2.31	2.72	4.70	7.01	0.45	1.71	1.80	1.76	2.16	3.96	5.71
Average number of outstanding shares, million	295.0	295.0	295.0	295.0	295.0	295.0	295.0	295.0	295.0	295.0	295.0	295.0	295.0	295.0
Capital employed (closing balance)	13,501	13,874	14,438	14,074	13,874	14,438	14,074	13,418	13,702	15,005	14,362	13,702	15,005	14,362
Equity (closing balance)	9,559	9,170	9,757	10,332	9,170	9,757	10,332	8,253	8,023	8,698	9,340	8,023	8,698	9,340

Quarterly data, Business areas

MSEK	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Jun	Jan-Sep	Jan-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Jun	Jan-Sep	Jan-Dec
	2017	2017	2017	2017	2017	2017	2017	2016	2016	2016	2016	2016	2016	2016
Net sales														
Construction	6,386	6,988	5,721	7,631	13,374	19,095	26,726	5,199	6,420	5,510	6,992	11,619	17,129	24,121
Civil Engineering	2,388	2,831	2,819	3,787	5,219	8,038	11,825	2,029	2,765	2,654	3,292	4,794	7,448	10,740
Industry	2,237	3,420	3,420	3,684	5,657	9,077	12,761	1,894	3,356	3,449	3,462	5,250	8,699	12,161
Project Development	2,212	2,000	1,926	2,205	4,212	6,138	8,343	1,268	2,187	1,486	2,263	3,455	4,941	7,204
- of which Property Development	659	106	131	117	765	896	1,013	76	1,031	130	148	1,107	1,237	1,385
- of which Housing Development	1,553	1,894	1,795	2,088	3,447	5,242	7,330	1,192	1,156	1,356	2,115	2,348	3,704	5,819
Group functions	235	254	242	262	489	731	993	204	225	226	242	429	655	897
Eliminations	-2,353	-2,702	-2,533	-3,079	-5,055	-7,588	-10,667	-2,010	-2,353	-2,128	-2,578	-4,363	-6,491	-9,069
Group	11,105	12,791	11,595	14,490	23,896	35,491	49,981	8,584	12,600	11,197	13,673	21,184	32,381	46,054
Operating profit														
Construction	139	162	121	180	301	422	602	116	152	127	147	268	395	542
Civil Engineering	39	110	89	136	149	238	374	37	105	93	120	142	235	355
Industry	-23	246	342	302	223	565	867	-12	202	336	227	190	526	753
Project Development	222	162	174	246	384	558	804	59	187	110	235	246	356	591
- of which Property Development	90	5	-3	6	95	92	98	4	102	-37	20	106	69	89
- of which Housing Development	132	157	177	240	289	466	706	55	85	147	215	140	287	502
Group functions	-47	-49	-4	-128	-96	-100	-228	-27	-29	-6	-60	-56	-62	-122
Eliminations	-10	0	-8	17	-10	-18	-1	-4	0	-21	-50	-4	-25	-75
Group	320	631	714	753	951	1,665	2,418	169	617	639	619	786	1,425	2,044
Operating margin, %														
Construction	2.2	2.3	2.1	2.4	2.3	2.2	2.3	2.2	2.4	2.3	2.1	2.3	2.3	2.2
Civil Engineering	1.6	3.9	3.2	3.6	2.9	3.0	3.2	1.8	3.8	3.5	3.6	3.0	3.2	3.3
Industry	-1.0	7.2	10.0	8.2	3.9	6.2	6.8	-0.6	6.0	9.7	6.6	3.6	6.0	6.2
Project Development	10.0	8.1	9.0	11.2	9.1	9.1	9.6	4.7	8.6	7.4	10.4	7.1	7.2	8.2
- of which Property Development	13.7	4.7	-2.3	5.1	12.4	10.3	9.7	5.3	9.9	-28.5	13.5	9.6	5.6	6.4
- of which Housing Development	8.5	8.3	9.9	11.5	8.4	8.9	9.6	4.6	7.4	10.8	10.2	6.0	7.7	8.6
Group functions														
Eliminations														
Group	2.9	4.9	6.2	5.2	4.0	4.7	4.8	2.0	4.9	5.7	4.5	3.7	4.4	4.4

Order situation, Business areas

MSEK	Jan-Mar 2017	Apr-Jun 2017	Jul-Sep 2017	Oct-Dec 2017	Jan-Jun 2017	Jan-Sep 2017	Jan-Dec 2017
Orders received							
Construction	7,865	6,530	7,110	7,775	14,395	21,505	29,280
Civil Engineering	3,800	3,951	3,047	3,393	7,751	10,798	14,191
Industry	1,760	1,009	982	1,401	2,769	3,751	5,152
Project Development	1,375	3,215	965	2,941	4,590	5,555	8,496
Eliminations	-2,371	-1,825	-1,453	-2,471	-4,196	-5,649	-8,120
Group	12,429	12,880	10,651	13,039	25,309	35,960	48,999
Order backlog							
Construction	25,716	25,285	26,699	26,805			
Civil Engineering	10,052	10,974	11,253	10,832			
Industry	3,459	3,046	2,534	2,533			
Project Development	6,705	7,992	7,478	8,198			
Eliminations	-7,783	-7,827	-7,753	-8,163			
Group	38,149	39,470	40,211	40,205			