IFRS 15

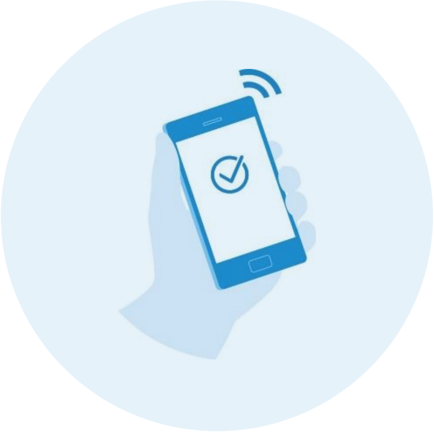
ROBERTO MOLTENI
CORPORATE CONTROLLER

Agenda

- Practicalities
- Background
- What changes, what doesn't change?
- Impacts on the income statement
- Impacts on working capital
- Questions?

Practicalities

The event will be recorded



A recording of the event will be available afterwards

Questions through the chat

You can send questions anytime through **the moderator chat**

We will answer the questions after the general presentation

Background

- Sales recognition will change in 2018 due to the adoption of new IFRS 15 principles

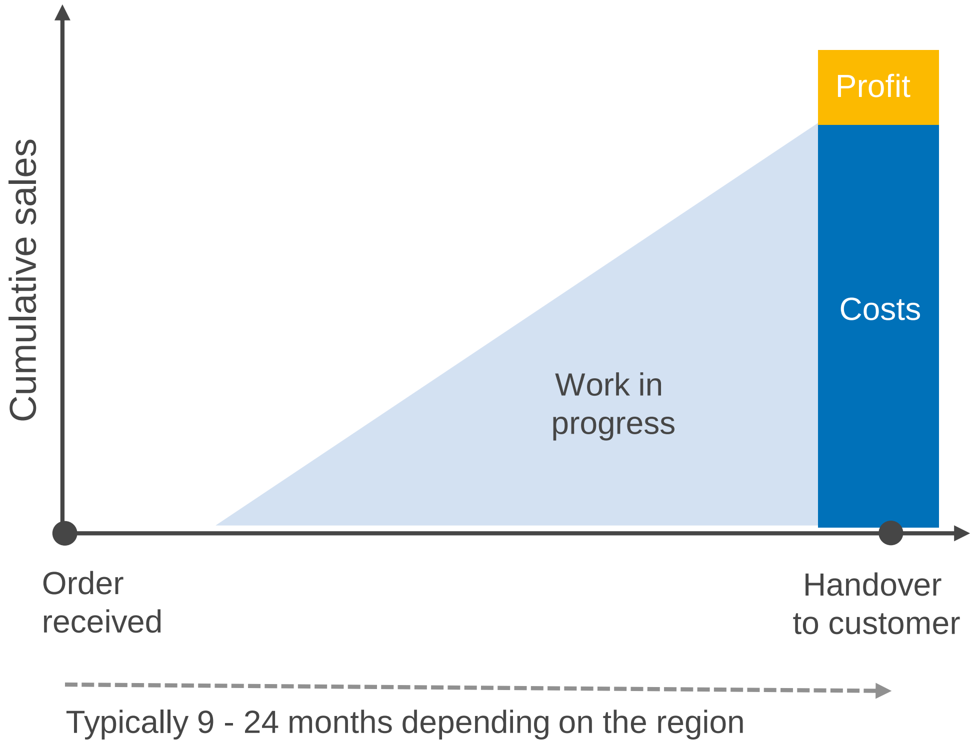
- The change concerns the volume new equipment and modernization businesses
  - Currently: sales recognized upon handover to the customer
  - 2018 onwards: gradual recognition of sales during the project duration

- In major projects, sales have already been recognized gradually during the project duration

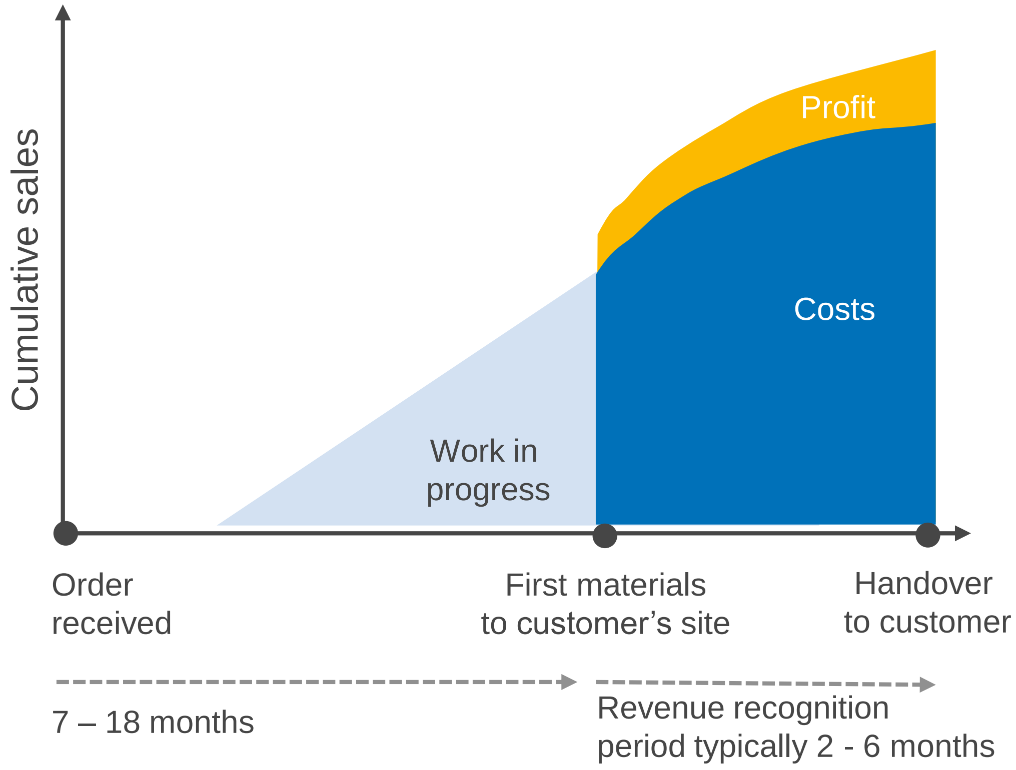
- Q1 2018 will already be reported in line with the new principles, comparison figures for 2017 will be disclosed before the publication of Q1 2018 results

From completed contract to percentage of completion in volume new equipment business

Currently



2018 onwards



What changes? What doesn't change?

What changes?

- Revenue recognition in the volume new equipment and modernization businesses from "completed contract" to "percentage of completion" (around half of KONE's sales impacted)
  - Slightly shorter lead-time from order to sales → EUR ~1 bn lower order backlog
  - Slightly less quarterly fluctuation in sales and profits within a year
  - Slightly less negative the working capital items

What doesn't change?

- Revenue recognition in maintenance and major projects
- Cash flow

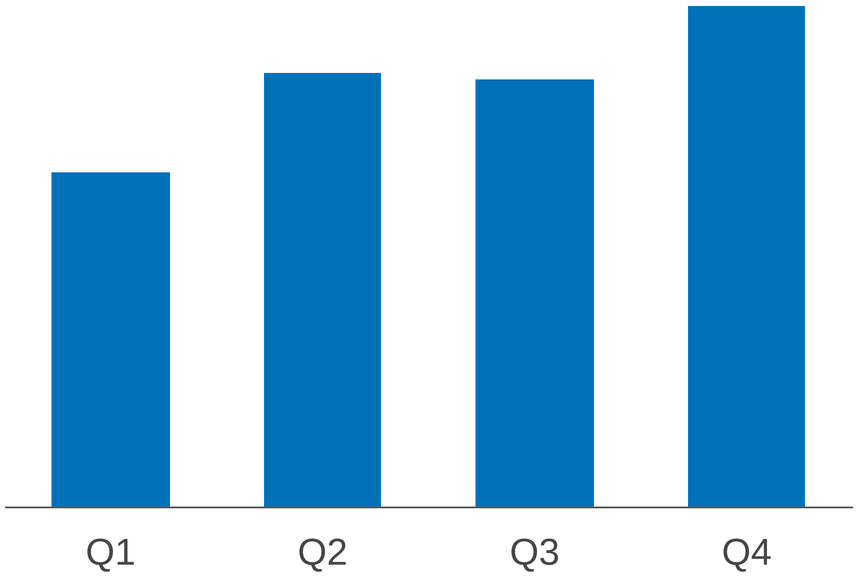
Other things to understand

- No one-offs for the income statement from the transition. The difference is booked straight to equity

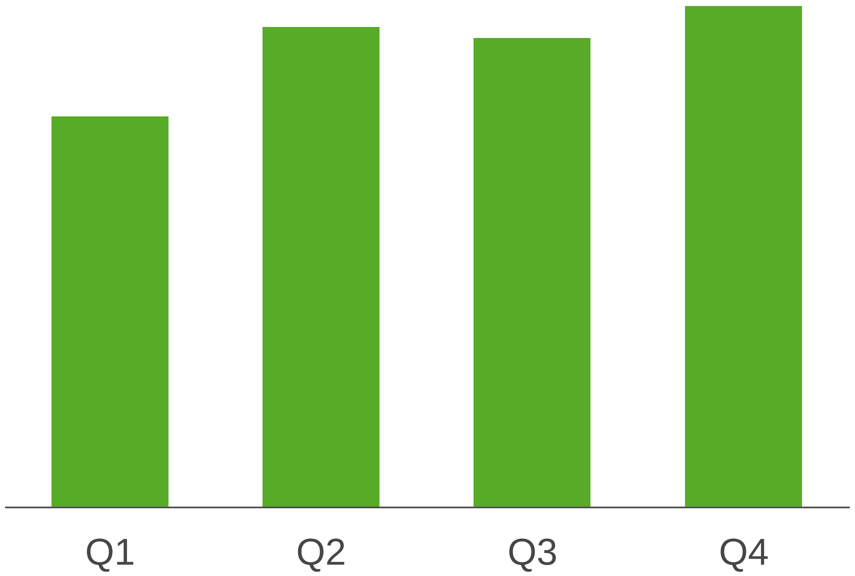
Estimated impacts on the income statement

- The lead-time from order to sales in volume new equipment business decreases slightly
- Slightly less quarterly fluctuation in sales and profits within a year

2014-2016 average sales distribution within the year



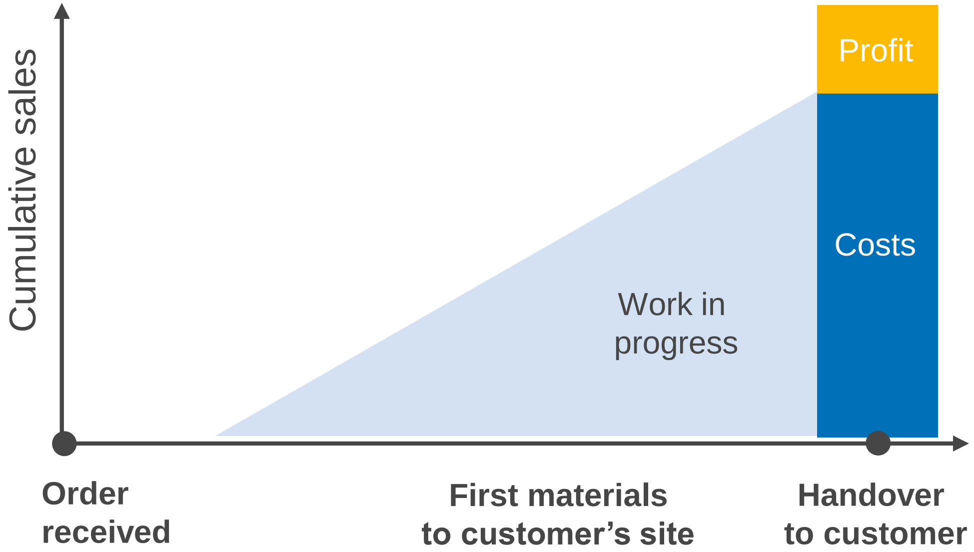
Estimated sales distribution with the new revenue recognition principle (illustrative)*



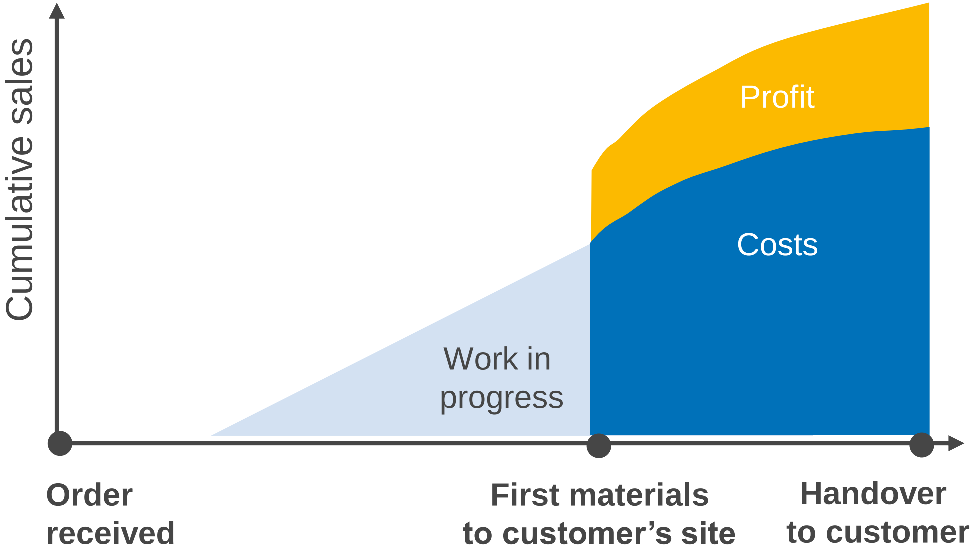
Example case: volume new equipment order worth 100

(numbers are illustrative)

Currently



2018 onwards



		Currently: Order received	Currently: First materials to customer's site	Currently: Handover to customer	2018 onwards: Order received	2018 onwards: First materials to customer's site	2018 onwards: Handover to customer
	Order book	100	100	-	100	47	-
Balance sheet	Inventory	-	45	-	-	-	-
Balance sheet	Advances received	5	50	-	5	-	-
Balance sheet	Accounts receivable	-	-	10	-	3	10
P&L	Cumulative sales	-	-	100	-	53 →	100
P&L	Cumulative costs	-	-	85	-	45 →	85
P&L	Cumulative profit	-	-	15	-	8 →	15

Working capital estimated to be less negative by over 10%

Revenue (+ profits and costs) recognized earlier:

Inventories decrease by over 50%

Advances received decrease by ~30%

Working capital before the change (illustrative)

Inventories	140	Advances received	200
Accounts receivable	160	Other wc items	275
Other wc items	70		
Total	**-105**		

Working capital post the change (illustrative)

Inventories	60	Advances received	130
Accounts receivable	190	Other wc items	285
Other wc items	75		
Total	**-90**		

Accounts receivable increases somewhat

+ some minor changes to minor changes to deferred tax assets and liabilities

Q&A

ASK QUESTIONS USING THE MODERATOR CHAT

Dedicated to People Flow™