

March 16, 2012

IFRS Foundation/IASB
30 Cannon Street
London EC4M 6XH
United Kingdom

Response to re-exposed ED Revenue from Contracts with Customers (ED/20011/6)

NCC is responding to your request for comments on the re-exposed ED Revenue from Contracts with Customers. We limit our comments to question 1 in the ED which we think is the significant issue for the construction and real-estate industry.

NCC is one of the leading construction and property development companies in the Nordic region. NCC develops and constructs residential and commercial properties, industrial facilities and public buildings, roads, civil engineering structures and other types of infrastructure. NCC also offers input materials used in construction, such as aggregates and asphalt, and provides paving and road services.

Background and general comments

NCC has principally three types of transactions regarding construction of real-estate.

Property development

In these transactions NCC buys and develops a piece of land and offers professional investors a completed building on that land. The customer has no direct involvement regarding construction or design of the property. Payment is often received at completion and NCC always fulfills the contract. Revenue is recognized when the building is completed and title is transferred to the customer i.e. at a single point in time. The customer cannot cancel the contract during construction other than if NCC fails to fulfill the contract.

Housing

In line with the property development transaction NCC buys and develops a piece of land and offers individuals apartments in a building which is built by NCC. The customer has no involvement in the design or construction of the building. Our treatment under current IFRS is that revenue is recognized at completion and title is transferred to the customer. Payment is received at completion.

Construction

In these transactions NCC is approached by a customer who wants a specific property built on land that the customer owns. The customer

is highly involved in the construction and design of the property. Payment is received continuously throughout the project. The contract is considered a construction contract in accordance with IAS 11 Construction Contracts and revenue is recognized based on percentage of completion.

NCC is aware of the problems to replace a number of standards and interpretations with one single standard but we believe that the changes in the re-exposed ED will in essence change the way of reporting construction and real-estate and housing industry compared to the current treatment according to IAS 18 Revenue and IFRIC 15 Agreements for the Construction of Real Estate.

The transition to IFRIC 15 lead to an accounting change for NCC meaning that revenue and profit from the sale of property development projects and housing projects are normally not recognized until the date when the property or housing unit has been completed and transferred to the customer. We concluded that IFRIC 15 actually better reflects our business model and that it gives a more true and fair view.

The proposed changes will therefore have an essential impact on accounting for real-estate and housing contracts as the proposal will mean that we will go back to the accounting model used before the implementation of IFRIC 15.

We therefore do not agree with the proposal regarding when a performance obligation should be recognized over time. We believe that the ED is not consistent in some areas to the concept control as the criteria for recognizing revenue.

Below you find our detailed comments to question 1.

Question 1

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognizes revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

The proposal states in paragraph 35 that a performance obligation is settled over time, either when control is transferred continuously (p35a) or when there is no alternative use for the asset and one of three other criteria is fulfilled (p35b).

We concur with the IASB that it is reasonable that revenue should be recognized continuously when control is transferred also continuously.

However we have strong concerns regarding the proposed criteria in paragraph 35 b as they are not any indicators of transfer of control. The criteria presented seem to be a rule based approach to when a performance obligation is settled rather than based on a robust principle. We do not understand how these criteria, i.e. that there is no alternative use for the asset, right to payment or that another party would not need to reper form the work done to date, in any way indicates that actual control has been transferred of property for example.

We acknowledge that the criteria presented take care of certain concerns that been brought forward such as revenue recognition for services provided. However it will impose problems in business such as ours.

Our main concern is that as sale of real estate will typically meet the no alternative use criteria. This in conjunction with the right to receive payment, as well as we expect that the contract will be fulfilled will mean, from our interpretation of the proposal, that almost all of our real estate sales, in each of our categories described above, will be recognized over time, even if control is not transferred to the customer during the production.

This is from our perspective counterintuitive to what is brought forward in paragraph 31-33 regarding when a performance obligation is settled i.e. when control is transferred. Even though we support the IASBs effort to address the question of settling performance obligation over time, we believe that this should not be done by overriding the basic concept of transfer of control.

The proposed changes will therefore have an essential impact on our accounting for property development and housing contracts as the proposal will mean in essence that we will go back to the accounting model used before implementation of IFRIC 15.

We therefore strongly disagree with the proposed wording in paragraph 35 b as it will force us to recognize revenue for property development and housing in a way that does not, from our perspective, reflect the economic substance of the transactions.

We also believe that application of this paragraph could lead to a broaden application compared to the situation today to transactions that never have considered continuous recognition of revenue as a possibility. We believe this is unfortunate.

We believe that the criteria introduced in 35 b are inconsistent with the basic principle that revenue is recognized when control is transferred to the customer either at a single point in time or continuously. The introduction of p 35 b will be a separate principle having an activity based approach to revenue recognition rather than

a control based approach. Therefore we believe that paragraph 35 b should be withdrawn or altered to be more consistent with basic concept of control.

We are pleased to be at your service in case further clarification to our comments will be needed. We ask you to communicate with Mr. Gunnar Bäckström.

Correspondence to:
Gunnar Bäckström
NCC AB
SE-170 80 SOLNA
gunnar.backstrom@ncc.se

Yours sincerely,

Ann-Sofie Danielsson
CFO
NCC AB