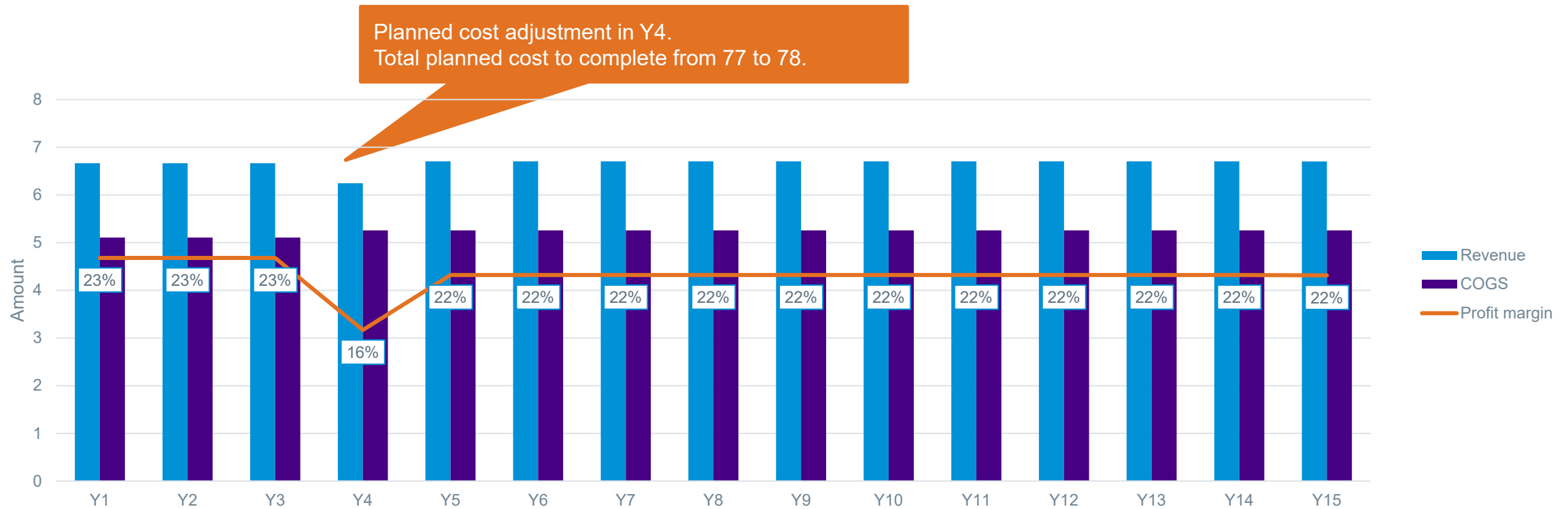


# POC accounting in Service

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- Under IFRS 15, using POC accounting over the life of the Service contracts, Service revenue is recognized based on the percentage of cost incurred vs. planned cost to complete the contract (the "cost-to-cost" method). This means in POC-accounting the revenue driver is cost.
  - If we incur higher costs than planned, even if only temporary, (due to inflation, bottlenecks, operational inefficiencies, or whatever the reason), then this initially creates an increase in revenue.
  - If we increase planned cost to complete, reflecting a decrease in the future expected contract margin, this creates an immediate negative adjustment to revenue in the period this adjustment is made.
  - If actual incurred costs are running ahead of planned costs, we will be recognizing more revenue than planned, and therefore also more than our billing schedule towards the customer may allow. Under IFRS 15, the difference accumulates as Contract Assets (i.e. unbilled revenues).
- Contract assets (i.e. unbilled revenues) are primarily related to our Service business, which uses POC accounting over the life of the contracts.
- You could think of Contract Assets like a "pre-receivable", the customer does indeed owe us, and will pay in due time, but the POC accounting means that revenue is being booked faster than billing. The total amount of revenue over the lifetime of the contract is unchanged.

# Illustrative example: POC accounting over time of a single contract



## Planned\*

Revenue	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Cost	77	77	77	78	78	78	78	78	78	78	78	78	78	78	78

## Actual

POC%	7%	13%	20%	26%	33%	40%	46%	53%	60%	66%	73%	80%	87%	93%	100%
Revenue	6.7	6.7	6.7	6.2	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Cost	5.1	5.1	5.1	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3

\* Numbers are rounded for illustrative purposes.

Classification: Public