SAB 74 Disclosures Related to ASC 606 (IFRS 15) by Large US-Listed Companies

Methods, Dates, and Anticipated Impact

May 2017

CONNOR GROUP

Executive Summary

- This study was performed by Connor Group to provide an overview of current disclosures made by large US-listed companies regarding the upcoming or recent adoption of ASC 606 *Revenue from Contracts with Customers* (or its IFRS equivalent, IFRS 15). This is our fourth disclosure study on the topic. The last study was completed in March 2017.

- This study was conducted in May 2017 based on disclosures in SEC filings of 370 companies (303 companies filing using US GAAP, and 67 using IFRS). This population was determined and the filings were retrieved via searches within CompanyIQ™[1] based on the following criteria:
  - Companies with market capitalization over $10 billion at the later of (a) companies' most recent fiscal year end or (b) June 30, 2016
  - A Form 10-Q, 10-K, 20-F or 6-K was filed from March 2, 2017 and May 10, 2017.
  - Disclosure language includes "revenue from contracts with customers" or "new revenue standard".
  - All industries except finance, insurance, real estate, oil and gas, and mining

  Following the same sampling methodology above, the populations for our November 2017 and March 2017 studies were 257 and 319 companies, respectively.

- A summary of the findings is presented below:
  - a) With less than 8 months remaining to adopt the new standard for calendar year-end companies, over 50% of them are yet to elect an adoption method or draw a high-level conclusion on adoption impact.
  - b) 47% of the companies studied have disclosed their adoption method, with 34% (125 companies) electing the modified retrospective method and 14% (50 companies) electing the full retrospective method.
  - c) Based on findings from all studies to date, companies that have early adopted the standard are Alphabet, General Dynamics, Ford Motor, Raytheon and Workday. Microsoft and Analog Devices have decided to early adopt in July and November 2017, respectively.
  - d) Only 6% (21 companies) have disclosed that the adoption will be material. 43% (159 companies) do not anticipate a material impact. This is in line with the percentages seen from our last study. A small number of companies have quantified the aggregate adoption impact.
- The study includes illustrative disclosures from early adopters (e.g. Alphabet, Ford, etc.) as well as select companies from all industries studied (e.g. Microsoft, GE, The Coca Cola Company, etc.) with varying levels of quantitative and/or qualitative details.

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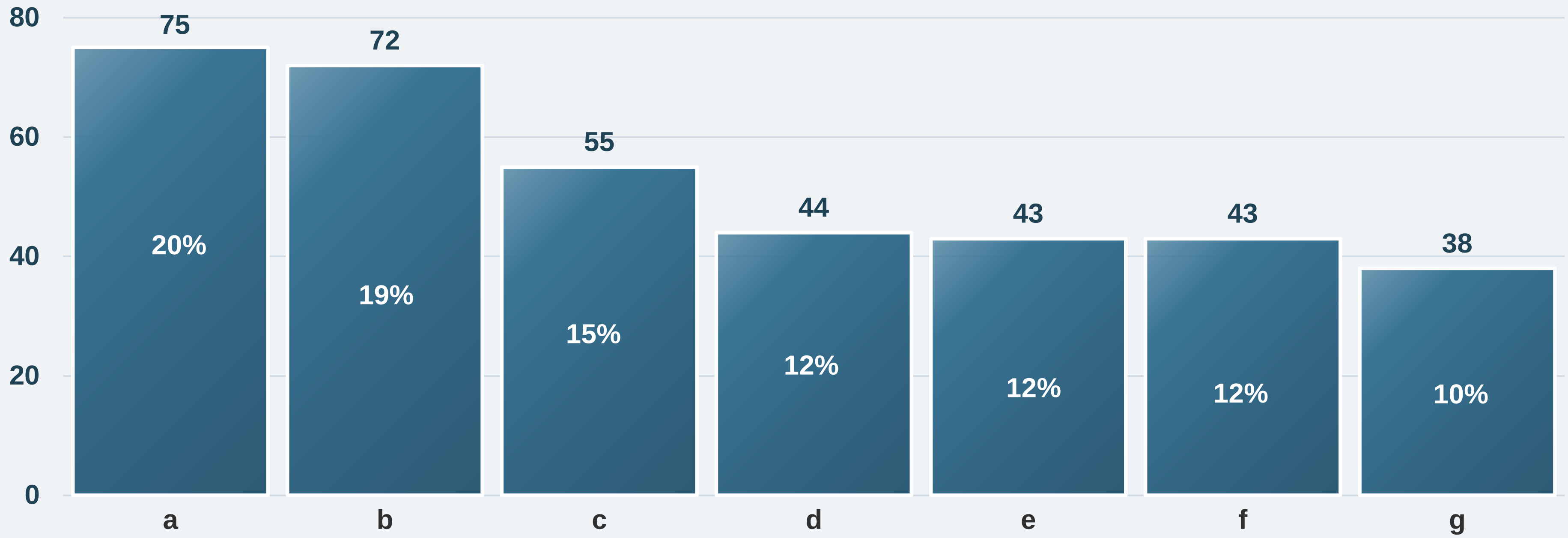
[1] *CompanyIQ™ is a product of MyLogIQ, LLC (http://www.mylogiq.com/), a provider of SEC compliance and public company intelligence products. CompanyIQ™ identifies, extracts, and collates information from relevant public sources to create an 360° company profile and access SEC disclosures.*

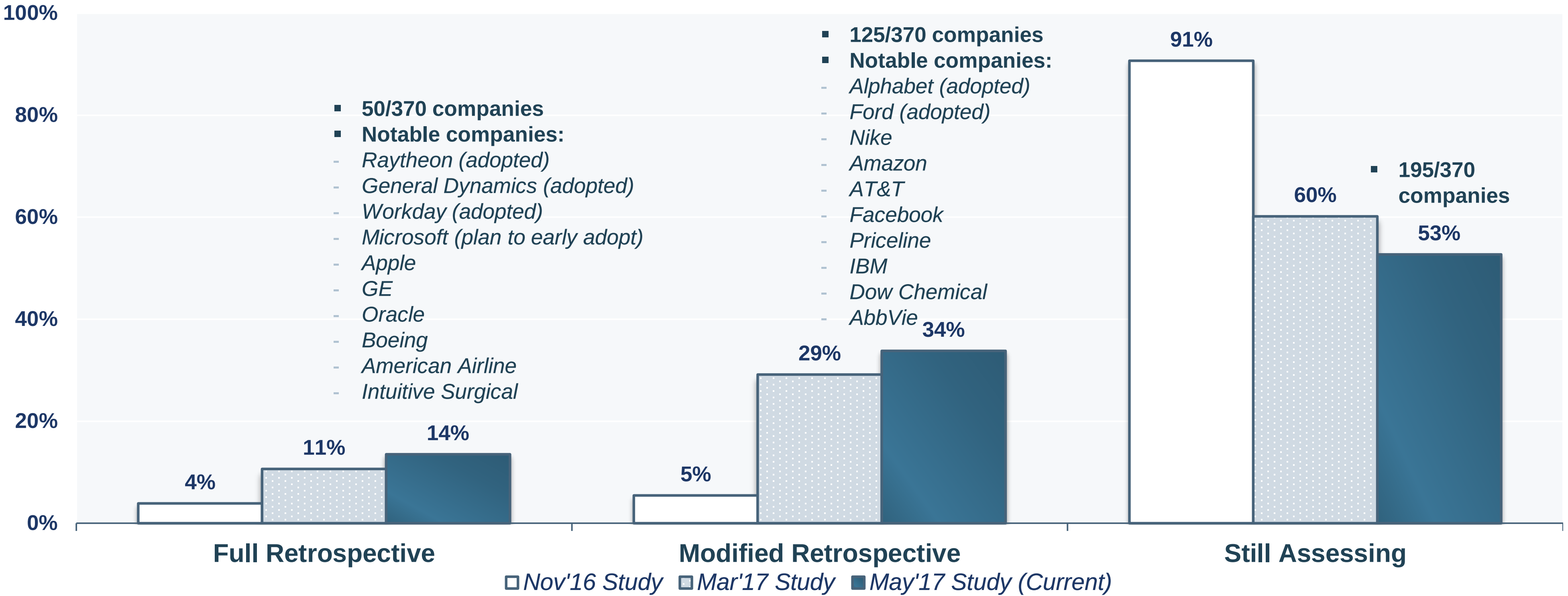
Sampled Companies by Industry



From left to right:

a. Technology
b. Industrial products, chemicals, and manufacturing
c. Transportation and utilities
d. Life sciences (biotechnology, pharmaceuticals, medical devices)
e. Entertainment, media and communications
f. Wholesale, retail, services and other
g. Consumer products

Anticipated Adoption Method



- **50/370 companies**
- **Notable companies:**
  - *Raytheon (adopted)*
  - *General Dynamics (adopted)*
  - *Workday (adopted)*
  - *Microsoft (plan to early adopt)*
  - *Apple*
  - *GE*
  - *Oracle*
  - *Boeing*
  - *American Airline*
  - *Intuitive Surgical*

- **125/370 companies**
- **Notable companies:**
  - *Alphabet (adopted)*
  - *Ford (adopted)*
  - *Nike*
  - *Amazon*
  - *AT&T*
  - *Facebook*
  - *Priceline*
  - *IBM*
  - *Dow Chemical*
  - *AbbVie*

- **195/370 companies**

❑ Full Retrospective = recast all comparative periods presented in the post-adoption financial statements

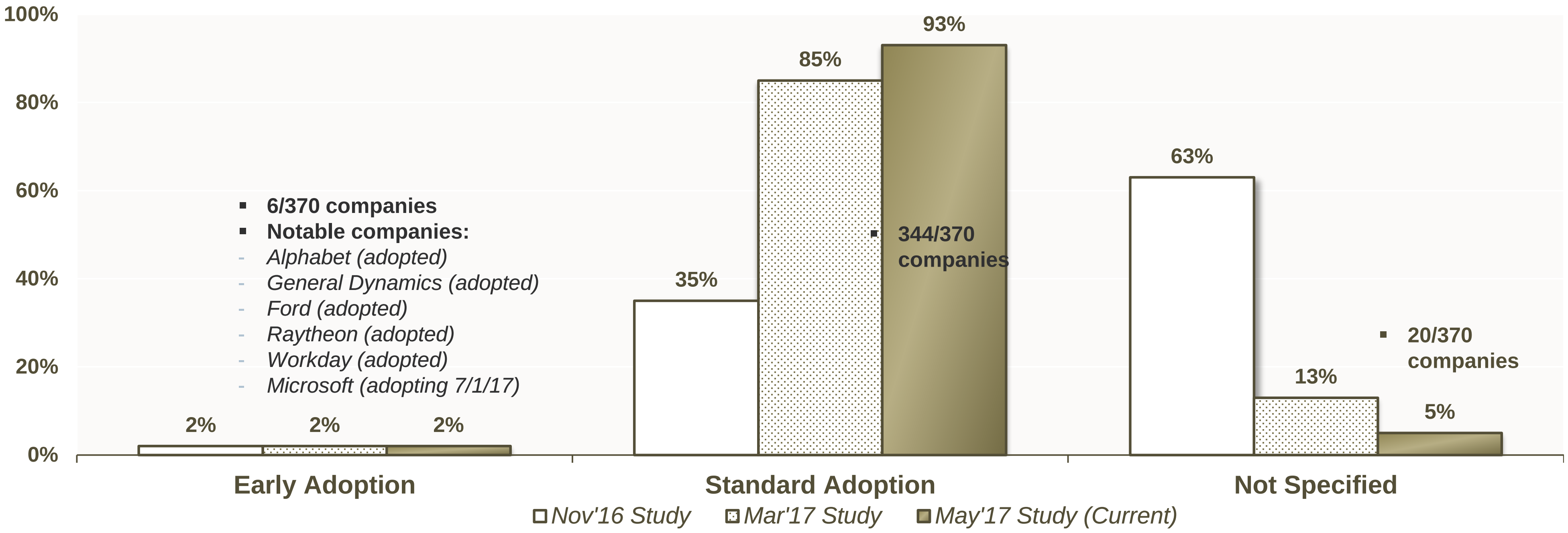
❑ Modified Retrospective = cumulative-effect adjustment to retained earnings in the period of adoption for prior periods' effects

❑ The percentage of companies that have determined an adoption method has increased by 7% since our last study, which is substantially slower progress than what was seen between Nov'16 and Mar'17.

❑ There are 14 companies that expect a material adoption impact and also have elected an adoption method. 79% of them (11 companies) have chosen the full retrospective. On the other hand, there are 95 companies that expect that the adoption will not be material and also have determined an adoption method. 78% of them (74 companies) have chosen the modified retrospective. Such percentage composition is in line with our findings from last study.

❑ For the 195 companies that have not determined their adoption method, which represent 72% of the IFRS companies sampled and 49% of US GAAP companies sampled, over 60% (124 companies) have not disclosed the anticipated high-level adoption impact.

Anticipated Adoption Date



- **6/370 companies**
- **Notable companies:**
  - *Alphabet (adopted)*
  - *General Dynamics (adopted)*
  - *Ford (adopted)*
  - *Raytheon (adopted)*
  - *Workday (adopted)*
  - *Microsoft (adopting 7/1/17)*

- **344/370 companies**

- **20/370 companies**

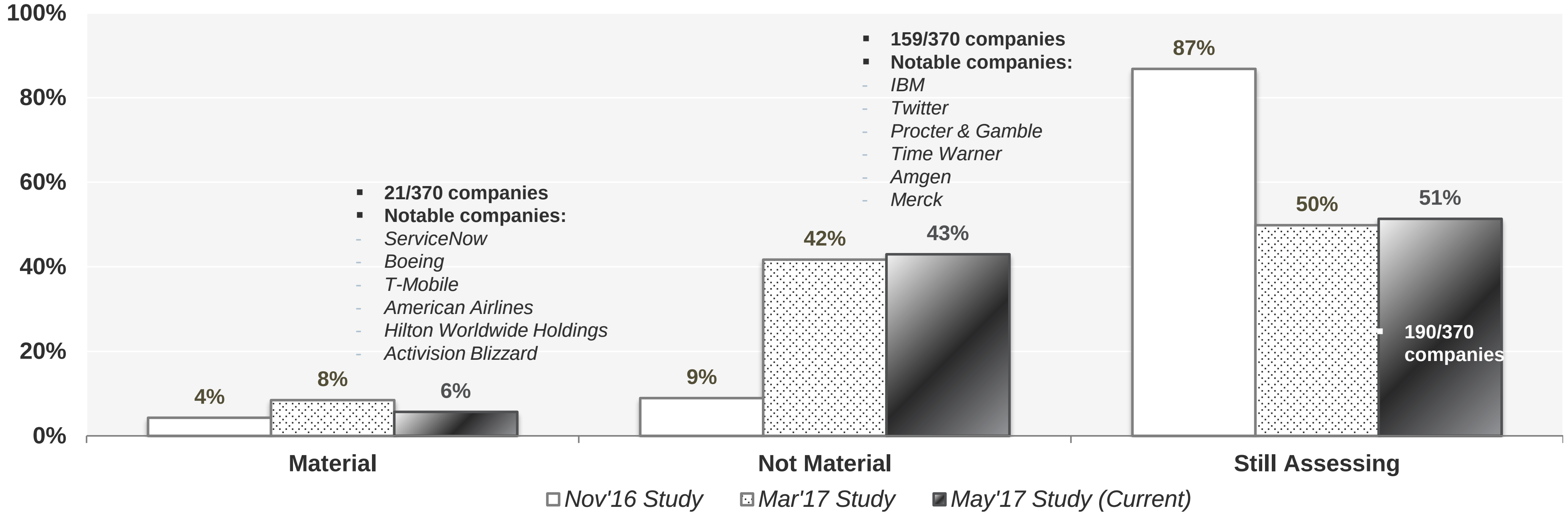
❑ 5 US GAAP companies have already adopted the new standard. 3 of them elected full and 2 of them elected modified retrospective method.

❑ The percentage of companies that will adopt on a regular adoption date has increased slightly by 8% compared to our last study. The "not specified" group has seen a corresponding decline by the same percentage. This is an expected trend as currently the early adoption is essentially only available for a subset of companies that have an off-calendar year-end date. For the "not specified" group, which consists of 2 IFRS companies and 18 US GAAP companies, none of them have disclosed both the high-level adoption impact and an adoption method.

❑ Among the 344 companies within the "standard adoption" group,

- 30% of them (103 companies, comprising of 32% of US GAAP companies sampled and 9% of IFRS companies sampled) have disclosed both the high-level adoption impact and an adoption method.
- 31% of them (106 companies, comprising of 25% of US GAAP companies sampled and 46% of IFRS companies sampled) have not determined the high-level adoption impact nor an adoption method.

Anticipated Adoption Impact



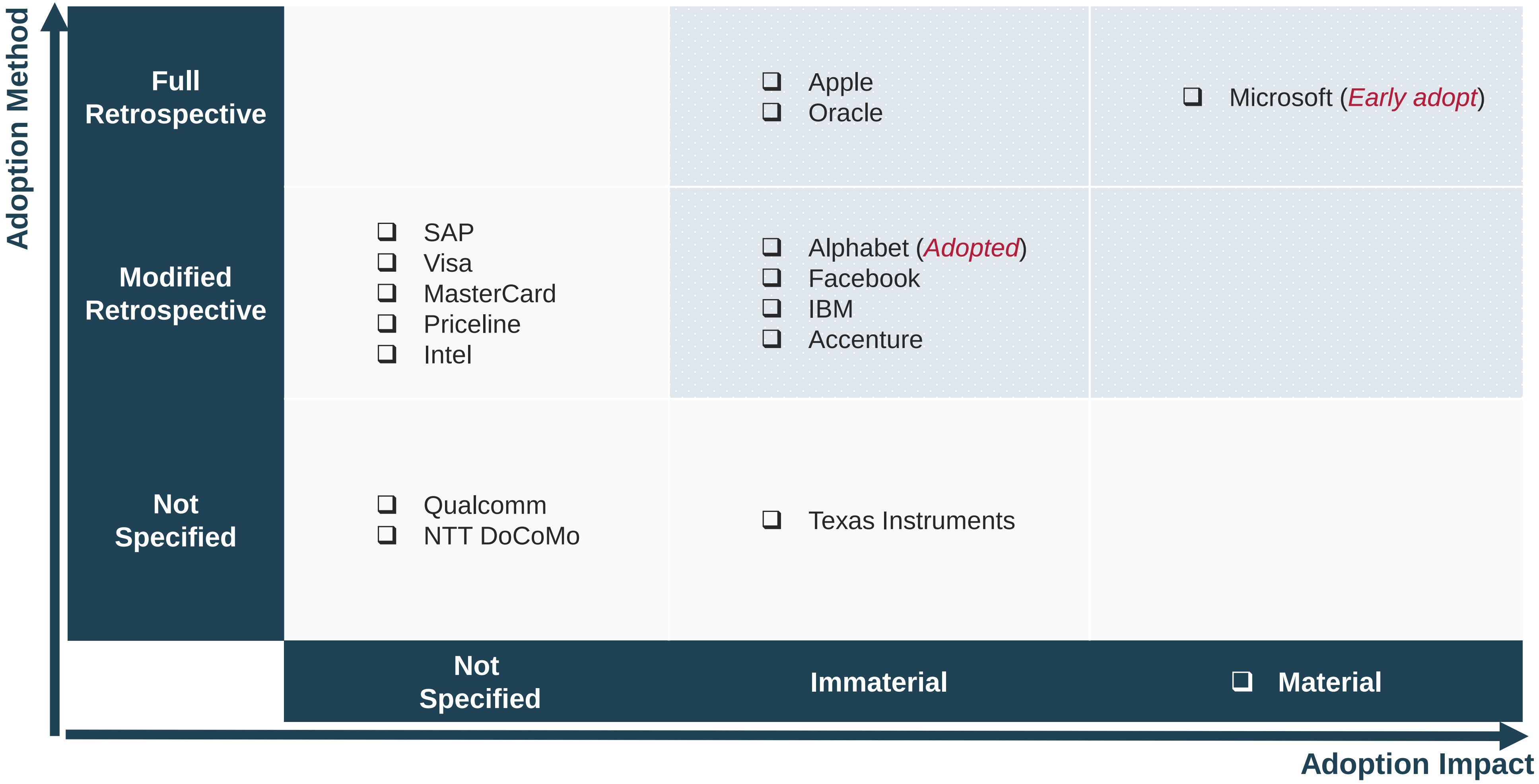
- **21/370 companies**
- **Notable companies:**
  - *ServiceNow*
  - *Boeing*
  - *T-Mobile*
  - *American Airlines*
  - *Hilton Worldwide Holdings*
  - *Activision Blizzard*

- **159/370 companies**
- **Notable companies:**
  - *IBM*
  - *Twitter*
  - *Procter & Gamble*
  - *Time Warner*
  - *Amgen*
  - *Merck*

- **190/370 companies**

- ☐ Overall, no significant progress has been seen in companies' disclosures about high-level adoption impacts. The fluctuation in percentages between Mar'17 and the current study is mainly due to a larger number of companies falling within the sampling pool and the fact that certain companies only filed SEC forms in some but not all filing windows we have studied.
- ☐ 31% of the IFRS companies sampled and 52% of the US GAAP companies sampled have discussed their preliminary conclusion as to whether there are significant adoption impacts.
- ☐ In addition, for the "still assessing" group, 25% of them (48 companies) have elected the modified retrospective method and 9% (18 companies) have elected the full retrospective method.
- ☐ Many companies continue to caveat their potential impact disclosures that (a) the company's current assessment is preliminary, still ongoing, and subject to change and (b) resolution or evolvement of certain industry-specific open issues may result in changes to the current conclusions.
- ☐ Please refer to Exhibit II "Common Impact Areas and Illustrative Pre-adoption Disclosures" for common adoption impact areas by industry.

Top 15 Technology Companies



Adoption Method	Not Specified	Immaterial	☐ Material
Full Retrospective		☐ Apple ☐ Oracle	☐ Microsoft (*Early adopt*)
Modified Retrospective	☐ SAP ☐ Visa ☐ MasterCard ☐ Priceline ☐ Intel	☐ Alphabet (*Adopted*) ☐ Facebook ☐ IBM ☐ Accenture	
Not Specified	☐ Qualcomm ☐ NTT DoCoMo	☐ Texas Instruments	

Adoption Impact

- *Top 15 technology companies were selected based on market capitalization at the later of (a) companies' most recent fiscal year end or (b) June 30, 2016 (Source: MyLogIQ)*
- *The number of companies in the dot-shaded zone (right top corner) has stayed the same as in our last study.*

Top 15 Life Sciences Companies

Adoption Method

	Not Specified	Immaterial	☐ Material
Full Retrospective			
Modified Retrospective	☐ AbbVie ☐ Merck ☐ Biogen	☐ Amgen ☐ Bristol Myers Squibb ☐ Gilead Sciences ☐ Celgene ☐ Eli Lilly ☐ Allergan ☐ Abbott Laboratories ☐ Thermo Fisher	
Not Specified	☐ Shire ☐ Medtronic ☐ GlaxoSmithKline	☐ Johnson & Johnson	

Adoption Impact

- *Top 15 life science companies were selected based on market capitalization at the later of (a) companies' most recent fiscal year end or (b) June 30, 2016 (Source: MyLogIQ)*
- *6 life science companies were in the dot-shaded zero (top right corner) in our last study vs. 8 in the current study.*

Summary of Exhibits

Description	Link
❖ Post-adoption Disclosures Examples	
1. Alphabet (modified retrospective, first 10-Q filed after adoption)	Exhibit I - 1
2. Ford (modified retrospective, first 10-Q filed after adoption)	Exhibit I – 2
3. General Dynamics (full retrospective, first 10-Q filed after adoption)	Exhibit I – 3
4. Workday (full retrospective, 10-K reflecting adoption impact of comparative periods)	Exhibit I - 4
❖ Common Impact Areas and Illustrative Pre-adoption Disclosures	
AA. All industries	Exhibit II
A. Technology	Exhibit II - A
B. Industrial products, chemicals, and manufacturing	Exhibit II – B
C. Transportation and utilities	Exhibit II – C
D. Life sciences (biotechnology, pharmaceuticals, medical devices)	Exhibit II – D
E. Entertainment, media and communications	Exhibit II – E
F. Wholesale, retail, services and other	Exhibit II – F
G. Consumer products	Exhibit II - G

Disclosure Example Color Legend: Adoption date or method; Adoption impact; Other Topic 606 related disclosures

Exhibit I – Post-adoption Disclosure Examples

Exhibit I – Post-adoption Disclosure (Cont'd)

Alphabet

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Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

On January 1, 2017, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2017. Results for reporting periods beginning after January 1, 2017 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

We recorded a net reduction to opening retained earnings of $15 million as of January 1, 2017 due to the cumulative impact of adopting Topic 606, with the impact primarily related to our non-advertising revenues. The impact to revenues for the quarter ended March 31, 2017 was an increase of $14 million as a result of applying Topic 606.

Revenue Recognition

Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

The following table presents our revenues disaggregated by revenue source (in millions, unaudited). Sales and usage-based taxes are excluded from revenues:

Exhibit I – Post-adoption Disclosure (Cont'd)

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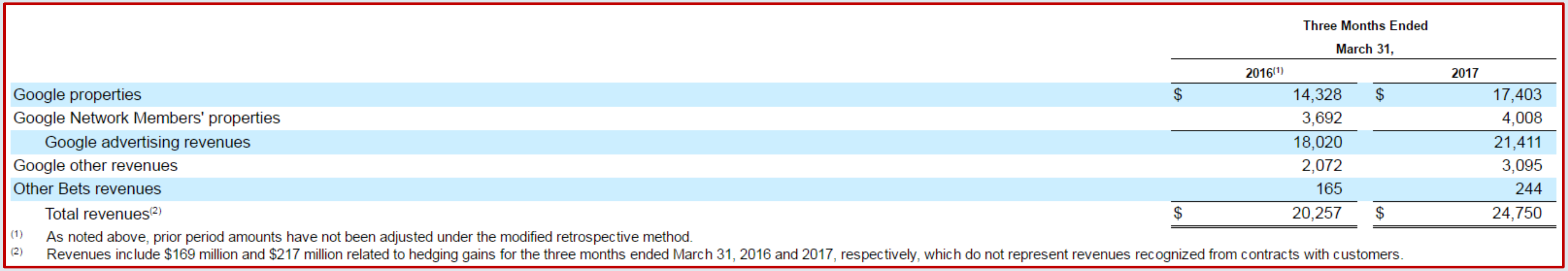
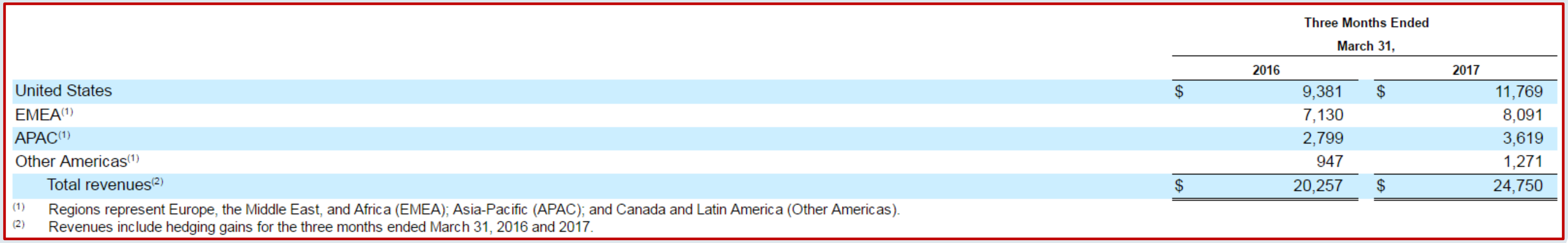


	Three Months Ended March 31,	
	2016[1]	2017
Google properties	$ 14,328	$ 17,403
Google Network Members' properties	3,692	4,008
Google advertising revenues	18,020	21,411
Google other revenues	2,072	3,095
Other Bets revenues	165	244
Total revenues[2]	$ 20,257	$ 24,750

[1] As noted above, prior period amounts have not been adjusted under the modified retrospective method.

[2] Revenues include $169 million and $217 million related to hedging gains for the three months ended March 31, 2016 and 2017, respectively, which do not represent revenues recognized from contracts with customers.

The following table presents our revenues disaggregated by geography, based on the billing addresses of our customers (in millions, unaudited):



	Three Months Ended March 31,	
	2016	2017
United States	$ 9,381	$ 11,769
EMEA[1]	7,130	8,091
APAC[1]	2,799	3,619
Other Americas[1]	947	1,271
Total revenues[2]	$ 20,257	$ 24,750

[1] Regions represent Europe, the Middle East, and Africa (EMEA); Asia-Pacific (APAC); and Canada and Latin America (Other Americas).

[2] Revenues include hedging gains for the three months ended March 31, 2016 and 2017.

[Emphasis added]

Exhibit I – Post-adoption Disclosure (Cont'd)

Alphabet

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Advertising Revenues

We generate revenues primarily by delivering advertising on Google properties and Google Network Members' properties.

……

Most of our customers pay us on a cost-per-click basis (CPC), which means that an advertiser pays us only when a user clicks on an ad on Google properties or Google Network Members' properties or views certain YouTube ad formats like TrueView. For these customers, we recognize revenue each time a user clicks on the ad or when a user views the ad for a specified period of time.

We also offer advertising on other bases such as cost-per-impression (CPM), which means an advertiser pays us based on the number of times their ads are displayed on Google properties and Google Network Members' properties. For these customers, we recognize revenue each time an ad is displayed.

Certain customers may receive cash-based incentives or credits, which are accounted for as variable consideration. We estimate these amounts based on the expected amount to be provided to customers and reduce revenues recognized. We believe that there will not be significant changes to our estimates of variable consideration.

For ads placed on Google Network Members' properties, we evaluate whether we are the principal (i.e., report revenues on a gross basis) or agent (i.e., report revenues on a net basis). Generally, we report advertising revenues for ads placed on Google Network Members' properties on a gross basis, that is, the amounts billed to our customers are recorded as revenues, and amounts paid to publishers are recorded as cost of revenues. **We are the principal because we control the advertising inventory before it is transferred to our customers. Our control is evidenced by our sole ability to monetize the advertising inventory, being primarily responsible to our customers, having discretion in establishing pricing, or a combination of these.**

Exhibit I – Post-adoption Disclosure (Cont'd)

Alphabet

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Other Revenues

……

As it relates to Google other revenues, the most significant judgment is determining whether we are the principal or agent for app sales and in-app purchases through the Google Play store. **We report revenues from these transactions on a net basis because our performance obligation is to facilitate a transaction between app developers and end users, for which we earn a commission.** Consequently, the portion of the gross amount billed to end users that is remitted to app developers is not reflected as revenues.

Arrangements with Multiple Performance Obligations

Our contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenue to each performance obligation based on its relative standalone selling price. **We generally determine standalone selling prices based on the prices charged to customers or using expected cost plus margin.**

Deferred Revenues

We record deferred revenues when cash payments are received or due in advance of our performance, including amounts which are refundable. **The increase in the deferred revenue balance for the three months ended March 31, 2017 is primarily driven by cash payments received or due in advance of satisfying our performance obligations, offset by $414 million of revenues recognized that were included in the deferred revenue balance at the beginning of the period.**

Our payment terms vary by the type and location of our customer and the products or services offered. The term between invoicing and when payment is due is not significant. For certain products or services and customer types, we require payment before the products or services are delivered to the customer.

Exhibit I – Post-adoption Disclosure (Cont'd)

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Practical Expedients and Exemptions

We generally expense sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses.

We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed. [Emphasis added]

Exhibit I – Post-adoption Disclosure (Cont’d)

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NEW ACCOUNTING STANDARDS

ASU 2014-09, Revenue - Revenue from Contracts with Customers. **On January 1, 2017, we adopted the new accounting standard ASC 606, Revenue from Contracts with Customers and all the related amendments (“new revenue standard”) to all contracts using the modified retrospective method.** We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. **We expect the impact of the adoption of the new standard to be immaterial to our net income on an ongoing basis.**

A majority of our sales revenue continues to be recognized when products are shipped from our manufacturing facilities. **Under the new revenue standard, certain vehicle sales where revenue was previously deferred, such as vehicles subject to a guaranteed resale value recognized as a lease and transactions in which a Ford-owned entity delivered vehicles, we now recognize revenue when vehicles are shipped.**

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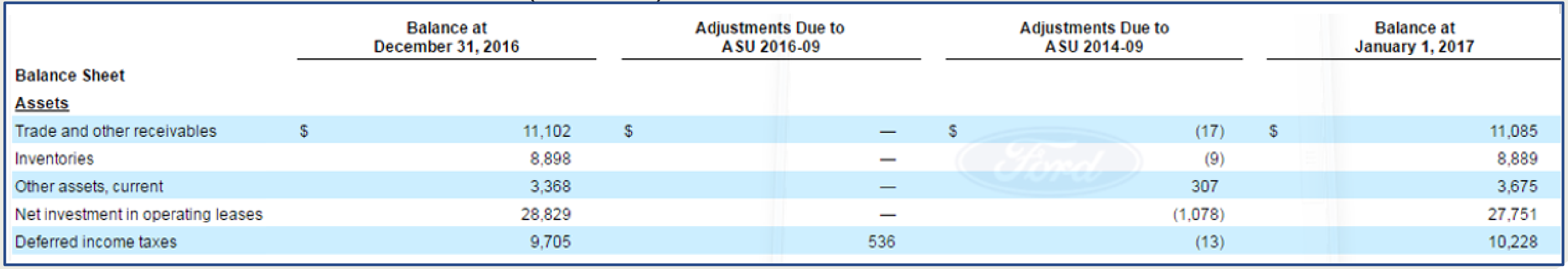
The cumulative effect of the changes made to our consolidated January 1, 2017 balance sheet for the adoption of ASU 2016-09, Stock Compensation - Improvements to Employee Share-Based Payment Accounting and ASU 2014-09, Revenue - Revenue from Contracts with Customers were as follows (in millions):



	Balance at December 31, 2016	Adjustments Due to ASU 2016-09	Adjustments Due to ASU 2014-09	Balance at January 1, 2017
Balance Sheet				
Assets				
Trade and other receivables	$ 11,102	$ —	$ (17)	$ 11,085
Inventories	8,898	—	(9)	8,889
Other assets, current	3,368	—	307	3,675
Net investment in operating leases	28,829	—	(1,078)	27,751
Deferred income taxes	9,705	536	(13)	10,228

Exhibit I – Post-adoption Disclosure (Cont’d)

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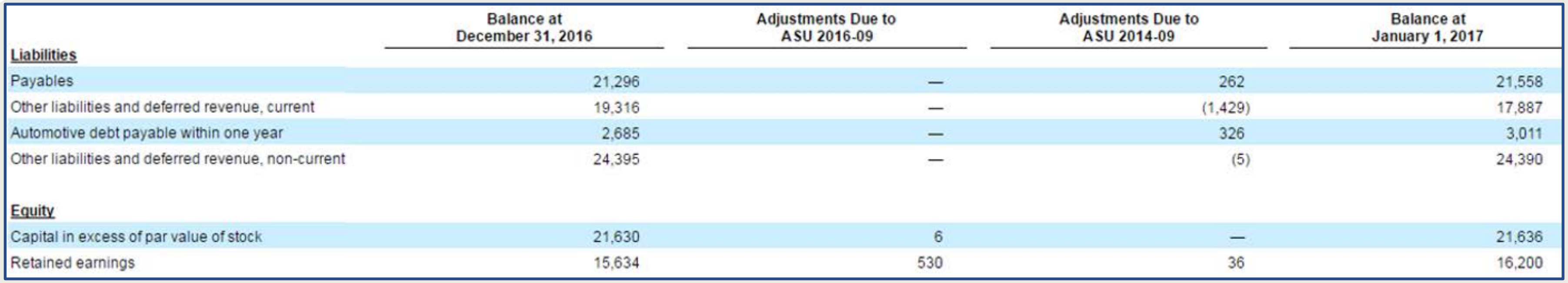
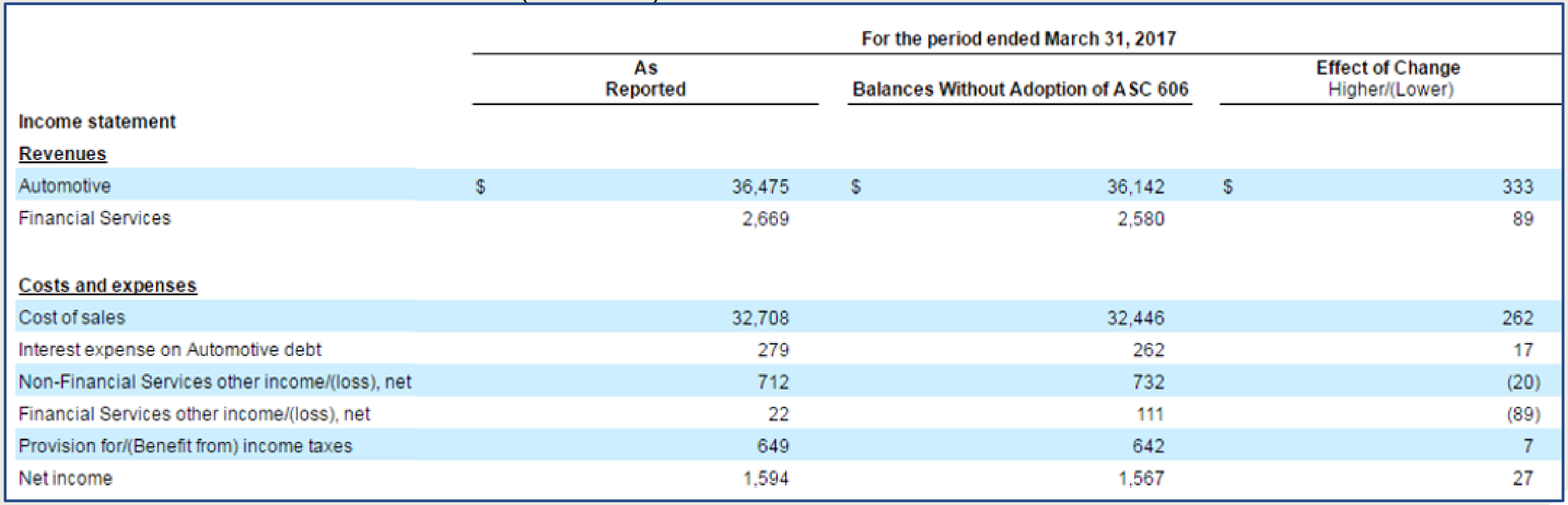


	Balance at December 31, 2016	Adjustments Due to ASU 2016-09	Adjustments Due to ASU 2014-09	Balance at January 1, 2017
Liabilities				
Payables	21,296	—	262	21,558
Other liabilities and deferred revenue, current	19,316	—	(1,429)	17,887
Automotive debt payable within one year	2,685	—	326	3,011
Other liabilities and deferred revenue, non-current	24,395	—	(5)	24,390
Equity				
Capital in excess of par value of stock	21,630	6	—	21,636
Retained earnings	15,634	530	36	16,200

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our consolidated income statement and balance sheet was as follows (in millions):



	For the period ended March 31, 2017		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Income statement			
Revenues			
Automotive	$ 36,475	$ 36,142	$ 333
Financial Services	2,669	2,580	89
Costs and expenses			
Cost of sales	32,708	32,446	262
Interest expense on Automotive debt	279	262	17
Non-Financial Services other income/(loss), net	712	732	(20)
Financial Services other income/(loss), net	22	111	(89)
Provision for/(Benefit from) income taxes	649	642	7
Net income	1,594	1,567	27

Exhibit I – Post-adoption Disclosure (Cont'd)

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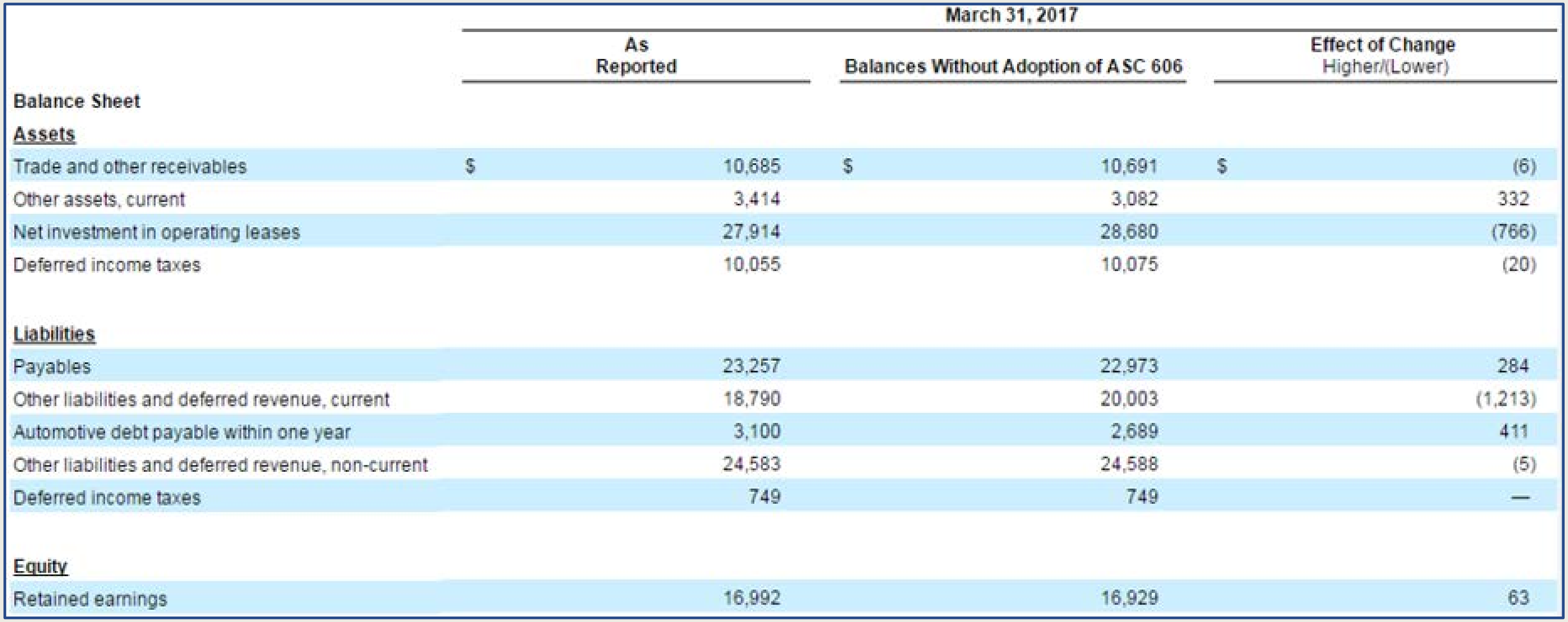

	March 31, 2017		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Balance Sheet			
Assets			
Trade and other receivables	$ 10,685	$ 10,691	$ (6)
Other assets, current	3,414	3,082	332
Net investment in operating leases	27,914	28,680	(766)
Deferred income taxes	10,055	10,075	(20)
Liabilities			
Payables	23,257	22,973	284
Other liabilities and deferred revenue, current	18,790	20,003	(1,213)
Automotive debt payable within one year	3,100	2,689	411
Other liabilities and deferred revenue, non-current	24,583	24,588	(5)
Deferred income taxes	749	749	—
Equity			
Retained earnings	16,992	16,929	63

Exhibit I – Post-adoption Disclosure (Cont’d)

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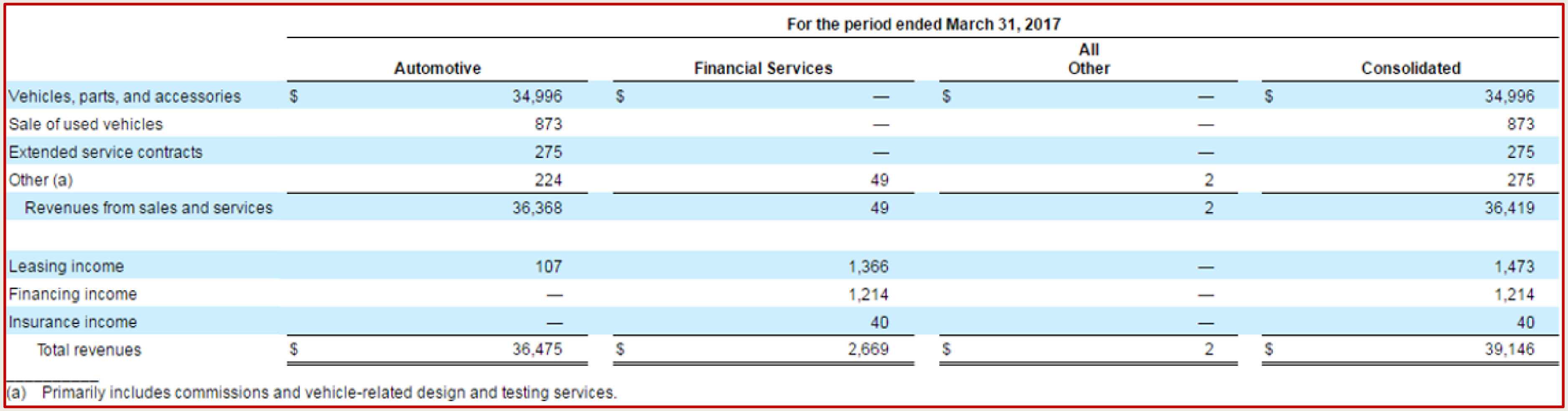
REVENUE

The following table disaggregates our revenue by major source (in millions):



	For the period ended March 31, 2017			
	Automotive	Financial Services	All Other	Consolidated
Vehicles, parts, and accessories	$ 34,996	$ —	$ —	$ 34,996
Sale of used vehicles	873	—	—	873
Extended service contracts	275	—	—	275
Other (a)	224	49	2	275
Revenues from sales and services	36,368	49	2	36,419
Leasing income	107	1,366	—	1,473
Financing income	—	1,214	—	1,214
Insurance income	—	40	—	40
Total revenues	$ 36,475	$ 2,669	$ 2	$ 39,146

(a) Primarily includes commissions and vehicle-related design and testing services.

Revenue is recognized when obligations under the terms of a contract with our customer are satisfied; generally this occurs with the transfer of control of our vehicles, parts, accessories, or services. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. The expected costs associated with our base warranties and field service actions continue to be recognized as expense when the products are sold (see Note 16). We recognize revenue for vehicle service contracts that extend mechanical and maintenance beyond our base warranties over the life of the contract.

Exhibit I – Post-adoption Disclosure (Cont’d)

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REVENUE

Automotive Segment

Vehicles, Parts, and Accessories. For the majority of vehicles, parts, and accessories, we transfer control and recognize a sale when we ship the product from our manufacturing facility to our customer (dealers and distributors). **The amount of consideration we receive and revenue we recognize varies with changes in marketing incentives and returns we offer to our customers and their customers. When we give our dealers the right to return eligible parts and accessories, we estimate the expected returns based on an analysis of historical experience. We adjust our estimate of revenue at the earlier of when the most likely amount of consideration we expect to receive changes or when the consideration becomes fixed. As a result we recognized a decrease to revenue from prior periods of $372 million during the period ended March 31, 2017.**

Depending on the terms of the arrangement, we may also defer the recognition of a portion of the consideration received because we have to satisfy a future obligation (e.g., free extended service contracts). **We use an observable price to determine the stand-alone selling price for separate performance obligations or a cost plus margin approach when one is not available. We have elected to recognize the cost for freight and shipping when control over vehicles, parts, or accessories have transferred to the customer as an expense in Cost of sales.**

We sell vehicles to daily rental companies and guarantee that we will pay them the difference between an agreed amount and the value they are able to realize upon resale. At the time of transfer of vehicles to the daily rental companies, we record the probable amount we will pay under the guarantee to Other liabilities and deferred revenue.

Sale of Used Vehicles. We sell used vehicles both at auction and through our consolidated dealerships. Proceeds from the sale of these vehicles are recognized in Automotive revenues upon transfer of control of the vehicle to the customer and the related vehicle carrying value is recognized in Cost of sales.

Exhibit I – Post-adoption Disclosure (Cont’d)

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REVENUE

Extended Service Contracts. We sell separately-priced service contracts that extend mechanical and maintenance coverages beyond our base warranty agreements to vehicle owners. The separately priced service contracts range from 12 months to 120 months. We receive payment at the inception of the contract and recognize revenue over the term of the agreement in proportion to the costs expected to be incurred in satisfying the obligations under the contract. **At January 1, 2017 $3.5 billion of unearned revenue associated with outstanding contracts was reported in Other Liabilities and deferred revenue, $270 million of this was recognized as revenue during the first quarter. At March 31, 2017, the unearned amount was $3.6 billion. We expect to recognize approximately $823 million of the unearned amount in 2017, $981 million in 2018, and $1.8 billion thereafter.** We record a premium deficiency reserve to the extent we estimate the future costs associated with these contracts exceed the unrecognized revenue. Amounts paid to dealers to obtain these contracts are deferred and recorded as Other assets. These costs are amortized to expense consistent with how the related revenue is recognized. We had a balance of $247 million in deferred costs as of March 31, 2017 and recognized $15 million of amortization during the three-month period ended March 31, 2017.

Other Revenue. Other revenue consists primarily of net commissions received for serving as the agent in facilitating the sale of a third party’s products or services to our customers and payments for vehicle-related design and testing services we perform for others. **We have applied the practical expedient to recognize Automotive revenues for vehicle-related design and testing services over the two to three year term of these agreements in proportion to the amount we have the right to invoice.**

Leasing Income. We sell vehicles to daily rental companies with an obligation to repurchase the vehicles for a guaranteed amount, exercisable at the option of the customer. The transactions are accounted for as operating leases. Upon the transfer of vehicles to the daily rental companies, we record proceeds received in Other liabilities and deferred revenue. The difference between the proceeds received and the guaranteed repurchase amount is recorded in Automotive revenues over the term of the lease using a straight-line method. The cost of the vehicle is recorded in Net investment in operating leases on our consolidated balance sheet and the difference between the cost of the vehicle and the estimated auction value is depreciated in Cost of sales over the term of the lease.

Exhibit I – Post-adoption Disclosure (Cont'd)

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REVENUE

Financial Services Segment

Leasing Income. Ford Credit offers leasing plans to retail consumers through Ford and Lincoln brand dealers who originate the leases. Upon the purchase of a lease from the dealer, Ford Credit takes ownership of the vehicle and records an operating lease. The retail consumer makes lease payments representing the difference between Ford Credit's purchase price of the vehicle and the contractual residual value of the vehicle, plus lease fees that we recognize on a straight-line basis over the term of the lease agreement. Depreciation and the gain or loss upon disposition of the vehicle is recorded in Financial Services interest, operating, and other expenses.

Financing Income. Ford Credit originates and purchases finance installment contracts. Financing income represents interest earned on the finance receivables (including direct financing leases). Interest is recognized using the interest method, and includes the amortization of certain direct origination costs.

Insurance Income. Income from insurance contracts is recognized evenly over the term of the agreement. Insurance commission revenue is recognized on a net basis at the time of sale of the third party's product or service to our customer. [Emphasis added]

Exhibit I – Post-adoption Disclosure (Cont'd)

GENERAL DYNAMICS

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REVENUE

The majority of our revenue is derived from long-term contracts and programs that can span several years**. We account for revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers, which we adopted on January 1, 2017, using the retrospective method.** See Note Q for further discussion of the adoption, including the impact on our 2016 financial statements.

Performance Obligations. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The majority of our contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. **The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we forecast our expected costs of satisfying a performance obligation and then add an appropriate margin for that distinct good or service.**

Our performance obligations are satisfied over time as work progresses or at a point in time. Revenue from products and services transferred to customers over time accounted for 70 percent and 73 percent of our revenue for the three-month periods ended April 2, 2017, and April 3, 2016, respectively. **Substantially all of our revenue in the defense groups is recognized over time. Typically, revenue is recognized over time using an input measure (e.g., costs incurred to date relative to total estimated costs at completion) to measure progress.** Contract costs include labor, material, overhead and, when appropriate, G&A expenses.

Revenue from goods and services transferred to customers at a single point in time accounted for 30 percent and 27 percent for the three-month periods ended April 2, 2017, and April 3, 2016, respectively. **The majority of our revenue recognized at a point in time is for the manufacture of business-jet aircraft in our Aerospace group. Revenue on these contracts is recognized when the customer accepts the fully outfitted aircraft.**

Exhibit I – Post-adoption Disclosure (Cont'd)

GENERAL DYNAMICS

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REVENUE

On April 2, 2017, we had $60.4 billion of remaining performance obligations, which we also refer to as total backlog. We expect to recognize approximately 30 percent of our remaining performance obligations as revenue in 2017, an additional 45 percent by 2019 and the balance thereafter.

Contract Estimates. Accounting for long-term contracts and programs involves the use of various techniques to estimate total contract revenue and costs. For long-term contracts, we estimate the profit on a contract as the difference between the total estimated revenue and expected costs to complete a contract and recognize that profit over the life of the contract.

Contract estimates are based on various assumptions to project the outcome of future events that often span several years. These assumptions include labor productivity and availability; the complexity of the work to be performed; the cost and availability of materials; the performance of subcontractors; and the availability and timing of funding from the customer.

The nature of our contracts gives rise to several types of variable consideration, including claims and award and incentive fees. We include in our contract estimates additional revenue for submitted contract modifications or claims against the customer when we believe we have an enforceable right to the modification or claim, the amount can be estimated reliably and its realization is probable. In evaluating these criteria, we consider the contractual/legal basis for the claim, the cause of any additional costs incurred, the reasonableness of those costs and the objective evidence available to support the claim. We include award or incentive fees in the estimated transaction price when there is a basis to reasonably estimate the amount of the fee. These estimates are based on historical award experience, anticipated performance and our best judgment at the time. Because of our certainty in estimating these amounts, they are included in the transaction price of our contracts and the associated remaining performance obligations.

Exhibit I – Post-adoption Disclosure (Cont’d)

GENERAL DYNAMICS

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REVENUE

As a significant change in one or more of these estimates could affect the profitability of our contracts, we review and update our contract-related estimates regularly. We recognize adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance is recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognize the total loss in the quarter it is identified.

The impact of adjustments in contract estimates on our operating earnings can be reflected in either operating costs and expenses or revenue. The aggregate impact of adjustments in contract estimates increased our revenue and operating earnings (and diluted earnings per share) by $72 and $50 ($0.11) for the three-month period ended April 2, 2017, and $68 and $58 ($0.12) for the three-month period ended April 3, 2016, respectively. No adjustment on any one contract was material to our unaudited Consolidated Financial Statements for the three-month periods ended April 2, 2017, and April 3, 2016.

Revenue by Category. Our portfolio of products and services consists of over 10,000 active contracts. The following series of tables presents our revenue disaggregated by several categories.

Exhibit I – Post-adoption Disclosure (Cont'd)

GENERAL DYNAMICS

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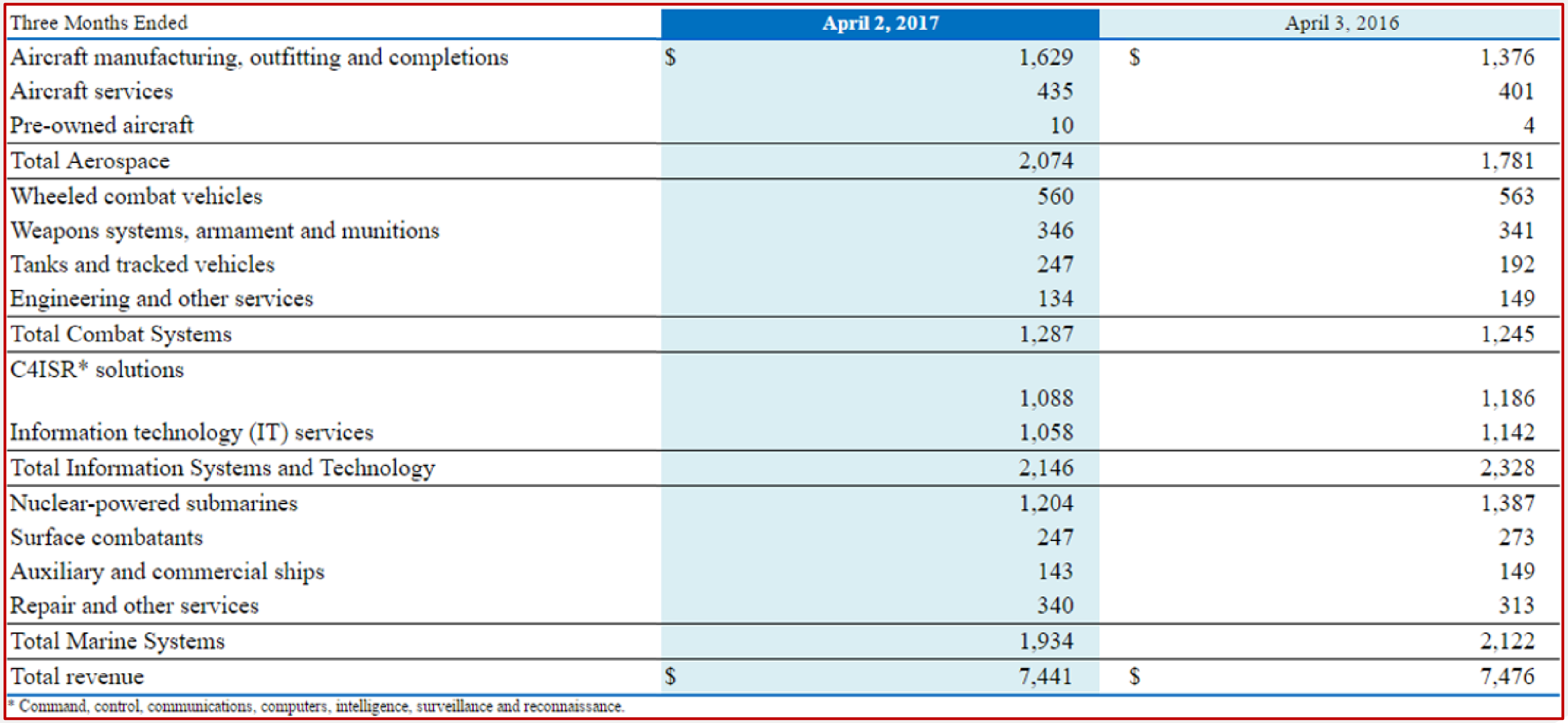
REVENUE

Revenue by major product line was as follows:



Three Months Ended	April 2, 2017		April 3, 2016	
Aircraft manufacturing, outfitting and completions	$	1,629	$	1,376
Aircraft services		435		401
Pre-owned aircraft		10		4
Total Aerospace		2,074		1,781
Wheeled combat vehicles		560		563
Weapons systems, armament and munitions		346		341
Tanks and tracked vehicles		247		192
Engineering and other services		134		149
Total Combat Systems		1,287		1,245
C4ISR* solutions		1,088		1,186
Information technology (IT) services		1,058		1,142
Total Information Systems and Technology		2,146		2,328
Nuclear-powered submarines		1,204		1,387
Surface combatants		247		273
Auxiliary and commercial ships		143		149
Repair and other services		340		313
Total Marine Systems		1,934		2,122
Total revenue	$	7,441	$	7,476

* Command, control, communications, computers, intelligence, surveillance and reconnaissance.

Exhibit I – Post-adoption Disclosure (Cont'd)

GENERAL DYNAMICS

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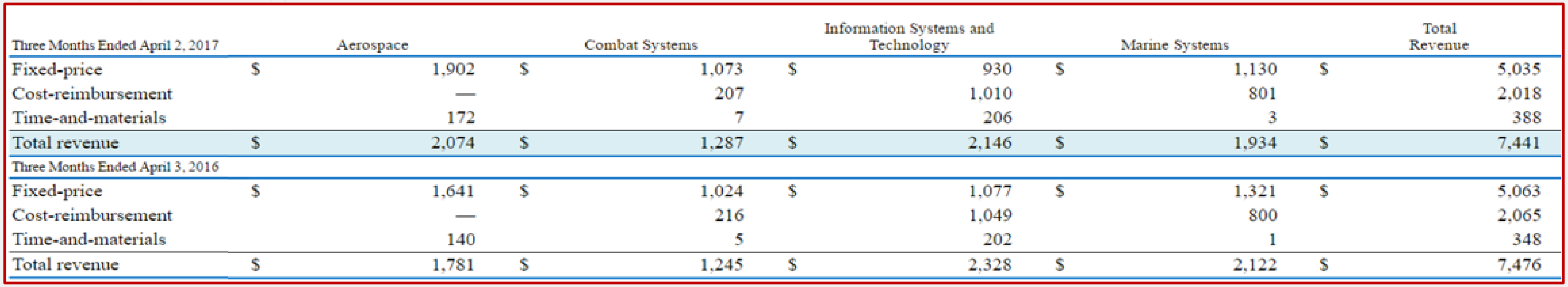
REVENUE

Revenue by contract type was as follows:



Three Months Ended April 2, 2017	Aerospace	Combat Systems	Information Systems and Technology	Marine Systems	Total Revenue
Fixed-price	$ 1,902	$ 1,073	$ 930	$ 1,130	$ 5,035
Cost-reimbursement	—	207	1,010	801	2,018
Time-and-materials	172	7	206	3	388
Total revenue	$ 2,074	$ 1,287	$ 2,146	$ 1,934	$ 7,441
Three Months Ended April 3, 2016					
Fixed-price	$ 1,641	$ 1,024	$ 1,077	$ 1,321	$ 5,063
Cost-reimbursement	—	216	1,049	800	2,065
Time-and-materials	140	5	202	1	348
Total revenue	$ 1,781	$ 1,245	$ 2,328	$ 2,122	$ 7,476

Each of these contract types presents advantages and disadvantages. Typically, we assume more risk with fixed-price contracts. However, these types of contracts offer additional profits when we complete the work for less than originally estimated. Cost-reimbursement contracts generally subject us to lower risk. Accordingly, the associated base fees are usually lower than fees earned on fixed-price contracts. Under time-and-materials contracts, our profit may vary if actual labor-hour costs vary significantly from the negotiated rates. Also, because these contracts can provide little or no fee for managing material costs, the content mix can impact profitability.

Exhibit I – Post-adoption Disclosure (Cont’d)

GENERAL DYNAMICS

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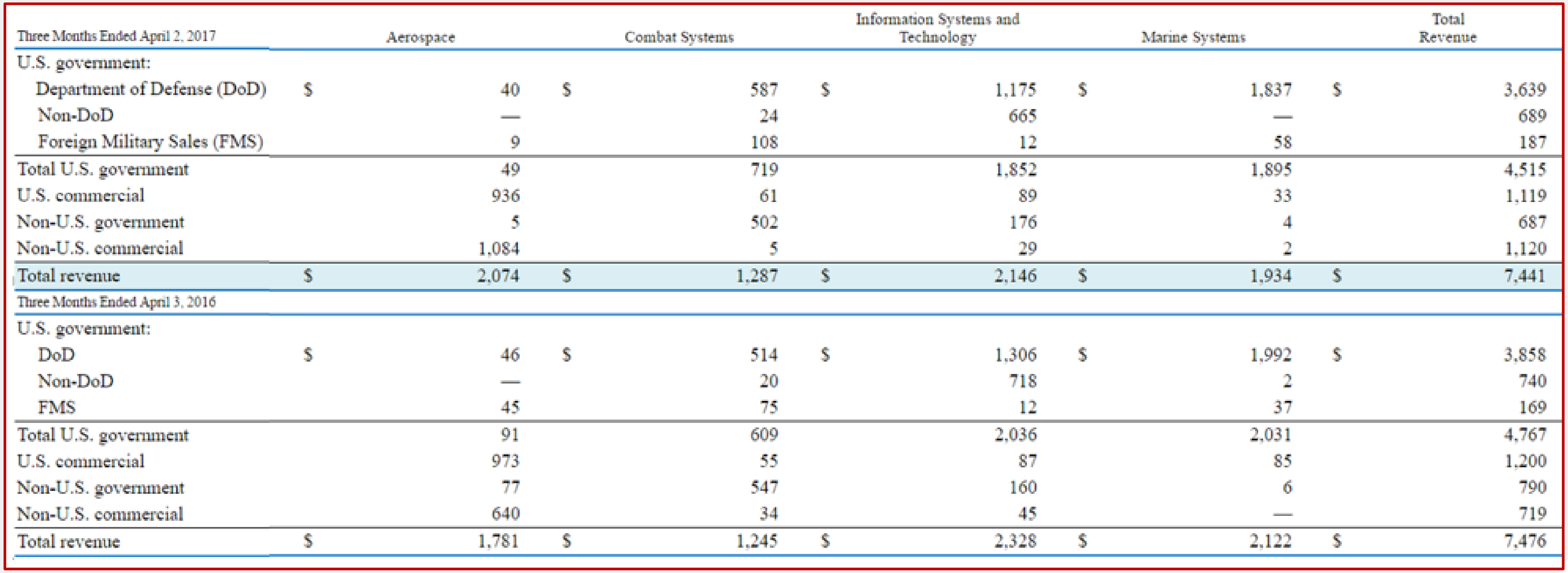
REVENUE

Revenue by customer was as follows:



Three Months Ended April 2, 2017	Aerospace	Combat Systems	Information Systems and Technology	Marine Systems	Total Revenue
U.S. government:					
Department of Defense (DoD)	$ 40	$ 587	$ 1,175	$ 1,837	$ 3,639
Non-DoD	—	24	665	—	689
Foreign Military Sales (FMS)	9	108	12	58	187
Total U.S. government	49	719	1,852	1,895	4,515
U.S. commercial	936	61	89	33	1,119
Non-U.S. government	5	502	176	4	687
Non-U.S. commercial	1,084	5	29	2	1,120
Total revenue	$ 2,074	$ 1,287	$ 2,146	$ 1,934	$ 7,441
Three Months Ended April 3, 2016					
U.S. government:					
DoD	$ 46	$ 514	$ 1,306	$ 1,992	$ 3,858
Non-DoD	—	20	718	2	740
FMS	45	75	12	37	169
Total U.S. government	91	609	2,036	2,031	4,767
U.S. commercial	973	55	87	85	1,200
Non-U.S. government	77	547	160	6	790
Non-U.S. commercial	640	34	45	—	719
Total revenue	$ 1,781	$ 1,245	$ 2,328	$ 2,122	$ 7,476

Exhibit I – Post-adoption Disclosure (Cont’d)

GENERAL DYNAMICS

Back to summary

REVENUE

Contract Balances. The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) on the Consolidated Balance Sheet. In our defense groups, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., biweekly or monthly) or upon achievement of contractual milestones. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets. However, we sometimes receive advances or deposits from our customers, particularly on our international contracts, before revenue is recognized, resulting in contract liabilities. **These assets and liabilities are reported on the Consolidated Balance Sheet on a contract-by-contract basis at the end of each reporting period.** In our Aerospace group, we generally receive deposits from customers upon contract execution and upon achievement of contractual milestones. These deposits are liquidated when revenue is recognized. Changes in the contract asset and liability balances during the three-month period ended April 2, 2017, were not materially impacted by any other factors.

Revenue recognized for the three-month periods ended April 2, 2017, and April 3, 2016, that was included in the contract liability balance at the beginning of each year was $1.7 billion and $1.4 billion, respectively, and represented primarily revenue from the sale of business-jet aircraft.

PRIOR-PERIOD FINANCIAL STATEMENTS

ASC Topic 606. We adopted ASC Topic 606 on January 1, 2017, using the retrospective method. The adoption of ASC Topic 606 had two primary impacts on our Consolidated Financial Statements. The impact of adjustments on profit recorded to date is now recognized in the period identified (cumulative catch-up method), rather than prospectively over the remaining contract term. For our contracts for the manufacture of business-jet aircraft, we now recognize revenue at a single point in time when control is transferred to the customer, generally when the customer accepts the fully outfitted aircraft. Prior to the adoption of ASC Topic 606, we recognized revenue for these contracts at two contractual milestones: when green aircraft were completed and accepted by the customer and when the customer accepted final delivery of the fully outfitted aircraft. The cumulative effect of the adoption was recognized as a decrease to retained earnings of $372 on January 1, 2015.

Exhibit I – Post-adoption Disclosure (Cont’d)

GENERAL DYNAMICS

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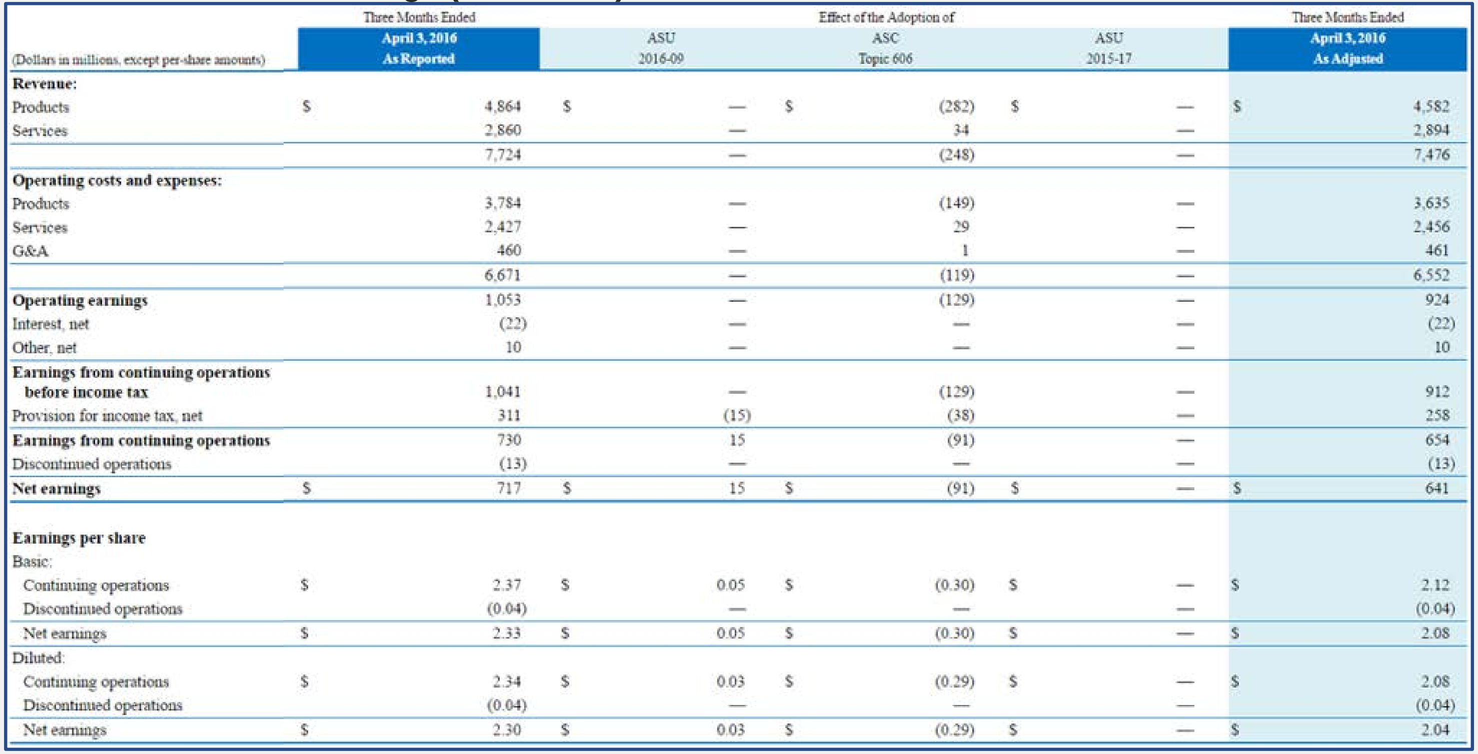
PRIOR-PERIOD FINANCIAL STATEMENTS

We applied the standard's practical expedient that permits the omission of prior-period information about our remaining performance obligations. No other practical expedients were applied.

The following tables summarize the effects of adopting these accounting standards on our unaudited Consolidated Financial Statements.

Consolidated Statement of Earnings (Unaudited)



	Three Months Ended	Effect of the Adoption of			Three Months Ended
(Dollars in millions, except per-share amounts)	April 3, 2016 As Reported	ASU 2016-09	ASC Topic 606	ASU 2015-17	April 3, 2016 As Adjusted
Revenue:					
Products	$ 4,864	$ —	$ (282)	$ —	$ 4,582
Services	2,860	—	34	—	2,894
	7,724	—	(248)	—	7,476
Operating costs and expenses:					
Products	3,784	—	(149)	—	3,635
Services	2,427	—	29	—	2,456
G&A	460	—	1	—	461
	6,671	—	(119)	—	6,552
Operating earnings	1,053	—	(129)	—	924
Interest, net	(22)	—	—	—	(22)
Other, net	10	—	—	—	10
Earnings from continuing operations before income tax	1,041	—	(129)	—	912
Provision for income tax, net	311	(15)	(38)	—	258
Earnings from continuing operations	730	15	(91)	—	654
Discontinued operations	(13)	—	—	—	(13)
Net earnings	$ 717	$ 15	$ (91)	$ —	$ 641
Earnings per share					
Basic:					
Continuing operations	$ 2.37	$ 0.05	$ (0.30)	$ —	$ 2.12
Discontinued operations	(0.04)	—	—	—	(0.04)
Net earnings	$ 2.33	$ 0.05	$ (0.30)	$ —	$ 2.08
Diluted:					
Continuing operations	$ 2.34	$ 0.03	$ (0.29)	$ —	$ 2.08
Discontinued operations	(0.04)	—	—	—	(0.04)
Net earnings	$ 2.30	$ 0.03	$ (0.29)	$ —	$ 2.04

Exhibit I – Post-adoption Disclosure (Cont’d)

GENERAL DYNAMICS

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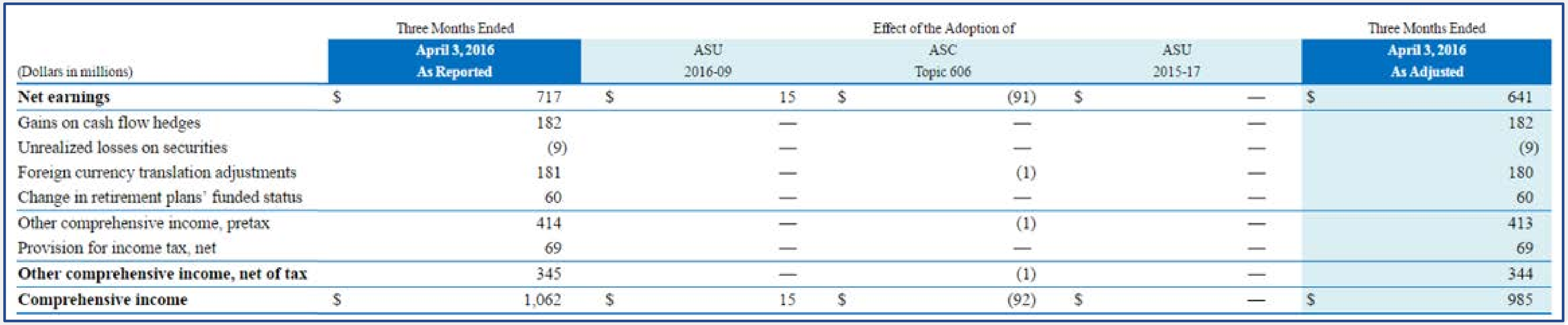
PRIOR-PERIOD FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income (Unaudited)



	Three Months Ended	Effect of the Adoption of			Three Months Ended
	April 3, 2016	ASU	ASC	ASU	April 3, 2016
(Dollars in millions)	As Reported	2016-09	Topic 606	2015-17	As Adjusted
Net earnings	$ 717	$ 15	$ (91)	$ —	$ 641
Gains on cash flow hedges	182	—	—	—	182
Unrealized losses on securities	(9)	—	—	—	(9)
Foreign currency translation adjustments	181	—	(1)	—	180
Change in retirement plans’ funded status	60	—	—	—	60
Other comprehensive income, pretax	414	—	(1)	—	413
Provision for income tax, net	69	—	—	—	69
Other comprehensive income, net of tax	345	—	(1)	—	344
Comprehensive income	$ 1,062	$ 15	$ (92)	$ —	$ 985

Exhibit I – Post-adoption Disclosure (Cont’d)

GENERAL DYNAMICS

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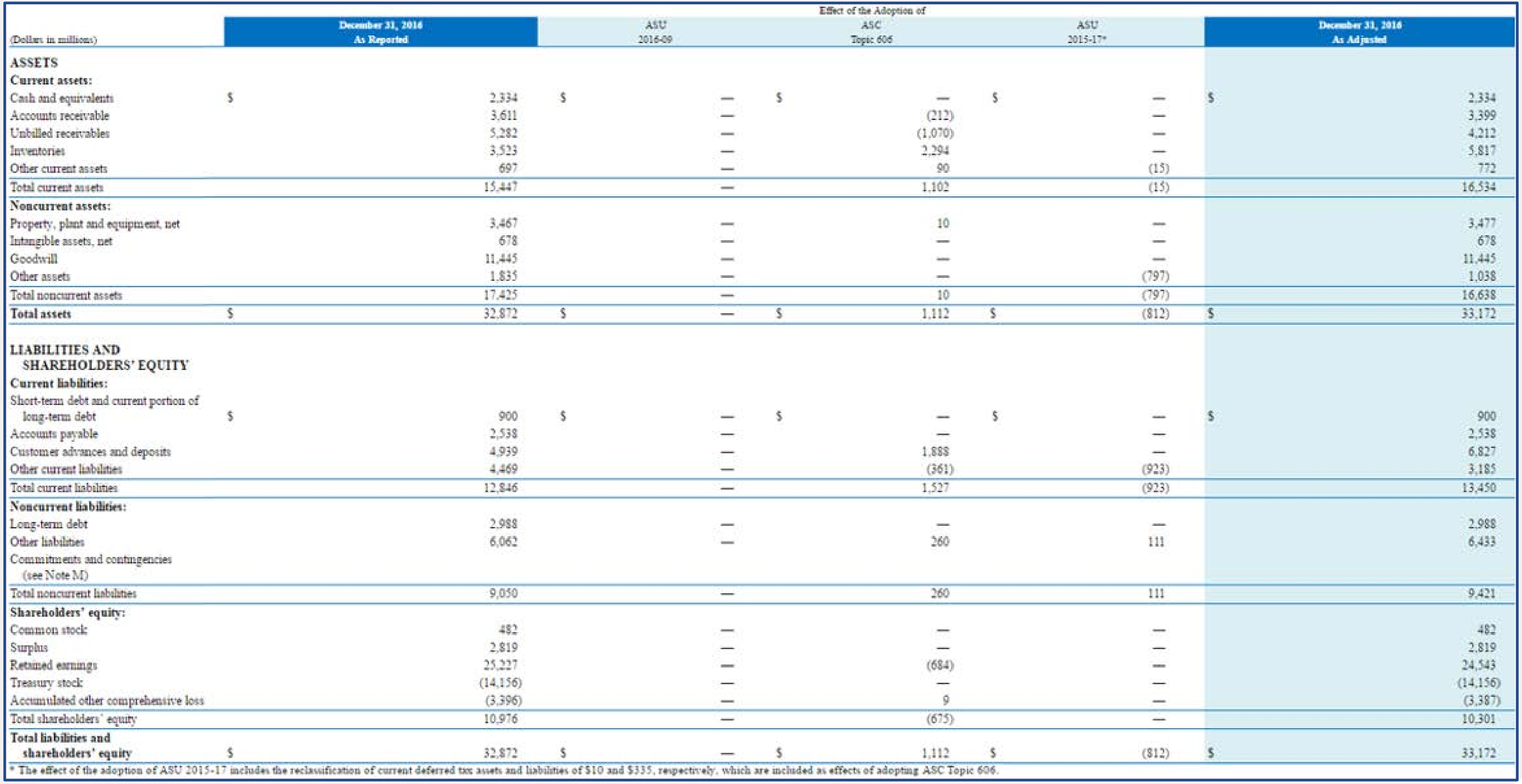
PRIOR-PERIOD FINANCIAL STATEMENTS

Consolidated Balance Sheet (Unaudited)



		Effect of the Adoption of			
(Dollars in millions)	December 31, 2016 As Reported	ASU 2016-09	ASC Topic 606	ASU 2015-17*	December 31, 2016 As Adjusted
ASSETS					
Current assets:					
Cash and equivalents	$ 2,334	$ —	$ —	$ —	$ 2,334
Accounts receivable	3,611	—	(212)	—	3,399
Unbilled receivables	5,282	—	(1,070)	—	4,212
Inventories	3,523	—	2,294	—	5,817
Other current assets	697	—	90	(15)	772
Total current assets	15,447	—	1,102	(15)	16,534
Noncurrent assets:					
Property, plant and equipment, net	3,467	—	10	—	3,477
Intangible assets, net	678	—	—	—	678
Goodwill	11,445	—	—	—	11,445
Other assets	1,835	—	—	(797)	1,038
Total noncurrent assets	17,425	—	10	(797)	16,638
Total assets	$ 32,872	$ —	$ 1,112	$ (812)	$ 33,172
LIABILITIES AND SHAREHOLDERS’ EQUITY					
Current liabilities:					
Short-term debt and current portion of long-term debt	$ 900	$ —	$ —	$ —	$ 900
Accounts payable	2,538	—	—	—	2,538
Customer advances and deposits	4,939	—	1,888	—	6,827
Other current liabilities	4,469	—	(361)	(923)	3,185
Total current liabilities	12,846	—	1,527	(923)	13,450
Noncurrent liabilities:					
Long-term debt	2,988	—	—	—	2,988
Other liabilities	6,062	—	260	111	6,433
Commitments and contingencies (see Note M)					
Total noncurrent liabilities	9,050	—	260	111	9,421
Shareholders’ equity:					
Common stock	482	—	—	—	482
Surplus	2,819	—	—	—	2,819
Retained earnings	25,227	—	(684)	—	24,543
Treasury stock	(14,156)	—	—	—	(14,156)
Accumulated other comprehensive loss	(3,396)	—	9	—	(3,387)
Total shareholders’ equity	10,976	—	(675)	—	10,301
Total liabilities and shareholders’ equity	$ 32,872	$ —	$ 1,112	$ (812)	$ 33,172

* The effect of the adoption of ASU 2015-17 includes the reclassification of current deferred tax assets and liabilities of $10 and $335, respectively, which are included as effects of adopting ASC Topic 606.

Exhibit I – Post-adoption Disclosure (Cont’d)

GENERAL DYNAMICS

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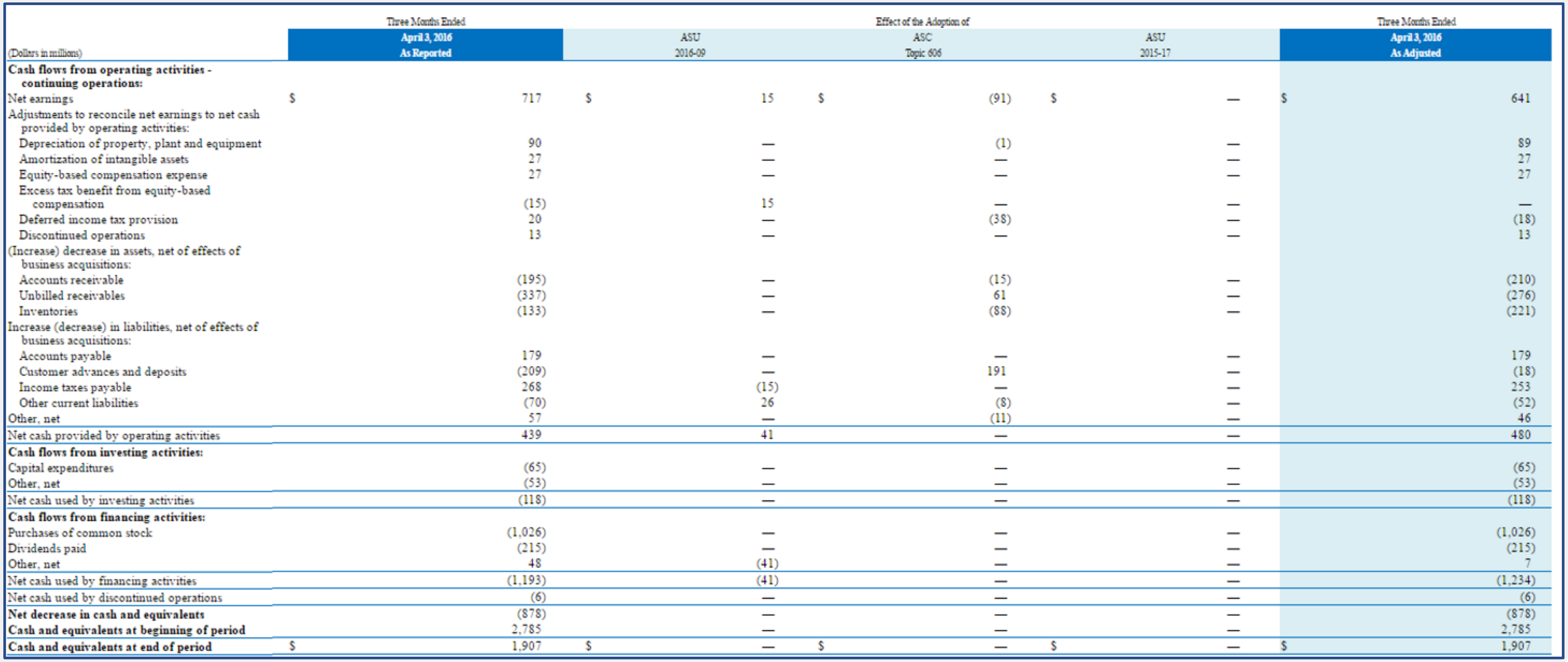
PRIOR-PERIOD FINANCIAL STATEMENTS

Consolidated Statement of Cash Flow (Unaudited)



(Dollars in millions)	Three Months Ended April 3, 2016 As Reported	Effect of the Adoption of ASU 2016-09	ASC Topic 606	ASU 2015-17	Three Months Ended April 3, 2016 As Adjusted
Cash flows from operating activities - continuing operations:					
Net earnings	$ 717	$ 15	$ (91)	$ —	$ 641
Adjustments to reconcile net earnings to net cash provided by operating activities:					
Depreciation of property, plant and equipment	90	—	(1)	—	89
Amortization of intangible assets	27	—	—	—	27
Equity-based compensation expense	27	—	—	—	27
Excess tax benefit from equity-based compensation	(15)	15	—	—	—
Deferred income tax provision	20	—	(38)	—	(18)
Discontinued operations	13	—	—	—	13
(Increase) decrease in assets, net of effects of business acquisitions:					
Accounts receivable	(195)	—	(15)	—	(210)
Unbilled receivables	(337)	—	61	—	(276)
Inventories	(133)	—	(88)	—	(221)
Increase (decrease) in liabilities, net of effects of business acquisitions:					
Accounts payable	179	—	—	—	179
Customer advances and deposits	(209)	—	191	—	(18)
Income taxes payable	268	(15)	—	—	253
Other current liabilities	(70)	26	(8)	—	(52)
Other, net	57	—	(11)	—	46
Net cash provided by operating activities	439	41	—	—	480
Cash flows from investing activities:					
Capital expenditures	(65)	—	—	—	(65)
Other, net	(53)	—	—	—	(53)
Net cash used by investing activities	(118)	—	—	—	(118)
Cash flows from financing activities:					
Purchases of common stock	(1,026)	—	—	—	(1,026)
Dividends paid	(215)	—	—	—	(215)
Other, net	48	(41)	—	—	7
Net cash used by financing activities	(1,193)	(41)	—	—	(1,234)
Net cash used by discontinued operations	(6)	—	—	—	(6)
Net decrease in cash and equivalents	(878)	—	—	—	(878)
Cash and equivalents at beginning of period	2,785	—	—	—	2,785
Cash and equivalents at end of period	$ 1,907	$ —	$ —	$ —	$ 1,907

Exhibit I – Post-adoption Disclosure (Cont’d)

GENERAL DYNAMICS

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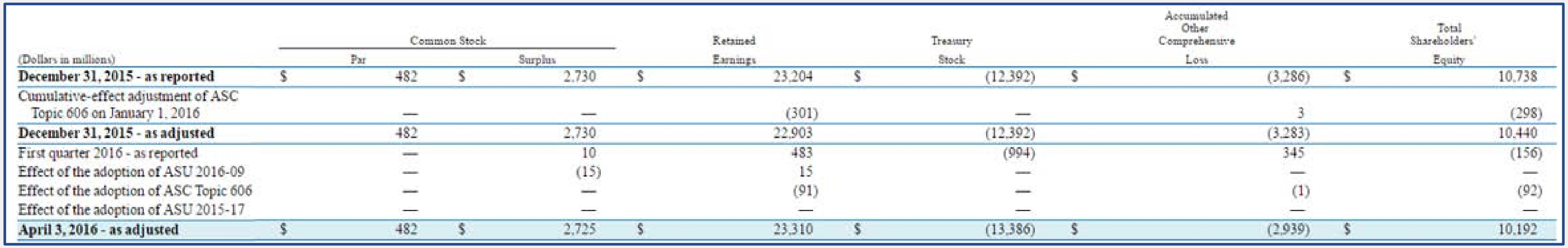
Consolidated Statement of Shareholders’ Equity (Unaudited)



	Common Stock		Retained	Treasury	Accumulated Other Comprehensive	Total Shareholders’
(Dollars in millions)	Par	Surplus	Earnings	Stock	Loss	Equity
December 31, 2015 - as reported	$ 482	$ 2,730	$ 23,204	$ (12,392)	$ (3,286)	$ 10,738
Cumulative-effect adjustment of ASC Topic 606 on January 1, 2016	—	—	(301)	—	3	(298)
December 31, 2015 - as adjusted	482	2,730	22,903	(12,392)	(3,283)	10,440
First quarter 2016 - as reported	—	10	483	(994)	345	(156)
Effect of the adoption of ASU 2016-09	—	(15)	15	—	—	—
Effect of the adoption of ASC Topic 606	—	—	(91)	—	(1)	(92)
Effect of the adoption of ASU 2015-17	—	—	—	—	—	—
April 3, 2016 - as adjusted	$ 482	$ 2,725	$ 23,310	$ (13,386)	$ (2,939)	$ 10,192

[Emphasis added]

Exhibit I – Post-adoption Disclosure (Cont'd)

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…… Collectively, we refer to Topic 606 and Subtopic 340-40 as the "new standard." The new standard must be adopted by Workday in our fiscal year beginning February 1, 2018, with early adoption permitted effective in our fiscal year beginning February 1, 2017. The two permitted transition methods under the new standard are the full retrospective method, in which the new standard would be applied to each prior reporting period presented and the cumulative effect of applying the new standard would be recognized at the earliest period shown, or the modified retrospective method, in which the cumulative effect of applying the new standard would be recognized at the date of initial application.

We have closely assessed the new standard and monitored FASB activity, including the interpretations by the FASB Transition Resource Group for Revenue Recognition, throughout fiscal 2017. In the fourth quarter of fiscal 2017, we finalized our assessment of the new standard, including completing our contract reviews and our evaluation of the incremental costs of obtaining a contract. **Based on our assessment, we decided to early adopt the requirements of the new standard in the first quarter of fiscal 2018, utilizing the full retrospective method of transition.**

The impact of adopting the new standard on our fiscal 2017 and fiscal 2016 revenues is not material. The primary impact of adopting the new standard relates to the deferral of incremental commission costs of obtaining subscription contracts. Under Topic 605, we deferred only direct and incremental commission costs to obtain a contract and amortized those costs over the term of the related subscription contract, which was generally three years. Under the new standard, we defer all incremental commission costs to obtain the contract. We amortize these costs over a period of benefit that we have determined to be five years.

Exhibit I – Post-adoption Disclosure (Cont’d)

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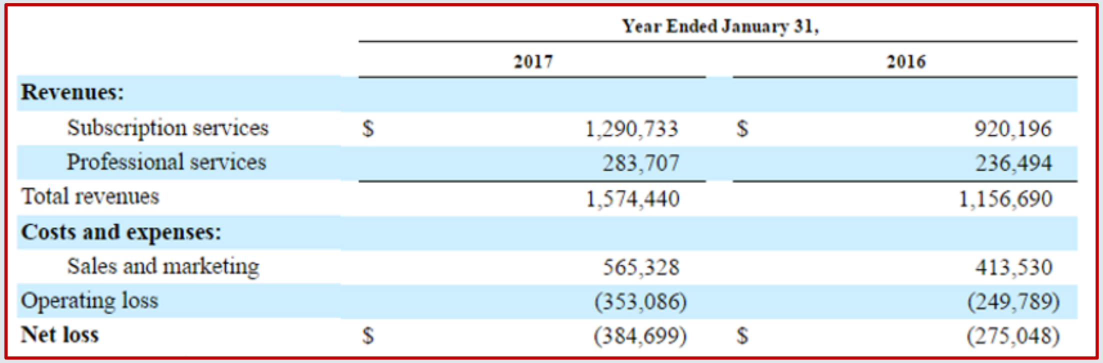
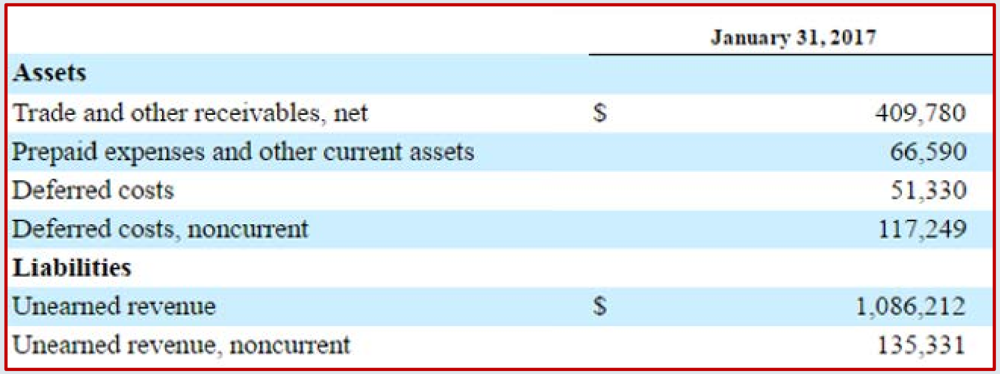
Select consolidated statement of operations line items, which reflect the adoption of the new standard are as follows (in thousands):



	Year Ended January 31,			
	2017		2016	
Revenues:				
Subscription services	$	1,290,733	$	920,196
Professional services		283,707		236,494
Total revenues		1,574,440		1,156,690
Costs and expenses:				
Sales and marketing		565,328		413,530
Operating loss		(353,086)		(249,789)
Net loss	$	(384,699)	$	(275,048)

Select consolidated balance sheet line items, which reflect the adoption of the new standard are as follows (in thousands):



	January 31, 2017	
Assets		
Trade and other receivables, net	$	409,780
Prepaid expenses and other current assets		66,590
Deferred costs		51,330
Deferred costs, noncurrent		117,249
Liabilities		
Unearned revenue	$	1,086,212
Unearned revenue, noncurrent		135,331

[Emphasis added]

Exhibit II – Common Impact Areas and Illustrative Pre-adoption Disclosures

Exhibit II – AA All industries

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Impact areas disclosed across multiple industries

☐ **Control**

Sell-through recognition model will not be applicable anymore in certain instances.

☐ **Variable Consideration**

Contracts that are currently precluded from revenue recognition (e.g. penalties, acceptance provisions, etc.) because of the existing requirement for amounts to be fixed or determinable will be accounted for as variable consideration under Topic 606. Companies will estimate the variable consideration and might recognize some revenue earlier provided such terms are sufficient to estimate the ultimate price expected to be realized.

☐ **Contingent Revenue Rule**

Topic 605 restricts the allocation of revenue that is contingent on future deliverables to current deliverables; however, Topic 606 removes this restriction.

☐ **Contract Acquisition Costs**

Topic 606 requires the deferral and amortization of “incremental” costs incurred to obtain a contract (e.g. sales commissions) where the associated contract duration is greater than one year. Under current U.S. GAAP, such costs are often expensed as incurred.

☐ **Disclosure**

Topic 606 requires substantially more robust disclosures compared to Topic 605.

Exhibit II – A Technology

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❑ **Industry-specific Impact Areas Disclosed:**

i. The requirement to have vendor specific objective evidence (VSOE) for undelivered elements is eliminated. As such, revenue for certain functional software license will be recognized at a point in time compared to the current practice of recognizing the entire sales price ratably over time due to the lack of VSOE.

ii. The timing of recognition of certain term license early renewals will be deferred until the commencement of the renewal term rather than recognized upon execution of the renewal agreement.

iii. Revenue and cost related to certain set up and implementation will be deferred and recognized over the estimated contract period or useful life of the asset if those activities do not transfer a service or are not distinct in the context of the contracts. Currently, when those activities have standalone value and the related fees are not contingent on the delivery of future goods or services, they are often recognized as performed.

iv. Currently, sales-based or usage-based royalties are often recognized as revenues in the period in which such royalties are reported by licensees, which is after the conclusion of the quarter in which the licensees' sales or usages occurs. Under the new guidance, companies will be required to estimate and recognize royalties in the period in which the associated sales or usages occur.

❑ **Illustrative Disclosure Examples:**

Company/Link	Adoption Method	Adoption Timing	Disclosure of Quantitative Impact
▪ Servicenow	▪ Full	▪ Regular	▪ High-level quantified for certain affected areas
▪ IBM	▪ Modified	▪ Regular	▪ No quantified impact was disclosed
▪ Microsoft	▪ Full	▪ Early – 7/1/2017	▪ High-level quantified for certain affected areas

Exhibit II – A Technology (Cont'd)

servicenow

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…… **We will adopt this new standard beginning January 1, 2018.**

…… **We currently anticipate adopting the standard using the full retrospective method to restate each prior reporting period presented.**

We do not expect the new standard to have a material impact on the timing of revenue recognition related to our cloud-based subscription offerings. However, we expect the new standard to have a material impact on the timing of revenue and expense recognition for our contracts related to on-premises offerings, in which we grant customers the right to deploy our subscription service on the customer's own servers, without significant penalty. Under this new standard, the requirement to have vendor specific objective evidence (VSOE) for undelivered elements is eliminated. As such, we may be required to recognize as revenue a portion of the sales price upon delivery of the software, compared to the current practice of recognizing the entire sales price ratably over an estimated subscription period due to the lack of VSOE. To the extent the amounts recognized as revenue have not been billed, the accrued revenue will be recorded as unbilled receivables on our condensed consolidated balance sheets. **We currently believe that our total revenues reported for the year ended December 31, 2016 would have increased by approximately $22 to $27 million on a pro forma basis if the new standard had been applied for the entire 2016 fiscal year starting on January 1, 2016.**

In addition, we expect the new standard to change the way we account for commissions paid on both our on-premises offerings and our cloud-based subscription offerings. Our current practice is to defer only direct and incremental commission costs to obtain a contract and amortize those costs over the contract term for both our on-premises offerings and our cloud-based subscription offerings. Under the new standard, we will defer all incremental commission costs to obtain customer contracts for both our on-premises offerings and our cloud-based subscription offerings. Commissions allocated to the software element of our on-premise offerings will be expensed immediately under the new standard, while commissions allocated to the support element of our on-premise offerings as well as commissions paid on our cloud-based subscription offerings will be amortized over an expected period of benefit, which we have determined to be approximately five years. As a result, we currently expect the deferred commissions asset to increase and the related amortization expense in each reporting period to decrease under the new standard. The aggregate impact resulting from changes in the way we account for commission expense for both our cloud-based subscription offerings and our on-premise offerings is expected to reduce our sales and marketing expenses by approximately $22 to $27 million for the year ended December 31, 2016. [Emphasis added]

Exhibit II – A Technology (Cont'd)

IBM

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...... **The company will adopt the guidance on January 1, 2018 and apply the cumulative catch-up transition method.**

Given the scope of work required to implement the recognition and disclosure requirements under the new standard, the company began its assessment process in 2014 and has since made significant progress, including identification of changes to policy, processes, systems and controls. This also includes the assessment of data availability and presentation necessary to meet the additional disclosure requirements of the guidance in the Notes to the Consolidated Financial Statements.

The company expects revenue recognition for its broad portfolio of hardware, software and services offerings to remain largely unchanged. **However, the guidance is expected to change the timing of revenue recognition in certain areas, including accounting for certain software licenses. These impacts are not expected to be material. The company expects to continue to recognize revenue for term license (recurring license charge) software arrangements on a monthly basis over the period that the client is entitled to use the license due to the contractual terms in these arrangements.**

Since the company currently expenses sales commissions as incurred, the requirement in the new standard to capitalize certain in-scope sales commissions is being evaluated to determine its potential impact in the consolidated financial statements in the year of adoption. There will be no impact to cash flows.

The company continues to assess all potential impacts of the guidance and given normal ongoing business dynamics, preliminary conclusions are subject to change. [Emphasis added]

Exhibit II – A Technology (Cont'd)

Microsoft

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…… **We plan to adopt the standard using the full retrospective method to restate each prior reporting period presented.**

The standard will be effective for us beginning July 1, 2018, with early adoption permitted as of the original effective date of July 1, 2017. We plan to adopt the standard effective July 1, 2017. While our ability to early adopt using the full retrospective method depends on system readiness, including software procured from third-party providers, and completing our analysis of information necessary to restate prior period consolidated financial statements, we remain on schedule and have implemented key system functionality to enable the preparation of restated financial information.

We have reached conclusions on key accounting assessments related to the standard. However, we are finalizing our assessment and quantifying the impacts related to accounting for costs incurred to obtain a contract based on guidance issued by the FASB Transition Resource Group as part of their November 2016 meeting. We will continue to monitor and assess the impact of any changes to the standard and interpretations as they become available.

The most significant impact of the standard relates to our accounting for software license revenue. Specifically, under the standard we expect to recognize Windows 10 revenue predominantly at the time of billing rather than ratably over the life of the related device. We expect to recognize license revenue at the time of contract execution rather than over the subscription period from certain multi-year commercial software subscriptions that include both software licenses and Software Assurance. Due to the complexity of certain of our commercial license subscription contracts, the actual revenue recognition treatment required under the standard will depend on contract-specific terms and in some instances may vary from recognition at the time of billing. We expect revenue recognition related to our hardware, cloud offerings including Office 365, LinkedIn, and professional services to remain substantially unchanged.

We are nearing completion of retrospectively adjusting financial information for fiscal year 2016 and are progressing as planned for fiscal year 2017. We estimate our revenue would have been approximately $6 billion higher in fiscal year 2016 under the standard primarily due to the net change in Windows 10 revenue recognition. [Emphasis added]

Exhibit II – B Industrial products, chemicals, and manufacturing

Back to summary

❑ **Industry-specific Impact Areas Disclosed:**

i. For certain contracts that are recognized based on percentage-of-completion units-of-delivery or attainment of milestones, the adoption might result in change of revenue timing depending on when the control is transferred to customers.

ii. Guaranteed reimbursements of certain pre-production engineering, development and tooling costs related to products manufactured for customers under long-term supply agreements are currently recorded as cost offsets by some companies; whereas under the new standard such guaranteed recoveries may be recognized as revenues, as the reimbursements specified in the customer contracts may represent consideration from contracts with customers under the new standard. There continues to be on-going dialogue between industry groups and standard setters regarding the treatment of these reimbursements under the new standard.

iii. Timing of revenue recognition for large manufacturing items might be earlier than current practice as the transfer of control generally occurs earlier than that of risk of loss to customers.

❑ **Illustrative Disclosure Examples:**

Company/Link	Adoption Method	Adoption Timing	Disclosure of Quantitative Impact
▪ GE	▪ Full	▪ Regular	▪ Quantified impact analysis on retained earning adjustment and EPS
▪ Honeywell	▪ Still assessing	▪ Regular	▪ No quantified impact was disclosed

Exhibit II – B Industrial products, chemicals, and manufacturing (Cont'd)

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TRANSITION METHOD FOR APPLYING THE NEW STANDARD

Companies can use either a full retrospective or modified retrospective method to adopt the standard. Under the full retrospective method, all periods presented will be updated upon adoption to conform to the new standard and a cumulative adjustment for effects on periods prior to 2016 will be recorded to retained earnings as of January 1, 2016. Under the modified retrospective approach, prior periods are not updated to be presented on an accounting basis that is consistent with 2018. Rather, a cumulative adjustment for effects of applying the new standard to periods prior to 2018 is recorded to retained earnings as of January 1, 2018. Because only 2018 revenues reflect application of the new standard, incremental disclosures are required to present the 2018 revenues under the prior standard.

As noted above**, we have elected to apply the full retrospective approach. We chose that approach because we believe that it is the most helpful to our investors. First and foremost, when we adopt the standard in 2018** we will provide investors with a consistent view of historical trends, as 2016 and 2017 will be on a basis consistent with 2018.

CHANGE IN TIMING AND PRESENTATION, NO IMPACT TO CASH OR ECONOMICS

The new standard requires companies to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time based on when control of goods and services transfer to a customer**. As a result, we expect significant changes in the presentation of our financial statements, including: (1) timing of revenue recognition, and (2) changes in classification between revenue and costs.** The new standard will have no cash impact and, as such, does not affect the economics of our underlying customer contracts. **The effect of applying the new guidance to our existing book of contracts will result in lower reported earnings in 2018 (and comparative periods previously reported) and in the early years after adoption. However, we expect to experience an increase in reported earnings, on that existing book of contracts, as they mature.** The new standard will provide for a better alignment of cash and earnings for the affected long-term customer contracts and we expect that it will enhance comparability across industry peers.

Exhibit II – B Industrial products, chemicals, and manufacturing (Cont'd)

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SPECIFIC EFFECT ON GE BUSINESSES

Power and Aviation Service Agreements - For our long-term product service agreements, primarily in our Power and Aviation businesses, we expect to continue to recognize revenue based on costs incurred plus an estimated margin rate (over time model). However, the new standard provides prescriptive guidance tied to several factors for determining what constitutes the proper scope of a customer contract for accounting purposes. These factors include optional purchases, contract modifications, and termination clauses. **For example, under the new standard contract modifications will be accounted for prospectively by recognizing the financial effect of the modification over the remaining life of the contract. Under existing accounting guidance revisions to estimated margin rates resulting from modifications were reflected as cumulative effect adjustments to earnings in the current period.**

Aviation Commercial Engines - Consistent with industry peers, **the financial presentation of our Aviation Commercial engines business will be significantly affected as they will be accounted for as of a point in time, which is a change from our current long-term contract accounting process. Our current process applies contract-specific estimated margin rates, which include the effect of estimated cost improvements, to costs incurred. This change is required because our commercial engine contracts do not transfer control to the customer during the manufacturing process. Each install and spare engine will be accounted for as a separate performance obligation, reflecting the actual price and manufacturing costs of such engines.** We expect that the most significant effect of this change will be reflected when we have new engine launches, where the cost of earlier production units is higher than the cost of later production units because of cost improvements.

All Other Large Equipment - For the remainder of our equipment businesses, **the new revenue standard requires emphasis on transfer of control rather than risks and rewards, which may accelerate timing of revenue recognition** versus our current practices. For example, in our **Renewable Energy business we wait for risk of loss to be assumed by the customer before recognizing revenue, which generally occurs later than when control is transferred.**

Exhibit II – B Industrial products, chemicals, and manufacturing (Cont'd)

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CURRENT RANGE OF FINANCIAL STATEMENT EFFECT

We will adopt the new standard as of January 1, 2018. When we report our 2018 results, the comparative results for 2017 and 2016 will be updated to reflect the application of the requirements of the new standard to these periods. **Based on our assessment and best estimates to date, we expect a non-cash charge to our January 1, 2016 retained earnings balance of approximately $4 billion. We estimate that the charge will comprise approximately $1 billion related to commercial aircraft engines and $3 billion related primarily to our Services businesses (predominately in Power and Aviation). Beyond those effects, we expect application of the new guidance will result in increases and decreases in revenue within our segments, which will largely offset overall and will be immaterial at a total company level. We estimate that our 2016 restated earnings per share will be lower by approximately $0.10. We anticipate that 2018 earnings per share will be lower by approximately $0.05 compared to what our results would be under existing revenue recognition guidance.** These amounts include significant estimates and will remain subject to change as we complete our evaluation of the new standard and reflect actual activity for 2017.

To summarize, we will adopt the new standard in 2018, at which time we will update prior periods to be presented on a consistent basis. **As discussed above, we anticipate the dilutive effect of the new standard in the year of adoption to be approximately $0.05 EPS and the effect will be less dilutive for years after initial adoption. However, this expectation is based on many variables, which are subject to change.** Importantly, application of the new guidance has no effect on the cash we expect to receive nor the economics of these contracts. Rather, it will simply more closely align revenue with cash, which we believe will be helpful to our investors. [Emphasis added]

Exhibit II – B Industrial products, chemicals, and manufacturing (Cont'd)

Honeywell

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…… **We have not yet selected a transition method.** We expect that our disclosures in our notes to consolidated financial statements related to revenue recognition will be significantly expanded under the new standard. The FASB has issued, and may issue in the future, interpretive guidance which may cause our evaluation to change. We believe we are following an appropriate timeline to allow for proper recognition, presentation and disclosure upon adoption **effective the beginning of fiscal year 2018.**

We are still finalizing the analysis to quantify the adoption impact of the new standard, but we do not currently expect it to have a material impact on our consolidated financial position or results of operations. Based on the evaluation of our current contracts and revenue streams, most will be recorded consistently under both the current and new standard. We expect the new standard will have no cash impact and, as such, does not affect the economics of our underlying customer contracts. However, we expect the guidance in certain areas, particularly in our Aerospace segment, to impact our current revenue recognition policies.

The current accounting policy for costs incurred for nonrecurring engineering and development activities of our Aerospace products under agreements with commercial customers is generally to expense as incurred. **Any customer funding received for such efforts is recognized when earned as a reduction of cost of sales. Under the new guidance, customer funding for such expenses incurred must be assessed to determine whether the contract is within the scope of the new revenue standard, and if so, determine the appropriate timing of the recognition of funding and related income statement classification.** We are continuing to evaluate the impact for these activities.

In addition, we expect revenues for our mechanical service programs at our Aerospace business to continue to be recognized over time and not point in time, but **under the new guidance the timing may change to reflect the impact of recognition as a series of distinct services using the output method.** With the adoption of the standard, certain unbilled receivables or deferred revenue will be eliminated through retained earnings, but we do not expect a material impact. [Emphasis added]

Exhibit II – C Transportation and utilities

❑ **Industry-specific Impact Areas Disclosed:**

i. The incremental cost approach used by airline companies for miles earned through travel will be eliminated.

ii. Certain airline ancillary fees directly related to passenger revenue tickets, such as airline change fees and baggage fees, are likely no longer considered distinct performance obligations separate from the passenger travel component. As a result, such fees which were previously recognized when received will likely be recognized when transportation is provided.

iii. Many utility companies disclosed that they do not expect a significant change in revenue practices. However, such conclusion is preliminary and dependent upon the resolution of open industry-specific implementation issues on entities' ability to recognize revenue for certain contracts where collectability is in question, and applicability of ASC 606 on contributions in aid of construction and alternative revenue programs.

❑ **Illustrative Disclosure Examples:**

Company	Adoption Method	Adoption Timing	Disclosure of Quantitative Impact
▪ American Airlines	▪ Full	▪ Regular	▪ No quantified impact was disclosed
▪ PG&E	▪ Modified	▪ Regular	▪ No quantified impact was disclosed

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Exhibit II – C Transportation and utilities (Cont'd)

American Airlines

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…… **We will adopt the new revenue standard effective January 1, 2018.** Entities have the choice to apply the new revenue standard either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying the new revenue standard at the date of initial application and not adjusting comparative information. **We currently expect to adopt the new revenue standard using the full retrospective method.**

We are still in the process of evaluating how the adoption of the new revenue standard will impact our condensed consolidated financial statements. **We currently expect that the new revenue standard will materially impact our liability for outstanding mileage credits earned by AAdvantage loyalty program members when flying on American. We currently use the incremental cost method to account for this portion of our loyalty program liability, which values these mileage credits based on the estimated incremental cost of carrying one additional passenger. The new revenue standard will require us to change our policy and apply a relative selling price approach whereby a portion of each passenger ticket sale attributable to mileage credits earned will be deferred and recognized in passenger revenue upon future mileage redemption. The carrying value of the earned mileage credits recognized in loyalty program liability is expected to be materially greater under the relative selling price approach than the value attributed to these mileage credits under the incremental cost method. The new revenue standard will also require us to reclassify certain ancillary fees to passenger revenue, which are currently included within other operating revenue.** [Emphasis added]

Exhibit II – C Transportation and utilities (Cont'd)

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…… **PG&E Corporation and the Utility intend to use the modified retrospective method when adopting the new standard on January 1, 2018.** PG&E Corporation and the Utility are currently reviewing all revenue streams and evaluating the impact the guidance will have on their Condensed Consolidated Financial Statements and related disclosures.

While the Utility expects that most of its revenue will be included in the scope of ASU 2014-09, it has not yet fully completed its evaluation. The majority of the Utility's revenue, including energy provided to customers, is from tariff offerings that provide natural gas or electricity without a defined contractual term. **For such arrangements, the Utility generally expects that the revenue from contracts with these customers will continue to be equivalent to the electricity or natural gas supplied and billed in that period (including unbilled revenues) and the adoption of the new guidance will not result in a significant shift in the timing of revenue recognition for such sales. The Utility continues to consider the impacts of outstanding industry-related issues being addressed by the American Institute of CPAs' Revenue Recognition Working Group and the FASB's Transition Resource Group. Additionally, the Utility expects more detailed revenue disclosures related to the nature, timing and uncertainty in revenues upon adoption of ASU 2014-09.** [Emphasis added]

Exhibit II – D Life science

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❑ **Industry-specific Impact Areas Disclosed:**

i. Overall, companies do not believe the adoption of ASC 606 will have a significant impact on revenue generated from product sales.

ii. Most companies are yet to complete their assessments as to whether the revenue practices related to collaboration arrangements will change or not.

❑ **Illustrative Disclosure Examples:**

Company	Adoption Method	Adoption Timing	Disclosure of Quantitative Impact
▪ Amgen	▪ Modified	▪ Regular	▪ No quantified impact was disclosed
▪ Eli Lilly	▪ Modified	▪ Regular	▪ No quantified impact was disclosed

Exhibit II – D Life science (Cont'd)

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In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting standard that amends the guidance for the recognition of revenue from contracts with customers to transfer goods and services. The FASB has subsequently issued additional, clarifying standards to address issues arising from implementation of the new revenue recognition standard. The new revenue recognition standard and clarifying standards are effective for interim and annual periods beginning on January 1, 2018, but could have been adopted early beginning January 1, 2017. The new standards are required to be adopted using either a full retrospective or a modified retrospective approach. **We expect to adopt this standard using the modified retrospective approach beginning in 2018. We have substantially completed our impact assessment and do not currently anticipate a material impact to our Total revenues. We continue to review the impact that this new standard will have on collaborations and license arrangements, as well as our financial statement disclosures.** As we complete our assessment, we are also identifying and preparing to implement changes to our accounting policies, business processes, and internal controls to support the new accounting and disclosure requirements.

[Emphasis added]

Exhibit II – D Life science (Cont’d)

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An entity can apply the new revenue standard retrospectively to each prior reporting period presented or with the cumulative effect of initially applying the standard recognized at the date of initial application in retained earnings. We currently plan to use the latter approach.

This standard is effective January 1, 2018, and we will adopt on that date.

We are in the process of evaluating the impact of the adoption of the standard. We have identified two revenue streams from our contracts with customers: 1) product sales and 2) licensing arrangements.

While our evaluation of our contracts for product sales is not yet complete, based upon the results of our work to date we currently do not expect the application of the new standard to these contracts to have a material impact to our consolidated financial statements either at initial implementation or on an ongoing basis.

We are in the process of reviewing arrangements in which we have licensed or sold intellectual property and are not yet able to estimate the anticipated impact to our consolidated financial statements from the application of the new standard to our arrangements as we continue to interpret and apply the principles in the new standard to our arrangements. [Emphasis added]

Exhibit II – E Entertainment, media and communications

Back to summary

❑ **Industry-specific Impact Areas Disclosed:**

i. Under the current guidance, revenue for the renewed license term is recognized on the date the renewal is agreed to contractually. Under the new guidance, such revenue will not be recognized until the later of the date the renewal term begins or the licensed content becomes available.

ii. Under the current guidance, when a company licenses a completed library of content and agrees to refresh the library with new content as it becomes available, and the licensee is not entitled to a refund if no further library titles are delivered, revenue is recognized once access to the library is granted to the licensee. Under the new guidance, the company will need to estimate the additional content it will deliver in the future and allocate a portion of the transaction price to that content.

iii. Certain intellectual property, such as brands, trade names and logos, is categorized in the new guidance as symbolic, which results in over-time revenue recognition. Under the current guidance, when there are no remaining performance obligations, revenue from such licenses of symbolic intellectual property is recognized at the inception of the license term.

iv. Due to the elimination of contingent revenue rule, it will no longer be permitted to recognize revenue net of discounts during the promotional periods and not recognize any revenue during free service periods. Instead, revenue recognition will be accelerated for these contracts as the impact of discounts or free service periods that are considered performance obligations will be recognized uniformly over the total contractual period.

v. Certain upfront installation or set-up fee that is currently recognized upon completion of the associated services will be deferred and recognized over a period of time as those services do not constitute distinct performance obligations.

❑ **Illustrative Disclosure Examples:**

Company	Adoption Method	Adoption Timing	Disclosure of Quantitative Impact
▪ Dish Network	▪ Still assessing	▪ Regular	▪ No quantified impact was disclosed
▪ Comcast	▪ Still assessing	▪ Regular	▪ No quantified impact was disclosed
▪ T-Mobile	▪ Modified	▪ Regular	▪ No quantified impact was disclosed

Exhibit II – E Entertainment, media and communications (Cont'd)

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…… We are evaluating the effect that ASU 2014-09 will have on our Condensed Consolidated Financial Statements and related disclosures. **We have not yet selected an adoption method.** While we have not determined the effect of the standard on our ongoing financial reporting**, we believe that the standard will, among other things, change the allocation and timing of when revenue is recognized for those customers who have a contractual commitment to receive service for a minimum term, including time-limited discounts or free service periods. Under current accounting rules, we recognize revenue net of discounts during the promotional periods and do not recognize any revenue during free service periods. Under ASU 2014-09, revenue recognition will be accelerated for these contracts as the impact of discounts or free service periods that are considered performance obligations will be recognized uniformly over the total contractual period. In addition, the standard will require that incremental costs to obtain a customer, which represent a significant portion of our non-advertising subscriber acquisition costs, be deferred and recognized over the expected customer life, whereas our current policy is to expense these costs as incurred.** As the new standard will impact revenue and cost recognition for a significant number of our contracts, as well as our business processes and information technology systems, our evaluation of the effect of the new standard is ongoing. We are currently in the process of identifying and implementing changes to our systems, processes, and internal controls to meet the requirements of the standard. The ultimate impact of adopting ASU 2014-09 for both revenue recognition and costs to obtain and fulfill contracts will depend on the promotions and offers in place during the period leading up to and after the adoption of ASU 2014-09. [Emphasis added]

Exhibit II – E Entertainment, media and communications (Cont'd)

COMCAST

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In May 2014, the Financial Accounting Standards Board ("FASB") updated the accounting guidance related to revenue recognition. The updated accounting guidance provides a single, contract-based revenue recognition model to help improve financial reporting by providing clearer guidance on when an entity should recognize revenue and by reducing the number of standards to which an entity has to refer. **The updated accounting guidance is effective for us as of January 1, 2018.**

We have reviewed a majority of our revenue arrangements and expect our review to be completed in the second quarter of 2017**. As a result of our review, we do not expect any material impact on our financial position or results of operations. However, we do expect that the new standard will impact the timing of recognition for (1) our Cable Communications segment's installation revenue and commission expenses, which upon adoption will be recognized as revenue and costs over a period of time instead of immediately, and (2) our Cable Networks, Broadcast Television and Filmed Entertainment segments' content licensing revenue associated with renewals or extensions of existing program licensing agreements, which upon adoption will be recognized as revenue when the licensed content becomes available under the renewal or extension instead of when the agreement is renewed or extended. The updated guidance also requires additional disclosures regarding our revenue transactions.**

The updated guidance provides companies with alternative methods of adoption and we are in the process of determining our method of adoption, which depends in part upon our completion of the evaluation of our remaining revenue arrangements. [Emphasis added]

Exhibit II – E Entertainment, media and communications (Cont'd)

T · ·Mobile

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……. **We plan to adopt the standard when it becomes effective for us beginning January 1, 2018.**

…… **We currently anticipate adopting the standard using the modified retrospective method with a cumulative catch up adjustment and providing additional disclosures comparing results to previous rules.**

We continue to evaluate the impact of the new standard but anticipate this standard will have a material impact on our consolidated financial statements. While we are continuing to assess all potential impacts of the standard, we currently believe the most significant impacts may include the following items:

- **Whether our EIP contracts contain a significant financing component, which is similar to our current practice of imputing interest, and would similarly impact the amount of revenue recognized at the time of an EIP sale and whether or not a portion of the revenue is recognized as interest and included in other revenues, rather than equipment revenues.**

- **As we currently expense contract acquisition costs, we believe that the requirement to defer incremental contract acquisition costs and recognize them over the term of the initial contract and anticipated renewal contracts to which the costs relate will have a significant impact to our consolidated financial statements.**

- **Whether bill credits earned over time result in extended service contracts, which would impact the allocation and timing of revenue recognition between service revenue and equipment revenue.**

- **Overall, with the exception of the aforementioned impacts, we do not expect that the new standard will result in a substantive change to the method of allocation of contract revenues between various services and equipment, nor to the timing of when revenues are recognized for most of our service contracts.**

We are still in the process of evaluating these impacts, and our initial assessment may change as we continue to refine our systems, processes and assumptions. [Emphasis added]

Exhibit II – F Wholesale, retail, services and other

Back to summary

❑ **Industry-specific Impact Areas Disclosed:**

i. Revenue associated with the unredeemed portion of gift cards will be recognized over the expected redemption period under the new standard rather than waiting until the likelihood of redemption becomes remote or waiting for the gift card to expire.

ii. Franchise fees that are currently recognized when a new store opens or at the start of a new franchise term will be recognized over the franchise term because the initial franchise services are not distinct from the continuing rights or services offered during the term of the franchise agreement.

iii. Advertising fund contributions from franchisees and the related advertising expenditures are currently reported on a net basis on balance sheets as deferred liability or receivable depending on the relative timing difference between advertising fund contributions received and advertising expenditures spent for the period. Under the new guidance, advertising fund contributions from franchisees and advertising fund expenditures will be reported on a gross basis and the related advertising fund revenues and expenses may be reported in different periods.

❑ **Illustrative Disclosure Examples:**

Company	Adoption Method	Adoption Timing	Disclosure of Quantitative Impact
▪ Yum Brands	▪ Full	▪ Regular	▪ No quantified impact was disclosed
▪ Home Depot	▪ Still assessing	▪ Regular	▪ No quantified impact was disclosed

Exhibit II – F Wholesale, retail, services and other

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...... **We currently intend to adopt the new standards using the full retrospective transition method in the first quarter of 2018.**

We do not believe these standards will impact the recognition of our two largest sources of revenue, sales in company-owned restaurants and sales-based continuing fees from franchisees. Additionally, we do not expect the new standards will materially impact the recognition of refranchising gains and losses as these transactions are divestitures of businesses and thus outside the scope of the standards. See Note 2 of our 2016 Form 10-K for a description of our current accounting policies related to revenue recognition.

…… **We are currently evaluating the standards to determine whether the services we provide related to upfront fees we receive from franchisees such as initial or renewal fees contain separate and distinct performance obligations from the franchise right. If we determine these services are not separate and distinct from the overall franchise right, the fees received will be recognized as revenue over the term of each respective franchise agreement. We currently recognize upfront franchise fees such as initial and renewal fees when the related services have been provided, which is when a store opens for initial fees and when renewal options become effective for renewal fees. The standards require the unamortized portion of fees received to be presented in our Consolidated Balance Sheets as a contract liability. Any contract liabilities required to be recorded as a result of adopting these standards may be material to our Consolidated Balance Sheets given the volume of our franchise agreements and their duration, which is typically equal to or in excess of ten years.**

Similarly, we are currently evaluating whether the benefits we receive from incentive payments we may make to our franchisees (e.g. equipment funding provided under the KFC U.S. Acceleration Agreement, see Note 5) are separate and distinct from the benefits we receive from the franchise right. If they cannot be separated from the franchise right then such incentive payments would be amortized as a reduction of revenue over the term of the franchise agreement. Currently, we recognize any payments made to franchisees within our Condensed Consolidated Statements of Income when we are obligated to make the payment.

We are also evaluating whether the standards will have an impact on transactions currently not included in our revenues such as franchisee contributions to and subsequent expenditures from advertising cooperatives that we are required to consolidate. We act as an agent in regard to these franchisee contributions and expenditures and as such we do not currently include them in our Condensed Consolidated Statements of Income or Cash Flows. See Note 2 of our 2016 Form 10-K for details. We are evaluating whether the new standards will impact the principal/agent determinations in these arrangements. If we determine we are the principal in these arrangements we would include contributions to and expenditures from these advertising cooperatives within our Consolidated Statements of Income and Cash Flows. While any such change has the potential to materially impact our gross amount of reported revenues and expenses, such impact would largely be offsetting and we would not expect there to be a significant impact on our reported Net Income. Additionally, the new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition.

[Emphasis added]

Exhibit II – F Wholesale, retail, services and other

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……

The Company is evaluating the effect that ASU No. 2014-09 will have on its Consolidated Financial Statements and related disclosures, as well as the expected method of adoption. **Based on the Company's preliminary assessment, the Company has determined that the adoption of ASU No. 2014-09 could impact the timing of revenue recognition through its services, gift card and various incentive programs. ASU No. 2014-09 will impact the Company's method of recognizing gift card breakage income, which is currently recognized based upon historical redemption patterns. ASU No. 2014-09 requires gift card breakage income to be recognized in proportion to the pattern of rights exercised by the customer when the Company expects to be entitled to breakage. The Company is also evaluating the principal versus agent considerations as it relates to certain arrangements with third parties that could impact the presentation of gross or net revenue reporting.** Other areas which could be impacted may be identified as the Company continues its evaluation of ASU No. 2014-09. **The Company plans to adopt ASU No. 2014-09 on January 29, 2018 and is evaluating the available transition methods.**

[Emphasis added]

Exhibit II – G Consumer products

Back to summary

❑ **Industry-specific Impact Areas Disclosed:**

i. Under the current guidance, companies account for sales incentives (e.g. rebates, collaborative funding arrangements, etc.) at the later of the date at which the products are sold or the date at which the programs are offered. The new guidance requires earlier recognition if the sales incentive is implied by companies' customary business practices, even if companies have not yet explicitly communicated the intent to make the payment to their customers.

❑ **Illustrative Disclosure Examples:**

Company	Adoption Method	Adoption Timing	Disclosure of Quantitative Impact
▪ Coca Cola	▪ Modified	▪ Regular	▪ No quantified impact was disclosed
▪ Procter & Gamble	▪ Still assessing	▪ Regular	▪ No quantified impact was disclosed

Exhibit II – G Consumer products (Cont'd)

The Coca-Cola Company

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The Company plans to adopt ASU 2014-09 and its amendments on a modified retrospective basis and is continuing to assess all future impacts of the guidance by reviewing our current contracts with customers to identify potential differences that could result from applying the new guidance. **Based on our preliminary review, we expect that ASU 2014-09's broad definition of variable consideration will require the Company to estimate and record certain variable payments resulting from collaborative funding arrangements, rebates and other pricing allowances earlier than it currently does. While we do not expect this change to have a material impact on net revenues on an annual basis, we do expect that it will have an impact on our revenue in interim periods.** As we complete our overall assessment, the Company is also identifying and preparing to implement changes to our accounting policies and practices, business processes, systems and controls to support the new revenue recognition and disclosure requirements. Our assessment will be completed during fiscal year 2017. [Emphasis added]

P&G

…… **We plan to adopt the standard on July 1, 2018. While we are currently assessing the impact of the new standard, our revenue is primarily generated from the sale of finished product to customers. Those sales predominantly contain a single delivery element and revenue is recognized at a single point in time when ownership, risks and rewards transfer. These are largely un-impacted by the new standard. Therefore we do not expect this new guidance to have a material impact on our Consolidated Financial Statements.** [Emphasis added]