Accounting: AASB 16 Leases

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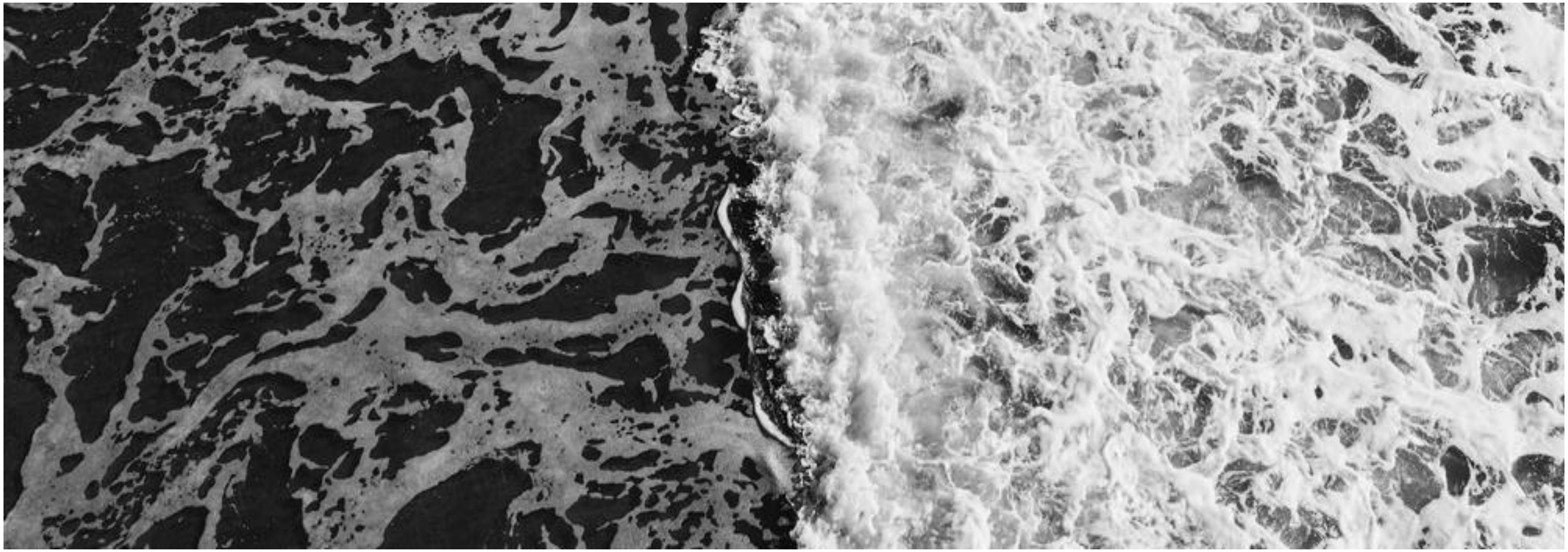

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Agenda

- S&P Methodology
- How will the revised accounting standards affect credit ratings?
- Key Considerations for Credit Ratings

S&P Operating Lease Adjustment

Operating Lease Adjustment

- Operating and finance lease obligations are treated as debt-like liabilities
- We calculate a debt equivalent amount for a company's lease contracts

Approach

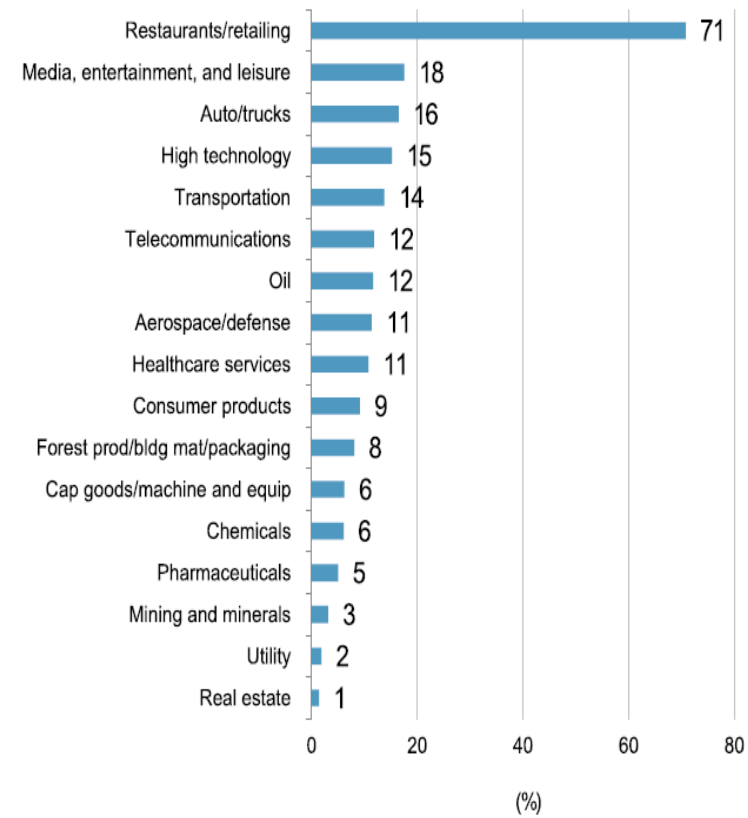
- S&P has historically calculated leases based on a Net Present Value of future lease obligations
- S&P currently uses a standardized fixed discount rate of 7%
- We retain the ability to analytically override e.g. artificially short lease terms

S&P will assess the difference in assumptions and whether any new information has come to light

How will AASB16 Impact Credit Ratings?

- AASB16 lease accounting changes will largely mimic our existing analytical methodology
- Conceptually similar to our analytical approach, albeit more accurate and audited
- S&P will adopt the new lease accounting measures in our analysis
- Our focus will be on materiality and any new information that comes to light
- Credit Ratings are generally expected not to change

S&P Global Ratings' Operating Lease Adjustment As A % Of Adjusted Debt
(Global data)



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AASB 16 Key Rating Considerations

- Has there been any fundamental change in rights and obligations?
- Financial covenants -- has financial flexibility reduced?
- Will S&P modify the ratio benchmark tables used in the cash flow leverage analysis?
- How will S&P Global Ratings deal with early adopters of the new lease accounting?