Introducing IFRS 16 Transcript

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Presentation

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Good morning everybody, and thanks for taking the time to join us this morning for an introduction to IFRS 16. What I'm going to cover today is a short summary of the impact. I'll then take you through specifically what it means for the numbers as we reported them on the first half of this year, and I'll conclude by then updating on what comes next, what numbers you can expect in the coming months, and as usual, we'll have a Q&A at the end of the briefing.

If we look at our key messages, let me start by talking through our approach to the implementation of IFRS 16. You will all be aware that there are two options available for adoption: a fully retrospective approach, and the modified retrospective approach. As we've previously outlined, we've elected to use the fully retrospective approach. That means our restated accounts reflect IFRS 16 as if it had always applied. We believe this provides the most comprehensive and the most representative view. In addition, it gives you numbers for our comparative year, the 2018/2019 financial year, allowing for a smooth transition.

Overall, it's been an extremely detailed and comprehensive process, involving the review and assessment of over 9000 individual lease contracts. We've analysed around 360,000 data points, including commercial terms and historic inputs, dating all the way back to the inception date of each lease. It's been a two-and-a-half-year programme from launch to today, as we start implementing it. Whilst the balance sheet transition occurred on the 24th of February 2018, today we are sharing what our most recent set of half-year results would have looked like on an IFRS 16 basis.

Before I do that, I'll take you through the key accounting principles of IFRS 16, starting with the balance sheet. I know that a lot of you will know this, but forgive me if I go through it, because I think it is important to remind ourselves what we are doing.

The standard aims to align the presentation of leased assets more closely to owned assets, bringing both an asset and liability onto the balance sheet. The lease liability is equal to the present value of the future lease payments, and at inception, the asset, which the accountants call a right of use asset, equals the lease liability. So an asset and a liability come onto the balance sheet as you enter into the lease, with equal amounts.

Over the lease term, the asset and the liability will differ in value. The right of use asset depreciates evenly over time, and the lease liabilities decreased by the cash rental payments. This is net, though, of an annual interest charge, which is higher at the beginning of the lease, a bit like a mortgage, and which reduces over time. The asset value also changes during the life of the lease, as it is subject to annual impairment testing. In addition, both the asset and the liability are revalued following any non-predetermined changes in rent, such as inflation linked rental increases or market rent reviews, and following any reassessment of the length of the lease term.

On the right-hand side of this slide, you can see two examples showing how the profile of the liability and asset values change depending on whether the lease has fixed annual rentals or RPI linked rental uplifts. Example want the top of the page shows a 20-year life with fixed annual rentals. In this scenario, the asset depreciates evenly over the life of the lease, and the liability decreases by the cash rent net of the interest charge of the liability.

The lower example, example two, we've got a 20-year lease with an RPI linked rental uplifts. In this case, we've used an annual 3% RPI uplift as an example. You can see that there is much greater difference between the value of the liability and the asset, particularly in the middle of the lease term. Of course, these are simple examples of individual leases. In reality, we entered into many different leases at different points in time, and we are recognising them now partway through each lease's term.

Looking now at the principles of IFRS 16 for the income statement. First, straight-line operating lease rental expense is being replaced by two separate charges. Depreciation on the right of use asset, which is straight lined over the lease term, and then secondly an interest charge on the lease liability, which starts high and reduces over the lease term. It is important to note that under both current accounting and IFRS 16, the cumulative charge to the income statement over time equals the cash rental is paid over the life of the lease. The introduction of IFRS 16 always increases operating profit, as the full rental charges removed, and only partly offset by the depreciation charge. However, the impact of the standard on PBT and EPS depends very much on the lease majority. As you can see from these examples, due to the interest charge which is higher in the earlier year and decreases over time, IFRS 16 is dilutive to EPS at the beginning of the lease, and accretive to EPS towards the end of the lease. For the lease with the RPI linked uplift, the bottom of this example, the EPS accretion comes later and is more marked.

In order to understand the impact of IFRS 16 on our reported numbers, it's important to understand the shape of our lease portfolio. Tesco's lease portfolio is relatively immature. Around one third expired, with an average lease length of 26 years. By value, two thirds of our leases are stand-alone, and the remaining third relate to leases with joint ventures. Our joint ventures include six complex property finance joint ventures, which was set up between 2009 and 2013, with lease lengths of around 30 years. The leases within the structures are RPI linked, with the first lease expiring in 21 years. In total, 77% of our lease liabilities are subject to inflation linked uplifts. Under IFRS 16, any future variable uplifts in rental income are not included in the value of the liability today, and will be reflected on an annual basis as the uplifts occur.

Turning now to how IFRS 16 constructs our lease liability. There are three elements, and I'll deal with each of these in turn. The IFRS 16 lease liability includes contingent lease commitments, which we've previously disclosed. These relate to lease payments after the break option. As you can see, in August 2018, undiscounted contingent lease commitments were £2.9 billion, and discounted commitments were £1.4 billion. These were disclosed in note 21 of our interim statement.

The second element, the inclusion of extension or post break periods, where it is reasonably certain, is shown on this next slide. Currently, our lease commitments are disclosed based on the rent due during the non-cancellable period of the lease. Effectively, this is the minimum amount required to be paid. On an IFRS 16 basis, we are required to include the asset and the lease term amounts which are reasonably certain to be paid. So, in addition to the minimum commitments, you can see that the lease term is also inclusive of periods after the break clause, if we are reasonably certain we will not break the lease. And also extension periods, if we are reasonably certain we will extend the lease.

And then finally, we apply lease specific discount rates. We determine these, because each lease has a unique discount rate, which is dependent on the lease start date, the term, and the currency of the lease. Where it is clear to us the discount rate is based on the implicit rate in the lease. If we cannot determine the rate implicit in the lease, the discount rate is based on the incremental borrowing rate at the time we entered into the lease. This comprises multiple imports, both external and internal. Across all leases, the weighted average discount rate for the group is 5.8% as at February 2018.

So, looking at the impact of these factors using the half-year numbers as a base, our discounted operating lease commitments were disclosed at £7.2 billion. Contingent lease commitments at £1.4 billion, discounted, as they were, and a further £1 billion increase is driven by the inclusion of reasonably certain lease liabilities in extension periods and post break periods. Lastly, £1 billion is driven by the application of the lease specific discount rate. In total, our new IFRS lease liability is £10.6 billion.

This slide walks you through how the lease liability and the other changes are reflected on our balance sheet. If we begin on the left-hand side, we start with reported net assets at the end of the first half of £14.4 billion. We then add a new £10.6 billion lease liability, which I've just explained, and following this, there is a £0.9 billion one-off adjustment to working capital. This is made up of two elements. First, rent prepayments and accruals of £200 million which no longer form part of working capital balances, and secondly, £700 million of owners' lease provisions which have now been de-recognised.

In addition to the lease liability, we have also recognised and associated right of use asset of £7.8 billion. This has been recognised net of impairment, as these assets are now subject to normal impairment testing. There is a further £0.2 billion, which primarily relates to reallocation of impairment from property, plant and equipment to the right of use asset. Essentially, held assets are now allocated over a larger asset base for impairment testing purposes.

In addition, we've paid more tax to date than we would have under IFRS 16, leading to the recognition of a new £0.3 billion deferred tax asset. This results in restated net assets as at August 2018 of £13 billion.

If I now take you through the resulting key movements on our first half income statement, there is no change to our reported revenue from the adoption of IFRS 16. Our operating lease rentals of £522 million are removed, but partially offsetting that, we now include a £340 million depreciation charge on the right of use asset. The net impact is an increase of £188 million to our first half operating profit pre-exceptional items, which increases from £933 million to £1.12 billion.

Moving down the P&L, the IFRS 16 interest charge increases finance costs to £582 million. The net impact of this and other minor adjustments is a decrease of £101 million in profits before tax to £566 million for the half. Broadly, the full year be around double the half-year impact. I'll come back and talk about the impact of these key profit adjustments and our key metrics in a moment. But before I do that, we'll look at the retail cash flow statement.

Our retail cash flows are reclassified between operating and financing activities. There is no change at all to our cash position. Rental payments of £566 million that were reported in retail operating cash flow are now split into two lines. The interest element, which is £286 million, is recorded within net interest and tax, and the capital element of £280 million is now recorded in financing activities as repayments of obligations under leases.

Retail free cash flow is an important measure for us. To ensure it's not artificially inflated, we will redefine the measure to include the repayment of our obligations under leases. That means there'll be no change to free cash flow as we look at it on an IFRS 16 basis.

Moving to our KPIs, I'll run through this quickly because it's a repetition of what we just discussed. We are maintaining all of our key KPIs after the introduction of IFRS 16. As I have just mentioned, we will be redefining retail free cash flow. This table summarises the impacts on them and as the way you are used to seeing them from us. Again, just to reiterate, these numbers relate to the first half results which we most recently reported. Operating margin increases by 59 basis points, due to the removal of the rent charge, which is partially offset by the increased depreciation charged on the right of use asset. Our diluted EPS decreases by 0.91p, as the new depreciation and interest charge exceed the previous operating lease renting charge. This is particularly marked due to the relative immaturity of our lease portfolio and will reduce over time. In addition, the EPS dilutive impact will also reduce as our underlying earnings grow.

Our net debt increases by £10.5 billion as we bring the new lease liability onto our balance sheet, and our total indebtedness increases by £3.3 billion, as I mentioned earlier, due to inclusion of the full reasonably certain lease terms and the application of the lease specific discount rates. Our retail operating cash flow increases by £566 million because of the reclassification of the operating lease payments, and of course, there is no change to retail free cash flow.

Looking now at the impact on our debt metrics. We've redefined total indebtedness to reflect operating lease commitments as part of net debt. As the operating lease expense no longer exists, we've also redefined the fixed charge cover to include cash rent and removed IFRS 16 interest expense from net finance costs. The graphs show the impact of IFRS 16 on our key debt metrics. For the first half of this year, our total indebtedness ratio increases from 3.2 times to 4 times due to the change in the measurement of our lease liabilities. Our fixed charge cover decreases from 2.9 times to 2.7 times, largely due to changing from rental operating expense to cash rent.

We are pleased with the progress we have made over the last four years. Improving profitability and generating cash enabled us to strengthen the balance sheet. As you know, going forward we will face increasing focus on cash profitability, earnings growth and free cash flow, with a strong balance sheet and an appropriate capital structure.

Before I conclude, I thought it would be worth pausing to talk through what you can expect in the coming months. Today, we've shared the first half 2018/2019 income statement and cash flow as well as the opening and closing balance sheets for the half year on an IFRS 16 basis. On 10th April at our preliminary results, we will continue to report on a pre IFRS 16 basis. We will however include a headline summary of the impact of IFRS 16 on those results.

Following our preliminary results, we will share the full 2018/2019 financial restatements on an IFRS 16 basis. And then our first results published on this basis will be the half-year results on the 2nd of October, which will use the restated comparatives for the first half that we published today.

Before we move to Q&A, I will conclude with a brief summary of the key messages. There is absolutely no impact that IFRS 16 has on the economics of our business, and we are not going to run the business any differently from the way we have run it over the recent past. In addition, there is no impact at all on the cash we generate. On the balance sheet, our new lease liability will reflect the inclusion of the lease extensions and the contingent commitments. Our operating profit and operating margin go up. At this stage in the majority of our lease portfolio, our profit before tax and diluted EPS go down. The introduction of IFRS 16 has no bearing on any of our plans, and the ambitions that we have shared with you in the past. We will continue to provide sufficient disclosure to translate the progress against our 2019/2020 ambitions back to a pre IFRS 16 basis.

So, the process of arriving at these numbers, as I'm sure you will be aware, has been detailed and lengthy, and I'd like to thank all of the team involved in this. I'm sure you now want to go away and to see how this reflects on your models, and we really would like to help you with that. Our next results will be on the pre IFRS 16 basis, but very rapidly after that, we will be moving to talk about our business and report it on the post IFRS 16 basis.

I'm very happy to take any questions. We've also got Chris and Sarah who will be able to pick up with you after the meeting, and we've got Bhavesh Mistry, our deputy CFO, and Lynda Heywood, our group treasurer, also able to answer any questions, so please direct them to them rather than to me.

Very happy to take any questions you have and again, thank you very much.

Question and answer session

Alan Stewart: So, shall I open it up to questions? Shall we start in the front. Dan?

Daniel Ekstein (UBS): Thank you. Thanks for the presentation, Alan. My question is on your targeted level of gearing and that you've described previously. Presumably, you will be moving that target level of gearing higher, to incorporate the higher level of total indebtedness will stop it's a rather leading question, will you all won't you? Does that three times target still hold?

Alan Stewart: Well, we've had no discussions with the rating agencies to date at all. This is the first we are sharing with it, and we've always run the business on the basis as I've set out, which is a stable capital structure, one which is sustainable and one which is appropriate to investment-grade metrics. And that's the way we will continue to run that. Specifically, as regards the targets, we're going to look and work through them and see. What I felt was important today is that we showed transparently the impact against what we've previously shown, and we will see how that evolves. And I think it's really important that we see the full year impact on that before we really talk more about it, and we will talk more about it in April. But nothing changes in the way in which we run the business.

Daniel Ekstein (UBS): Or the way that you think about the appropriate sort of capital structure?

Alan Stewart: Nor in the way we think about appropriate capital structure. We are focused on generating cash from our business, on growing the business against an appropriate capital structure, having a profile of maturities of whatever that debt is, that is sustainable and appropriately balanced. And, in the first instance, as you know we're focused on the dividend, the growth of the dividend, and the appropriate capital structure. If we're generating excess cash, then we'll be able to talk about and think about it. So nothing has changed in the way we think about it.

Maria-Laura Adurno (Morgan Stanley): Hi, Maria-Laura Adurno from Morgan Stanley. So, as we can see from the presentation, the total indebtedness is actually increasing. Would this have an impact in terms of the cost of funding, or even on the covenant discussions that you have with banks?

Alan Stewart: I don't know, because today is the first change we've had. What I do know is that we've issued debt recently last year of a split rating. The cost of that debt as we issued it was really, really aligned with an investment-grade structure. We were right on the crossover. We've had no issues as regards our ability to access the market. But I've always said is that we run the business recognising that there are agencies who give a rating, but we run it off the basis that we can see, and what we believe would be appropriate. So I don't anticipate that there will be any issues, but the specifics as regards what that means, we will now enter into the detailed discussions with.

Rob Joyce (Goldman Sachs): Rob Joyce, Goldman Sachs. I've got three. I'll be quick. First one, just to confirm, you said in terms of distributions, this doesn't alter your thinking in terms of how you look at distributions from the business going forward.

Alan Stewart: Our thinking remains exactly the same now as it always has.

Rob Joyce (Goldman Sachs): Perfect. And in terms of the – just to confirm, on the RPI linking, which RPI metric are your leases generally linked to?

Alan Stewart: It's just RPI as a metric. Now, I know there's a lot of discussion as it happens earlier this week, last week around the validity of RPI, but our leases are linked to RPI as the measure as it's published.

Rob Joyce (Goldman Sachs): Okay. And there's not much way of getting out of that. They are generally –

Alan Stewart: These are – as we know, and we've seen in other parts of – where there's a contractual commitment to measure, the measure is what it is and if people are willing to change it, so be it, but it is as externally published.

Rob Joyce (Goldman Sachs): And just linked to that, given what we are seeing in the sort of retail property environment, maybe linked to this, but are you generally seeing landlords being more amenable to altering terms of the leases at the moment? And has this accounting change had any bearing on those conversations as yet?

Alan Stewart: Again, I think it's really too early to know. I think the dynamics of the property market are well understood. We've been very cognizant has we've been buying back properties that we are standing in the market, which doesn't help the value at which you're trying to buy them. So, we will always look at the economics of the specifics of a transaction that we are doing, but the fact remains that if the business which is operating has got an expectation of a good, long-term successful life as a business, and is a strong balance sheet, then the covenant standing behind it from a property investment perspective is very different from other businesses. So, I think it is very situationally specific, but we are very focused on ensuring wherever we are paying rents that we are paying the appropriate rent for the market circumstances.

Rob Joyce (Goldman Sachs): Thanks very much.

Andrew Gwynn (Exane): Good morning, Alan. It's Andrew Gwynn from Exane. Two questions. One's a very quick clarification. I think slides six, you said there is an average total lease length of 26 years. Is that the remaining period on the leases, or is that from the point of entry?

Alan Stewart: That's the remaining period.

Andrew Gwynn (Exane): So it's an average of 26 remaining?

Alan Stewart: Yeah. If you look at the weight of chart, the profile, you can see that a lot of it, at 21 years is when they started, and by value, there's a lot.

Andrew Gwynn (Exane): Okay. That's clear. It's sort of tied to the second question, which is, how many years out before this becomes a net positive of net income?

Alan Stewart: I'd love to be able to answer that. It's fiendishly complex. It depends on the inflation assumption, because as I've said in the presentation, what we haven't captured, and this is the way the standard works, is future inflation that will get captured on an annual basis. If I were guessing, I would say it's probably between five and 10 years, but there's a lot of assumptions behind that. And in that sense, we are relatively immature in terms of those impacts, which is why you see the dilution we are seeing.

Andrew Gwynn (Exane): And then a cheeky follow-up. Historically, Tesco has paid its dividend as a function of EPS. How should we think about that going forward? There's obviously a flexibility within the ratio.

Alan Stewart: Again, I think it's more appropriate that we talk about dividend when we get the full year results. Nothing has changed in terms of our thinking, but I think I'd rather talk about that in the context of full-year results, because there is an element of only half year in terms of where we are.

Andrew Gwynn (Exane): Okay. Thank you very much.

Chris Griffith (Tesco Group Investor Relations Director): Alan I think you answered a slightly different question. The 26 years quote in the presentation is the total original length of the lease. The third is the position we're through.

Alan Stewart: Oh, sorry. It's total.

Xavier Le Mene (BoAML): Xavier from BoAML. One quick one for me. You've got a margin target actually for February 2020, 3.5 to 4% margin. What is the new guidance under the IFRS 16?

Alan Stewart: We will work through it, and you can see what the impact is in terms of the broad group. It's around 0.6, 60 basis points. Around. Specifically, we will make sure that as we report, we will be able to report back on that pre-IFRS 16 basis in order not to have to adjust out. But it's around 60 basis points.

Xavier Le Mene (BoAML): Okay. Thank you.

Dusan Milosavljevic (Berenberg): Good morning. Dusan from Berenberg. I had three questions, and the first one is on the difference between the criteria and the subjectiveness that goes into you being reasonably certain that you're going to extend the lease beyond the minimum break. Because I mean, how subjective is that assessment? And it materially shifts the lease profile depending if you use the old numbers that were coming in the annual report or the assumption implied by IFRS 16. So how should we think about that?

Alan Stewart: It's difficult translating the words as they are, reasonably certain. What I can say is that reasonably certain actually doesn't allow a huge amount of subjectivity. I think the expectation is more that you will be there than that you won't be there and so you're sort of pushed much more firmly towards the lease term as it was struck. The more challenging question is the extensions beyond that, and it's a more difficult test to go over, to say I will extend, and so if we think about where we've taken full lease term compared with extensions, they're relatively fewer extensions that we've taken because it is a much harder test that way. And I think if you step back from it, the logic of that is understandable. It may be that we'll exercise a break clause, but it's only pretty close to a break clause that you've got any real certainty and degree of clarity that you will exercise that break. So you tend to be focused toward the break, the full lease term.

Dusan Milosavljevic (Berenberg): I guess it's more towards the [inaudible] point that as you get to the break clause, your negotiating position, being able to renegotiate that lease which was taken out in 2008 at the peak of the boom market kind of perhaps improves, but –

Alan Stewart: Yeah, but look, I think the way we run the business doesn't change at all. And over the last four years, we've come to the end of leases. Some stores we would have liked to continue trading from a customer perspective, but the rental wasn't what – what we had been paying wasn't appropriate. If the landlord wasn't prepared to see the world as we saw it, then we would exit the store, and there are clear examples of that. And nothing has changed in that sense. We will always be cognisant of the market conditions, and the returns we need from that particular store.

Dusan Milosavljevic (Berenberg): Thanks. Second question is just on I think [inaudible], there were some buybacks of JVs, of the lease JVs that you are going to have by the end of the year. Is there anything else there that we should bear in mind in terms of something which could shift your lease liability portfolio?

Alan Stewart: No, and again, we get into technical accounting complexity and this is fiendishly complex and you have to look at it on the basis as and when things are exercised. Our current view of that particular JV which we triggered back in September last year and which will be exercised in September this year coming up is that it shouldn't significantly change these numbers at all from what we've spoken about. But they are individual and they will be specific to the circumstance. Any store that we do buy back, whether it's in the JV structure or not, obviously we then have a real asset rather than a right of use asset, and the liability to the degree that we pay falls away, to the degree we've used cash to pay that it gets reflected in our cash liability.

Dusan Milosavljevic (Berenberg) Thanks. And the final one is just, is there any – there's no impact on cash tax rates or kind of on the tax accounting?

Alan Stewart: No, so our view of the – the impact on tax going forward and effective tax rates, no issue. As you saw, there's a deferred tax asset which we create, and that deferred tax asset will get released over time, but no impact in terms of the reported tax rate.

Dusan Milosavljevic (Berenberg): Okay. So tax rates wouldn't be moving. Thanks.

Question: Hi, Alan. Three if I could do. Just on the contingent liabilities, I notice they've gone up over recent halves. Could you describe what's happening there? Are you signing up to more contingent liabilities as you are coming off upward only contracts, or is there anything going on in your contract that means the contingent liabilities continue to increase on a non-discounted basis? The second one was around just building on Rob's point. Is there any proficient in your contract, if RPI disappears as a metric, what happens to those RPI-linked contracts? Is there another measure that they move to?

Alan Stewart: The – I think – so, I'll have to come back to you on the first question around the contingent liabilities. There's nothing that comes immediately to mind as to why that would be. What I do know is that within our lease portfolio, if we get to break clauses and we don't – which previously we have not counted, because that's the way that we accounted for it is a contingent liability, if we pass a break clause and we extend, then we will bring in a – or we have a new lease, then that will increase. And that just happens on a rolling basis within the portfolio. But there is nothing specifically that I would point to that I'm aware of. But I'm happy to come back separately. As regards the second question around the contractual element, there is nothing that I know, but I think this is one of the challenges which for when we've been involved as in the pensions world, you're also involved with discussions around RPI and RPI linkage, one of the challenges is I think it would need a statutory instrument to say RPI was this, is now this, in order for that contractual position to be committed to without a lot of time, money and arguments going on. So, that's where the pressure I think rightly is on government to replace RPI from a statutory perspective, but to date, it's been difficult to achieve. They have other things on their mind at the moment.

Question: Just one last one around the [inaudible]. Obviously, half of that's linked to EPS which has obviously changed now. Are you going to be recalibrating that, or –

Alan Stewart: Well, it's for the RemCom to decide. My full expectation is that the RemCom will look at any metrics which would calculate it and set on a pre-IFRS 16 basis, and I'd expect them to restate those, but it is for the RemCom to decide.

Question: Does EPS become a meaningless KPI for things like [inaudible] now?

Alan Stewart: You'd have to ask the Rem advisors that. I personally think that EPS is still an important measure. I think it's one which the market looks to. But clearly, IFRS 16 creates – was intended to create comparability. We'll see whether that happens over time.

Alastair Birkby (Citi): Hi, it's Ali Birkby from Citi. I've got two quick questions. Firstly on the divisional impact, are you likely to give disclosure going forward kind of the changes in the income statement by division?

Alan Stewart: Yeah. Our divisional reporting remains as it will be, and we will show on that divisional basis. We'll talk about it more, but broadly it's pretty equal across the different segments in our business.

Alastair Birkby (Citi): Okay. Cool. Leading on from a few previous questions on break clauses, and recognising they're reasonably certain. Is there an unrecognised portion which you'll be disclosing going forward to give more kind of clarity on that number?

Alan Stewart: Oh, gosh. There's very, very few where we haven't taken break clauses. I'd have to come back to you. I don't think it's been within our thinking, but I can tell you that there are very few where the break clause has been ignored or assumed to be exercised. And the reason, as we spoke earlier, about what's the test for that, the fact is if there are – if we do think we won't exercise the break, then we've captured it. We have to be really reasonably certain that we will exercise the break, and therefore we wouldn't view it as a contingent liability to be disclosed. So, I think, having not had the question asked in the way you have, I don't think we will be disclosing it, because it will be an immaterial number.

Alastair Birkby (Citi): Okay. Cool. Thank you.

Rob Joyce (Goldman Sachs): Sorry Alan. Just a quick follow-up. Actually very timely on the basis of that last one. Should we assume, given the uplift due to moving from break clause to full terms only about £1 billion on a £7 million original commitment, that the actual break clauses are actually quite far out? If you've got two thirds of 26 years left and it's only £1 billion, is that 10, 15 years?

Alan Stewart: Can we take that and work through what it means? There are a lot of moving parts within the numbers and within how they have shifted, and I'd rather work through it clearly, and Chris and the team can do that, and then answer it here and now. There are as I say different moving parts in it, and I've said that our portfolio is relatively immature in terms of those very long dated leases.

Rob Joyce (Goldman Sachs): Okay. Thanks.

Alan Stewart: Okay. Thank you.

Andrew Gwynn (Exane): I might take the prize for the most boring question today, but –

Alan Stewart: We'll award it publicly later.

Andrew Gwynn (Exane): Yeah. Indeed. Distributable reserves. It's about three and a bit billion on the group level, but obviously it matters really at the plc level, so is there a significant change at the plc level?

Alan Stewart: Again, distributable reserves are a great question. We are very clear that the impact of this doesn't have any impact on our ability to pay dividends going forward, so distributable reserves isn't an issue for us, and as you know and as you say, they do come from the plc, so no issue. Any more?

Question: Hi there. Just a question on your ongoing business, then. Have you changed your approach to negotiating terms of contracts in terms of what you will accept? Because obviously, IFRS 16 has things like break clauses and so on. I just want to get a feel for if you have changed your approach to entering into new contracts rather than worrying about the old contracts you've already got.

Alan Stewart: Look, what I've said very clearly is that IFRS 16 doesn't change the way we look at the business, and the economics, and how we run our business in whatever area we're talking about, and so no, we haven't changed it. I think the – we will see whether the market as a whole changes and to a certain degree, markets influence participants in markets. But none of our thinking has been changed at all by the expected introduction of IFRS 16, nor will it be changed as we now move into introduction phase.

Great, well look, thank you very much for your time. I hope that we haven't dulled your weekend too much. I'm very happy to take questions afterwards and recognise the complexity. I'd really like to just say finally, there is no economic impact. There's no change to cash and as soon as we can get through this re-presentation we will, and we will present our April numbers for the February year-end on the old basis. You'll get headline numbers of what IFRS 16 is and then as soon as we can after that we'll publish the new numbers and want to move to that post-IFRS 16 world. But where we've had the ambitions that we've set out, we'll make sure that there's a very clear reporting back so that we can track against that, the 3.5 to 4% ambition. Thanks very much for your time and have a good Friday and a good weekend.

[END OF TRANSCRIPT]