1. dynamic framework

**SCHEDULE 7.4**

**FINANCIAL DISTRESS**

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| **VERSION** | **DATE** | **COMMENT** |
| 1.0 | 10 June 2020 | Initial Release       |
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**SCHEDULE 7.4**

**FINANCIAL DISTRESS**

1. Definitions

In this Schedule, the definitions set out in Schedule 1 (Definitions) shall apply unless otherwise stated.

1. Warranties And Duty To Notify
	1. Following the Call-Off Effective Date, the financial health of each entity within the FDE Group shall be measured and reported in accordance with this Schedule 7.4 (Financial Distress Events).
	2. The Supplier warrants and represents to the Customer for the benefit of the Customer that as at the Call-Off Effective Date:‑
		1. if the Call-off Contract is classified as Tier One for Schedule 7.4 (Financial Distress) within the Tiering Matrix that the long term credit ratings issued for each of the FDE Group (to the extent only that each member of the FDE Group has a long term credit rating) by each of the Rating Agencies are as set out in the Appendix 2 to Schedule 7.4 (Call-Off Financial Distress) to the Call-Off Contract;
		2. the credit score for each entity in the FDE Group are above the relevant Credit Score Thresholds; and
		3. the financial position or, as appropriate, the financial performance of each entity within the FDE Group satisfies the Financial Target Thresholds.
	3. The Supplier shall promptly notify (or shall procure that its auditors promptly notify) the Customer in writing if:
		1. (to the extent applicable) there is any downgrade in the credit rating issued by any Rating Agency for any entity within the FDE Group; and/or
		2. the credit score of any entity in the FDE Group falling below any of the Credit Score Thresholds,

and in each case such notification shall occur within two (2) Working Days of the occurrence of any such downgrade or reduction.

* 1. The Supplier shall during the Call-Off Term:-
		1. if the relevant Call-Off Contract is classified as a Tier One for Schedule 7.4 (Financial Distress) within the Tiering Matrix and to the extent applicable, regularly monitor the credit ratings of each entity in the FDE Group with the Rating Agencies
		2. for all Call-Off Contracts regularly monitor the credit score of each entity in the FDE Group;
		3. if the relevant Call-Off Contract is classified as a Tier One or Tier Two for Schedule 7.4 (Financial Distress) within the Tiering Matrix, monitor and report on the Financial Indicators for each entity in the FDE Group against the Financial Target Thresholds at least at the frequency set out for each in Paragraph 6.1 (as the same may be varied as set out for each in Schedule 7.4 (Call-Off Financial Distress)) and in any event, on a regular basis and no less than once a year within 120 days after the Accounting Reference Date; and
		4. promptly notify (or shall procure that its auditors promptly notify) the Customer in writing following the occurrence of a Financial Distress Event or any fact, circumstance or matter which could cause a Financial Distress Event (and in any event, ensure that such notification is made within ten (10) Working Days of the date on which the Supplier first becomes aware of the Financial Distress Event or the fact, circumstance or matter which could cause a Financial Distress Event).
	2. Where the relevant Call-Off Contract is classified as Tier One for Schedule 7.4 (Financial Distress) within the Tiering Matrix, for the purposes of determining whether a Financial Distress Event has occurred pursuant to the provisions of Paragraphs 4.1.1, and for the purposes of determining relief under Paragraph 7.1, where applicable, the credit rating of an FDE Group entity shall be deemed to have dropped below the applicable Credit Rating Threshold if:‑
		1. any of the Rating Agencies have given a Credit Rating Level for that entity which is below the applicable Credit Rating Threshold;
		2. a Rating Agency that is specified as holding a Credit Rating for an FDE Group entity in Appendix 2 of Schedule 7.4 (Call-Off Financial Distress) ceases to hold a Credit Rating for that Supplier; or
		3. the credit score shall be deemed to have dropped below the Credit Score Threshold if either Company Watch or Dun & Bradstreet cease to hold a credit score for that entity
	3. Each report submitted by the Supplier pursuant to Paragraph 2.4.3 shall:‑
		1. be a single report with separate sections for each of the FDE Group entities;
		2. if the relevant Call-Off Contract is classified as a Tier One or Tier Two for Schedule 7.4 (Financial Distress) within the Tiering Matrix, contain a sufficient level of information to enable the Customer to verify the calculations that have been made in respect of the Financial Indicators;
		3. include key financial and other supporting information (including any accounts data that has been relied on) as separate appendixes;
		4. if the relevant Call-Off Contract is classified as a Tier One or Tier Two for Schedule 7.4 (Financial Distress) within the Tiering Matrix, be based on the audited accounts for the date or period on which the Financial Indicator is based or, where the Financial Indicator is not linked to an accounting period or an accounting reference date, on unaudited management accounts prepared in accordance with their normal timetable; and
		5. if the relevant Call-Off Contract is classified as a Tier One or Tier Two for Schedule 7.4 (Financial Distress) within the Tiering Matrix, include a history of the Financial Indicators reported by the Supplier in graph form to enable the Customer to easily analyse and assess the trends in financial performance.
1. Financial health
	1. Throughout the Call-Off Term of the Call-Off Contract the Supplier shall notify the Customer in writing no less than one (1) month prior to:
		1. any declaration, distribution or other payment of a dividend (either equity or preference); and/or
		2. making any other corporate distribution (which shall include surrendering taxable losses to any of the Supplier Group or paying any amount in respect of another entities taxable losses surrendered to the Supplier).

The events set out in Paragraphs 3.1.1 and 3.1.2 shall collectively be referred to as "**Distribution of Profits**".

* 1. If, at the point of notifying the Customer of the intended Distribution of Profits in accordance with Paragraph 3.1, or during the twelve (12) months prior to such notification, or for the forthcoming twelve (12) months from such notification (based on the forecasted Management Accounts for such forthcoming twelve (12) month period):
		1. there is or has been or may be a Financial Distress Event(s) (as set out in Paragraph 4.1); and/or
		2. any of the Financial Indicators are within the 'red' Financial Target Thresholds (as set out in the table at Paragraph 6 below),

then notwithstanding any other rights or remedies contained within this Schedule in relation to such, the Supplier shall give any additional financial commentary and provide any other such further information that the Customer may require to support such notification and to provide justification that the intended Distribution of Profits shall not undermine or have a detrimental effect on the financial health of the Supplier and/or the ability for the Supplier to provide the Services. Further, in such instances the Supplier shall take into consideration any reasonable requirements or comments made by the Customer in relation to the proposed Distribution of Profits.

1. Financial Distress Events
	1. The following shall be Financial Distress Events (to the extent each is applicable and relevant to the entity in the FDE Group only):‑
		1. where the relevant Call-Off Contract is classified as a Tier One for Schedule 7.4 (Financial Distress) within the Tiering Matrix, the credit rating of any member of the FDE Group entity dropping below the applicable Credit Rating Threshold;
		2. the credit score of an FDE Group entity falling below the Credit Score Threshold;
		3. any member of the FDE Group issuing a profits warning to a stock exchange or making any other public announcement (including reports to the Charities Commission where applicable), in each case about a material deterioration in its financial position or prospects;
		4. there being a public investigation into improper financial accounting and reporting, suspected fraud or any other impropriety of any entity of the FDE Group;
		5. an FDE Group entity committing a material breach of covenant to its lenders;
		6. a Key Sub‑contractor (if applicable) notifying the Customer that the Supplier has not satisfied any material sums properly due under a specified invoice and not subject to a genuine dispute;
		7. any of the following:‑
			1. commencement of any litigation against an FDE Group entity with respect to financial indebtedness greater than £5,000,000 (five million pounds) or obligations under a service contract with a total contract value greater than £5,000,000 (five million pounds);
			2. non‑payment by an FDE Group entity of any financial indebtedness;
			3. any financial indebtedness of an FDE Group entity becoming due as a result of an event of default;
			4. the cancellation or suspension of any financial indebtedness in respect of an FDE Group entity; or
			5. the external auditor of an FDE Group entity expressing a qualified opinion on, or including an emphasis of matter in, its opinion on the statutory accounts of that FDE Group entity,

in each case which the Customer reasonably believes (or would be likely reasonably to believe) could directly impact on the performance and delivery of the Services in accordance with this Framework Agreement or any Call-Off Contract; and

* + 1. if the relevant Call-Off Contract is classified as a Tier One or Tier Two for Schedule 7.4 (Financial Distress) within the Tiering Matrix, any one (1) of the Financial Indicators set out in Paragraph 6.1 for any of the FDE Group entities failing to meet the required Financial Target Threshold.
1. Consequences Of Financial Distress Events
	1. Immediately upon notification by the Supplier of a Financial Distress Event (or if the Customer becomes aware of a Financial Distress Event without notification and brings the event to the attention of the Supplier), the Supplier shall have the obligations and the Customer shall have the rights and remedies as set out in Paragraphs 5.3 to 5.6 of this Schedule.
	2. In the event of a late or non-payment of a Key Sub‑contractor pursuant to Paragraph 4.1.6, the Customer shall not exercise any of its rights or remedies under Paragraph 5.3 without first giving the Supplier ten (10) Working Days to:
		1. rectify such late or non-payment; or
		2. demonstrate to the Customer's reasonable satisfaction that there is a valid reason for late or non-payment.
	3. The Supplier shall (and shall procure that, to the extent relevant, any Guarantor and/or any relevant Key Sub‑contractor shall):
		1. at the request of the Customer, meet the Customer as soon as reasonably practicable (and in any event within three (3) Working Days of the initial notification (or awareness) of the Financial Distress Event or such other period as the Customer may permit and notify to the Supplier in writing) to review the effect of the Financial Distress Event on the continued performance and delivery of the Services in accordance with this Framework Agreement and the applicable Call-Off Contract; and
		2. where the Customer reasonably believes (taking into account the discussions and any representations made under Paragraph 5.3.1) that the Financial Distress Event could impact on the continued performance and delivery of the Services in accordance with the Framework Agreement and the applicable Call-Off Contract:
			1. submit to the Customer for its approval, a draft Financial Distress Remediation Plan as soon as reasonably practicable (and in any event, within ten (10) Working Days of the initial notification (or awareness) of the Financial Distress Event or such other period as the Customer may permit and notify to the Supplier in writing); and
			2. to the extent that it is legally permitted to do so and subject to Paragraph 5.8, provide such information relating to the Supplier, any Key Sub-contractors and/or the Guarantor (where relevant) as the Customer may reasonably require in order to understand the risk to the Services, which may include forecasts in relation to cash flow, orders and profits and details of financial measures being considered to mitigate the impact of the Financial Distress Event.
	4. The Customer shall not withhold its approval of a draft Financial Distress Remediation Plan unreasonably. If the Customer does not approve the draft Financial Distress Remediation Plan, it shall inform the Supplier of its reasons and the Supplier shall take those reasons into account in the preparation of a further draft Financial Distress Remediation Plan, which shall be resubmitted to the Customer within five (5) Working Days of the rejection of the first draft. This process shall be repeated until the Financial Distress Remediation Plan is approved by the Customer or referred to the Dispute Resolution Procedure pursuant to Paragraph 5.5.
	5. If the Customer considers that the draft Financial Distress Remediation Plan is insufficiently detailed to be properly evaluated, will take too long to complete or will not ensure the continued performance of the Supplier's obligations in accordance with the Framework Agreement and the relevant Call-Off Contract, then it may either agree a further time period for the development and agreement of the Financial Distress Remediation Plan or escalate any issues with the draft Financial Distress Remediation Plan using the Dispute Resolution Procedure.
	6. Following approval of the Financial Distress Remediation Plan by the Customer, the Supplier shall:
		1. on a regular basis (which shall not be less than fortnightly):
			1. review and make any updates to the Financial Distress Remediation Plan as the Supplier may deem reasonably necessary and/or as may be reasonably requested by the Customer, so that the plan remains adequate, up to date and ensures the continued performance and delivery of the Services in accordance with this Framework Agreement and the applicable Call-Off Contract; and
			2. provide a written report to the Customer setting out its progress against the Financial Distress Remediation Plan, the reasons for any changes made to the Financial Distress Remediation Plan by the Supplier and/or the reasons why the Supplier may have decided not to make any changes;
		2. where updates are made to the Financial Distress Remediation Plan in accordance with Paragraph 5.6.1(a), submit an updated Financial Distress Remediation Plan to the Customer for its approval, and the provisions of Paragraphs 5.4 and 5.5 shall apply to the review and approval process for the updated Financial Distress Remediation Plan; and
		3. comply with the Financial Distress Remediation Plan (including any updated Financial Distress Remediation Plan) and ensure that it achieves the financial and performance requirements set out in the Financial Distress Remediation Plan.
	7. Where the Supplier reasonably believes that the relevant Financial Distress Event under Paragraph 4.1 (or the circumstance or matter which has caused or otherwise led to it) no longer exists, it shall notify the Customer and the Parties may agree that the Supplier shall be relieved of its obligations under Paragraph 5.6.
	8. The Supplier shall use reasonable endeavours to put in place the necessary measures to ensure that the information specified at Paragraph 5.3.2(b) is available when required and on request from the Customer and within reasonable timescales. Such measures may include:
		1. obtaining in advance written authority from any Key Sub-contractors, and/or any Guarantor authorising the disclosure of the information to the Customer and/or entering into confidentiality agreements which permit disclosure;
		2. agreeing in advance with the Customer, any Key Sub-contractors, and/or the Guarantor (if applicable) a form of confidentiality agreement to be entered by the relevant parties to enable the disclosure of the information to the Customer;
		3. putting in place any other reasonable arrangements to enable the information to be lawfully disclosed to the Customer (which may include making price sensitive information available to Authority nominated personnel through confidential arrangements, subject to their consent); and
		4. disclosing the information to the fullest extent that it is lawfully entitled to do so, including through the use of redaction, anonymization and any other techniques to permit disclosure of the information without breaching a duty of confidentiality.
2. Financial Indicators
	1. Subject to the calculation methodology set out at Appendix 2 of this Schedule, the Financial Indicators and the corresponding calculations and thresholds used to determine whether a Financial Distress Event has occurred in respect of those Financial Indicators, shall be as follows:

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| **Financial Indicator** | **Calculation 1** | **Financial****Target Threshold**  | **Monitoring and Reporting Frequency if different from the default position set out in Paragraph 2.4.3** |
| **1. Turnover Ratio** | Turnover as a ratio of the annualised contract value  | **Red** <= 1.5 times of the annualised contract value **Amber 1.6 – 1.9 times of the annualised contract value****Green** >2 times of the annualised contract value | Tested and reported yearly in arrears within 90 days of each year end based upon figures for the twelve (12) months ending on the relevant year end |
| **2. Operating Margin** | Operating Margin = Operating Profit / Revenue | **Red** <= 5.99%**Amber** > 6% to 9.99%**Green** > 10% | Tested and reported half yearly in arrears within 90 days of each half year end based upon figures for the twelve (12) months ending on the relevant half year end |
| **3A. Free Cash Flow to Net Debt Ratio****OR****3B. Net Debt to EBITDA Ratio** | Free Cash Flow to Net Debt Ratio = Free Cash Flow / Net DebtNet Debt to EBITDA ratio = Net Debt / EBITDA | <=5% **Red**> 6% to <=14% **Amber**>15% **Green** =>3.5 **Red**=> 2.6 to <3.4 **Amber**<2.5 **Green** | Tested and reported half yearly in arrears within 90 days of each half year end based upon Free Cash Flow / EBITDA figures for the twelve (12) months ending on and Net Debt at the relevant half year end |
| **4. Net Debt + Net Pension Deficit to EBITDA ratio** | Net Debt + Net Pension Deficit to EBITDA Ratio = (Net Debt + Net Pension Deficit) / EBITDA | **Red** >5.0 x**Amber** risk = 4.0 – 5.0 x **Green** = <4.0,   | Tested and reported yearly in arrears within 120 days of each accounting reference date based upon EBITDA for the twelve (12) months ending on, and the Net Debt and Net Pension Deficit at, the relevant accounting reference date  |
| **5. Net Interest Paid Cover** | Net Interest Paid Cover = Earnings Before Interest and Tax / Net Interest Paid | <=3 **Red**> 3.1 to <=4.4 **Amber**>4.5 **Green** | Tested and reported half yearly in arrears within 90 days of each half year end based upon figures for the twelve (12) months ending on the relevant half year end |
| **6. Acid Ratio** | Acid Ratio = (Current Assets – Inventories) / Current Liabilities | <=0.8 **Red**> 0.9 **Amber**>1 **Green** | Tested and reported half yearly in arrears within 90 days of each half year end based upon figures for the twelve (12) months ending on the relevant half year end |
| **7. Net Asset Value** | Net Asset Value = Net Assets | **Red** <= 0 **Green** >0 | Tested and reported half yearly in arrears within 90 days of each half year end based upon figures for the twelve (12) months ending on the relevant half year end |
| **8. Group Exposure Ratio** | Group Exposure/Gross Assets | >50 **Red**25-50% **Amber**<25 **Green** | Tested and reported yearly in arrears within 120 days of each accounting reference date based upon figures at the relevant accounting reference date |

Key: 1 – See Appendix 2 of this Schedule which sets out the calculation methodology to be used in the calculation of each Financial Indicator.

* 1. The Financial Indicators shall only apply if Call-off Contract is classified as Tier One or Tier Two for Schedule 7.4 (Financial Distress) within the Tiering Matrix.
1. Termination Rights
	1. The Customer shall be entitled to terminate any Call-Off Contract (as applicable) pursuant to Clause 38.3.2 if:‑
		1. the Supplier fails to notify the Customer of a Financial Distress Event in accordance with Paragraph 2.4.4 above;
		2. the Supplier fails to notify the Customer of its intention to make a Distribution of Profits in accordance with Paragraph 3.1 above;
		3. the Parties fail to agree a Financial Distress Remediation Plan (or any updated Financial Distress Remediation Plan) in accordance with Paragraphs 5.3 to 5.5; and/or
		4. the Supplier fails to comply with the terms of the Financial Distress Remediation Plan (or any updated Financial Distress Remediation Plan) including any timings within such in accordance with Paragraph 5.6.3.
2. Primacy Of Credit Ratings
	1. Without prejudice to the Supplier's obligations and any of the Customer's rights and remedies, if, following the occurrence of a Financial Distress Event, the Rating Agencies review and report subsequently that the credit ratings do not drop below the relevant Credit Rating Thresholds specified for those entities in Appendix 2 of Schedule 7.4 (Call-Off Financial Distress), then:
		1. the Supplier shall be relieved automatically of its obligations under Paragraphs 5.3 to 5.6; and
		2. the Customer shall not be entitled to require the Supplier to provide financial information in accordance with Paragraph 5.3.2(b).
3. Supplier Board Confirmation
	1. If any Call-Off Contract is specified as a Critical Service Contract as set out in Paragraph 1.1 of Part 2 to Schedule 8.6 (Service Continuity Plan and Corporate Resolution Planning) therefore, subject to Paragraph 9.4 of this Schedule, the Supplier shall within 120 days after each Accounting Reference Date or within fifteen (15) months of the previous Supplier Board Confirmation (whichever is the earlier) provide a Supplier Board Confirmation to the Customer in the form set out at Appendix 1 of this Schedule, confirming that to the best of the Supplier Board's knowledge and belief, it is not aware of and has no knowledge:
		1. that a Financial Distress Event has occurred since the later of the Call-Off Effective Date or the previous Supplier Board Confirmation or is subsisting; or
		2. of any matters which have occurred or are subsisting that could reasonably be expected to cause a Financial Distress Event.
	2. The Supplier shall ensure that in its preparation of the Supplier Board Confirmation it exercises due care and diligence and has made reasonable enquiry of all relevant Supplier Personnel and other persons as is reasonably necessary to understand and confirm the position.
	3. In respect of the first Supplier Board Confirmation to be provided in respect of a Call-Off Contract, the Supplier shall provide the Supplier Board Confirmation within fifteen (15) months of the Call-Off Effective Date if earlier than the timescale for submission set out in Paragraph 9.1 of this Schedule.
	4. Where the Supplier is unable to provide a Supplier Board Confirmation in accordance with Paragraphs 9.1 to 9.3 of this Schedule due to the occurrence of a Financial Distress Event or knowledge of subsisting matters which could reasonably be expected to cause a Financial Distress Event, it will be sufficient for the Supplier to submit in place of the Supplier Board Confirmation, a statement from the Supplier Board to the Customer (and where the Supplier is a Strategic Supplier, the Supplier shall send a copy of the statement to the Cabinet Office Markets and Suppliers Team) setting out full details of any Financial Distress Events that have occurred and/or the matters which could reasonably be expected to cause a Financial Distress Event.
	5.
4. supplier BOARD CONFIRMATION

**Supplier Name:**

**Contract Reference Number:**

The Board of Directors acknowledge the requirements set out at Paragraph 9 of Schedule 7.4 (Financial Distress) and confirm that the Supplier has exercised due care and diligence and made reasonable enquiry of all relevant Supplier Personnel and other persons as is reasonably necessary to enable the Supplier Board to prepare this statement.

The Board of Directors confirms, to the best of its knowledge and belief, that as at the date of this Supplier Board Confirmation it is not aware of and has no knowledge:‑

1. that a Financial Distress Event has occurred since the later of the previous Supplier Board Confirmation and the Call-Off Effective Date or is subsisting; or
2. of any matters which have occurred or are subsisting that could reasonably be expected to cause a Financial Distress Event

On behalf of the Board of Directors:‑

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| --- | --- |
| Chair |   |
| Signed |   |
| Date |   |

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| --- | --- |
| Director |   |
| Signed |   |
| Date |   |

* 1.
1. Calculation Methodology for Financial Indicators

The Supplier shall ensure that it uses the following general and specific methodologies for calculating the Financial Indicators against the Financial Target Thresholds:

**General methodology**

1. ***Terminology***: The terms referred to in this Appendix are those used by UK companies in their financial statements. Where the entity is not a UK company, the corresponding items should be used even if the terminology is slightly different (for example a charity would refer to a surplus or deficit rather than a profit or loss).
2. ***Groups***: Where the entity is the holding company of a group and prepares consolidated financial statements, the consolidated figures should be used.
3. ***Foreign currency conversion***: Figures denominated in foreign currencies should be converted at the exchange rate in force at the relevant date for which the Financial Indicator is being calculated.
4. ***Treatment of non-underlying items***: Financial Indicators should be based on the figures in the financial statements before adjusting for non-underlying items.

**Specific Methodology**

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| **Financial Indicator** | **Specific Methodology** |
| **1. Turnover Ratio** | This measure is measuring the ratio of the overall annual revenue/overall expected annual contract value.Revenue should be shown on the face of the income statement in a standard set of financial statements. It should exclude the FDE Group entity's share of the revenue of joint ventures or associates. |
| **2. Operating Margin**  | The elements used to calculate the Operating Margin should be shown on the face of the any income statement in a standard set of financial statements. Figures for operating profit and revenue should exclude the relevant FDE Group entity's share of the results of any joint ventures or associates. Where an entity has an operating loss (i.e. where the operating profit is negative), operating profit should be taken to be zero (0). |
| **3A. Free Cash Flow to Net Debt Ratio** | "**Free Cash Flow**" = Net cash flow from operating activities – Capital Expenditure"**Capital Expenditure**" = Purchase of property, plant & equipment + purchase of intangible assets"**Net Debt**" = Bank overdrafts + loans and borrowings + finance leases + deferred consideration payable – cash and cash equivalentsThe majority of the elements used to calculate the Free Cash Flow to Net Debt Ratio should be shown on the face of the income statement of cash flows and the balance sheet in a standard set of financial statements.* Net cash flow from operating activities: This should be stated after deduction of interest and tax paid.
* Capital Expenditure: The elements of capital expenditure may be described slightly differently but will be found under 'Cash flows from investing activities' in the statement of cash flows; they should be limited to the purchase of fixed assets (including intangible assets) for the business and exclude acquisitions. The figure should be shown gross without any deduction for any proceeds of sale of fixed assets.
* Net Debt: The elements of 'Net Debt' may also be described slightly differently and should be found either on the face of the balance sheet or in the relevant note to the financial statements. All interest bearing liabilities (other than retirement benefit obligations) should be treated as borrowings as should, where disclosed, any liabilities (less any assets) in respect of any hedges designated as linked to borrowings (but not non-designated hedges). Borrowings should also include balances owed to other group members.

Deferred consideration payable should be included in Net Debt despite typically being non-interest bearing.Cash and cash equivalents should include short-term financial investments shown in current assets.Where Net Debt is negative (i.e. an entity has net cash), the relevant Financial Target Threshold should be treated as having been met.OR"**Net Debt**" = Bank overdrafts + loans and borrowings + finance leases + deferred consideration payable – cash and cash equivalents"**EBITDA**" = Operating profit + depreciation charge + amortisation charge |
|  **3B. Net Debt to EBITDA Ratio** | The majority of the elements used to calculate the Net Debt to EBITDA Ratio should be shown on the face of the balance sheet, income statement and statement of cash flows in a standard set of financial statements but will otherwise be found in the notes to the financial statements.* Net Debt: The elements of 'Net Debt' may be described slightly differently and should be found either on the face of the balance sheet or in the relevant note to the financial statements. All interest bearing liabilities (other than retirement benefit obligations) should be included as borrowings as should, where disclosed, any liabilities (less any assets) in respect of any hedges designated as linked to borrowings (but not non-designated hedges). Borrowings should also include balances owed to other group members.

Deferred consideration payable should be included in Net Debt despite typically being non-interest bearing.Cash and cash equivalents should include short-term financial investments shown in current assets.Where Net Debt is negative (i.e. an entity has net cash), the relevant Financial Target Threshold should be treated as having been met. EBITDA: Operating profit should be shown on the face of the income statement and, for the purposes of calculating this Financial Indicator, should include the entity's share of the results of any joint ventures or associates. The depreciation and amortisation charges for the period may be found on the face of the statement of cash flows or in a note to the accounts. Where EBITDA is negative, the relevant Financial Target Threshold should be treated as not having been met (unless Net Debt is also negative, in which case the relevant Financial Target Threshold should be treated as having been met)."**Net Debt**" = Bank overdrafts + Loans and borrowings + Finance leases + Deferred consideration payable – Cash and cash equivalents"**Net Pension Deficit**" = Retirement benefit obligations – Retirement benefit assets*"****EBITDA****" = Operating profit + Depreciation charge + Amortisation charge*The majority of the elements used to calculate the Net Debt + Net Pension Deficit to EBITDA Ratio should be shown on the face of the balance sheet, income statement and statement of cash flows in a standard set of financial statements but will otherwise be found in the notes to the financial statements. |
| **4 Net Debt + Net Pension Deficit to EBITDA ratio**  | Net Debt: The elements of Net Debt may be described slightly differently and should be found either on the face of the balance sheet or in the relevant note to the financial statements. All interest bearing liabilities (other than retirement benefit obligations) should be included as borrowings as should, where disclosed, any liabilities (less any assets) in respect of any hedges designated as linked to borrowings (but not non-designated hedges). Borrowings should also include balances owed to other group members.Deferred consideration payable should be included in Net Debt despite typically being non-interest bearing.Cash and cash equivalents should include short-term financial investments shown in current assets.* Net Pension Deficit: retirement benefit obligations and retirement benefit assets may be shown on the face of the balance sheet or in the notes to the financial statements. They may also be described as pension benefits / obligations, post-employment obligations or other similar terms.

Where 'Net Debt + Net Pension Deficit' is negative, the relevant Financial Target Threshold should be treated as having been met.* EBITDA: Operating profit should be shown on the face of the income statement and, for the purposes of calculating this Financial Indicator, should include the entity's share of the results of any joint ventures or Associates.

The depreciation and amortisation charges for the period may be found on the face of the statement of cash flows or in a note to the accounts. Where EBITDA is negative, the relevant Financial Target Threshold should be treated as not having been met (unless 'Net Debt + Net Pension Deficit' is also negative, in which case the relevant Financial Target Threshold should be regarded as having been met). |
| **5. Net Interest Paid Cover** | "**Earnings Before Interest and Tax**" = Operating profit**"Net Interest Paid"** = Interest paid – interest receivedOperating profit should be shown on the face of an income statement in a standard set of financial statements and, for the purposes of calculating this Financial Indicator, should include the relevant FDE Group entity's share of the results of any joint ventures or associates.Interest received and interest paid should be shown on the face of the cash flow statement.Where net interest paid is negative (i.e. the entity has net interest received), the relevant Financial Target Threshold should be treated as having been met. |
| **6. Acid Ratio** | All elements that are used to calculate the Acid Ratio are available on the face of the balances sheet in a standard set of financial statements. |
| **7. Net Asset Value** | Net assets are shown (but sometimes not labelled) on the face of the balance sheet of a standard set of financial statements. Net assets are sometimes called net worth or 'Shareholders' Funds'. They represent the net assets available to the shareholders. Where an FDE Group entity has a majority interest in another entity in which there are also minority or non-controlling interests (i.e. where it has a subsidiary partially owned by outside investors), Net assets should be taken inclusive of minority or non-controlling interests (as if the entity owned 100% of such entity). |
| **8. Group Exposure Ratio** | Group Exposure: Balances owed by (ie receivable from) group undertakings are shown within fixed assets or current assets either on the face of the balance sheet or in the relevant notes to the financial statements. In many cases there may be no such balances, in particular where an entity is not a member of a group or is itself the ultimate holding company of the group.Contingent liabilities assumed in support of group undertakings are shown in the contingent liabilities note in a standard set of financial statements. They include guarantees and security given in support of the borrowings of other group companies, often as part of group borrowing arrangements. Where the contingent liabilities are capped, the capped figure should be taken as their value. Where no cap or maximum is specified, the relevant Financial Target Threshold should automatically be regarded as not having been met.In many cases an entity may not have assumed any contingent liabilities in support of group undertakings, in particular where an entity is not a member of a group or is itself the ultimate holding company of the group.Gross Assets: Both fixed assets and current assets are shown on the face of the balance sheet. |