



Project	Financial Statement Presentation
Topic	Information about net debt

Purpose of this paper

1. The purpose of this paper is to consider whether an entity should present information about net debt in its financial statements. The October 2008 discussion paper, *Preliminary Views on Financial Statement Presentation*, did not address presentation of net debt information.
2. This paper addresses the following three issues:
 - Issue 1: Usefulness of information about net debt
 - Issue 2: How to define net debt
 - Issue 3: Alternatives for presenting information about net debt.

In September, the staff will ask the boards to reach a tentative decision on Issues 1 and 2 and to express their leanings on Issue 3. The staff will ask the boards to reach a tentative decision on Issue 3 in October if the boards agree in September that information about net debt should be presented in the financial statements. Therefore, the discussion of Issue 3 in September will be educational in nature.

Background information

3. In 1996, the UK Accounting Standards Board issued FRS 1 (revised), *Cash Flow Statements*. According to FRS 1, as part of its cash flow statement, an entity was required to reconcile the movement of cash in the period with the movement in net debt either adjoining the cash flow statement or in a note. FRS 1 stated that if this **net debt reconciliation** is adjoining the cash flow

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statement, it should be clearly labelled and kept separate. Net debt is defined in FRS 1 as borrowings less liquid resources (see definition in paragraph 13 of this paper).

4. Thus, a net debt reconciliation will explain the changes in the items an entity manages as debt and the liquid resources available to service those debts. The following example illustrates a reconciliation of net debt and a statement of net debt in a simple way:

Statement of financial position

	20X9	20X8	Change
Fixed Assets	2250	1800	450
Short term assets			
Inventories	1480	1250	230
Debtors (a)	530	290	240
Government securities (b)	225	175	50
Cash (c)	10	190	(180)
Short term liabilities			
Bank overdraft (d)	95	15	80
Creditors (e)	1070	745	325
Other	350	195	155
Long term loans (f)	990	500	490
Deferred taxes	499	379	120
TOTAL	1491	1871	(380)
Equity	1491	1871	(380)

Reconciliation of net cash flow movements to movements in net debt

Decrease in cash and bank overdraft during the year	(c) (d)	260
Purchase of government securities	(b)	(50)
Issuance of long term debt	(f)	490
Increase in net debt resulting from cash flows		<u>700</u>
Net debt at 31.12.20X8		<u>150</u>
Net debt at 31.12.20X9		<u>850</u>

Statement of net debt at 31 December

	20X9	20X8
Cash balances/overdrafts	(85)	175
Government securities (liquid resources)	225	175
Loans	(990)	(500)
Net debt	(850)	(150)

Issue 1: Usefulness of information about net debt

5. A number of user and preparer groups in Europe (mainly the UK and France) have asked that an entity be required to present a net debt reconciliation in its financial statements. In addition, a number of respondents to the discussion

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paper asked that this project address presentation of net debt. Those who support this disclosure believe that:

- (a) It would provide a broader measure of a business's liquidity, solvency, and financial flexibility than that provided solely by the movement in cash balances in the statement of cash flows.
 - (b) It would provide more complete information for assessing future cash flows, as cash flow information should be analyzed along with profit or loss and statement of financial position accounts.
 - (c) It would provide a clear picture of an entity's debt position, which would help a user of the financial statements determine the entity's credit risk profile.
6. In addition, constituents note that net debt disclosures are insightful because they show additional liabilities that an entity manages as part of its debt, derivatives that may relate to debt or other items, and cash and other liquid resources that management views as available to pay down debt.
7. The following excerpts highlight the importance of providing a reconciliation of cash flows to movements in net debt.

- (a) The Corporate Reporting Users' Forum (CRUF) pointed out in their October 6, 2008 letter to the *Financial Times* that:

Given the focus on cash flow, debt levels and loan facilities, helping investors understand what drives debt movements is more important than ever. We greatly appreciate those companies that do provide this voluntary disclosure and strongly encourage those who do not to follow suit.

- (b) The UBS Investment Research, *Financial reporting for Investors* (April 16, 2007) comments:

The net change in cash (or cash and cash equivalents) that is currently presented in cash flow statements has little analytical use. From an equity analysis perspective, it is preferable to reconcile the cash flow statement to the change in net debt, as reported in the statement of financial position.

- (c) The *Report Leadership 2006* report (with contributions by CIMA, PricewaterhouseCoopers LLP, Radley Yeldar and Tomkins plc) states that:

Companies do give information about how they are funded in their annual reports. But it tends to be scattered throughout the financial statements and is frequently presented without details of individual liabilities. In addition, some of the critical information relating to

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debt isn't provided in the annual report at all – investors get the information outside the regulatory model. The problem of determining a company's credit risk profile is even greater if it has a number of subsidiaries. In this case, investors need a clear debt profile of the group and its individual business units, as well as an understanding of any restrictions on the transfer of funds between business units. Investors' view of debt does not stop at financial instruments. They want to know about other debt-like liabilities.

Staff analysis and recommendation

8. The staff asserts that information about net debt would strengthen the current disclosures on noncash financing activities required in IAS 7 *Statement of Cash Flows* (paragraph 44) and FASB Accounting Standards Codification (ASC) Topic 230, *Statement of Cash Flows* (paragraph 230-10-50-3). Although ASC Topic 230 appears to be more explicit in requiring an articulation of cash and noncash financing activities in the notes, IAS 7 seems to focus on the disclosure of noncash amounts.
9. A number of companies (mostly UK and French) provide a net debt reconciliation on a voluntary basis, either alongside the cash flow statement, in the notes to financial statements or, occasionally, within their management commentary section. . In their October 2008 letter addressed to the *Financial Times*, CRUF estimates that about one half of non-financial FTSE 100 companies (Financial Times-Stock Exchange 100 Share Index) provided this information in their latest annual report. [Note: FRS 1 states that banks need not provide a reconciliation of net debt and that insurance companies should provide an analysis of portfolio investments less financing rather than a reconciliation of net debt.]
10. As noted in the comment letters to the October 2008 discussion paper, information that some users of financial statements find useful in assessing an entity's liquidity, solvency, and financial flexibility is missing from the presentation model proposed in the discussion paper. Moreover, some users of financial statements are concerned that a complete set of financial statements does not necessarily present all the information that users need to reconcile net debt or to analyze the components of net debt.

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11. To find out whether financial statements today typically provide information about net debt as some assert they do, the staff examined a few annual reports and observed the following:
- (a) Most information on cash movements affecting net debt can be obtained from the financing and investing sections on the statement of cash flows as long as the statement of cash flows provides enough detail. Examples of line items commonly used to explain movements in net debt resulting from cash flows are:
 - (i) Repayment of bank loans, borrowings or of finance leases
 - (ii) Proceeds of bank borrowings
 - (iii) Interest bearing deposits
 - (iv) Effects of foreign exchange rate changes in cash.
 - (b) Most information on noncash movements affecting net debt is **not** readily available. Examples of information to explain changes in net debt that was missing from the financial statements the staff reviewed are:
 - (i) Debt assumed or disposed of as a result of an acquisition or divestiture of a subsidiary
 - (ii) Foreign exchange rate movements related to components of net debt
 - (iii) Changes in market values applicable to components of net debt (eg relating to current asset investments).
 - (c) Individual components of net debt are not easily identifiable from the line item descriptions in the statement of financial position. Some of the reasons might be:
 - (i) Net debt components are combined under the same headings (for example, bank loans and overdrafts might be included as a single amount within current liabilities) or under very broad headings (for example, current asset investments) such that it is not easy to determine if the entire amount represents liquid resources or not.
 - (ii) Not enough disaggregation on the face or in the notes.

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- (iii) Information on net debt components is included in different sections of the annual report, such as the primary financial statements, various notes (eg roll forwards of short- and long-term borrowings, roll forwards of property, plant, and equipment that include financial leases) and non-GAAP information provided outside the financial statements.
12. Based on the above, the staff believe that there should be a requirement to clearly distinguish all components of net debt in the financial statements. Such a requirement will result in presentation of liquidity information on a broader basis than that provided solely by the movement in cash balances in the statement of cash flows or than that provided in the statement of financial position. Therefore, the staff recommend that the boards require information about net debt to be presented in the financial statements. Issue 2 addresses whether and how net debt might be defined. Issue 3 addresses the manner in which net debt information might be presented in the financial statements.

Question 1

The staff recommend that the boards require information about net debt to be presented in the financial statements. **Do the boards agree with that recommendation?**

Issue 2: Definition of *net debt*

UK ASB FRS 1, *Cash Flow Statements*

13. In UK GAAP, net debt and related terms are defined as follows:

Net debt—The borrowings of the reporting entity (comprising *debt* and *capital instruments*, together with related derivatives, and obligations under finance leases) less cash and *liquid resources*. (FRS 1, paragraph 2)

Debt—Capital instruments that are classified as liabilities. (FRS 4, paragraph 6)

Capital instruments—All instruments that are issued by reporting entities as means of raising finance, including shares, debentures, loans and debt instruments, options and warrants that give the holder the right to subscribe for or obtain capital instruments. In the case of consolidated financial statements the term includes capital instruments issued by subsidiaries except those that are held by another member of the group included in the consolidation. (FRS 4, paragraph 6)

Liquid resources—Current asset investments held as readily disposable stores of value. A readily disposable investment is one that is disposable by the reporting entity without

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curtailing or disrupting its business and is either readily convertible into known amounts of cash at or close to its carrying amount, or traded in an active market. (FRS 1, paragraph 2)

Recommendation 2004-R.02 from the CNC to French groups

14. Recommendation no. 2004-R.02 (27 October 2004) from the *Conseil National de la Comptabilité* (which is not mandatory for French groups complying with IFRSs) describes *net debt* as follows:

(a) *Net debt is gross debt minus net cash position*

Gross debt is comprised of the following:

- (i) Long-term financial liabilities (eg capital raised in capital markets, loans from banks)
- (ii) Short-term financial liabilities (eg commercial bonds)
- (iii) On an exceptional basis, some operating liabilities (e.g. trade payables or down payments to customers) when payment terms depart significantly from usual practices in the same business sector and market.
- (iv) Fair value hedging instruments
- (v) Accrued interest on components of gross debt.

Net cash position (the change presented in the cash flow statement) comprises gross cash position less bank overdrafts as defined in IAS 7. Gross cash position comprises cash on hand, demand deposits and cash equivalents within the meaning of IAS 7.

Corporate Reporting User Forum (CRUF)

15. Comment letter 110A from CRUF suggests that net debt be defined as:

The sum of externally provided non-equity financing (including derivatives) less cash, cash equivalents and marketable securities.

The following would be included in non-equity financing:

- Bank and other borrowings
- Lease liabilities
- Preferred stock classified as a liability
- Net derivative financial positions.

Staff analysis and possible alternatives

16. As illustrated in above paragraphs, there is no commonly accepted definition in finance literature or practice. However, the notion of net debt normally includes specific liabilities (usually long-term or current portion of long-term liabilities)

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offset by specific assets (such as cash and other liquid resources), excluding any operating assets and liabilities (or including some, by exception).

17. The staff has identified three alternatives for defining net debt as follows:
- (a) **Alternative A – Narrow definition.** The standard would prescribe a set of assets and liabilities that would be included as part of *net debt*, regardless of the type of business or how the business is managed.
 - (b) **Alternative B – Define same as financing section.** The definition of net debt would be tied to the definition of the financing section. (Issue 3 in agenda paper 14A/67A addresses the financing section definition; paragraph 51 of that paper briefly addresses net debt.)
 - (c) **Alternative C – Principles-based definition.** An entity would determine which items it manages as debt and the resources available to service those debts.

Alternative A — Narrow definition

18. The definition suggested by CRUF in paragraph 15 is an example of a prescriptive (narrow) definition of net debt. Providing a narrow definition of what net debt includes is complicated by the following practical difficulties:
- (a) Whether **all** liabilities could be considered as debt-like liabilities or just specific liabilities (for example, only those defined as “financial” by current standards)
 - (b) Whether other liabilities interacting with an entity’s operating activities could be included as part of net debt (for example, revenues paid in advance by customers, operating leases, pensions, or other liabilities such as decommissioning costs that could trigger major cash outflows in the future)
 - (c) Whether only specific assets should be classified as servicing an entity’s debt.
19. In the past, the boards faced a similar challenge when attempting to develop a narrow definition of “financing” (in other words, when trying to prescribe the components of the financing section). The following excerpts from the July 2006 meeting material [FASB Memorandum #42 and IASB Agenda Paper 17], summarize some of the difficulties the boards faced:

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- (a) “It is not a simple matter however to draw a line around the assets that offset debt and those that do not, and any definition of financial assets could be viewed as either too broad or too narrow” [paragraph 31].
 - (b) “Cash and other liquid assets, which are also typically managed by the treasury function, can be used to repay equity or debt. [However,] the relationship between an entity’s treasury and business activities will differ across entities, making impossible a consistently meaningful standard definition of financial assets for inclusion in a *net debt* definition of financing. Moreover, it is questionable whether any assets should be classified as financing” [paragraph 32].
 - (c) “...One might argue that the obligation recognized under a finance lease does not arise from capital raising in capital markets, but nevertheless should be reported in the same way as a bank loan. Ultimately, it is probably not possible to narrowly define, for all entities, activities that are unambiguously only financing activities” [paragraph 38].
20. In the staff’s view, a strict definition of *net debt* would achieve a consistent measure of net debt from entity to entity. However, the downside would be some of the practical difficulties discussed in paragraphs 18 and 19 above.
21. From a practical standpoint, the staff think that the boards cannot define a net debt measure until their work on a) liabilities and equity and b) leases is completed. Consequently, it is not practical to develop a specific definition for a net debt measure at this point in the financial statement presentation project.

Alternative B — Same as financing section

22. Presumably, Alternative B is less narrow than Alternative A because what is included in net debt is not prescribed and what an entity classifies in the financing section will vary if management has some flexibility in classifying items in the financing section (as is proposed in the discussion paper). Alternative B therefore could provide an entity with some flexibility over the items that could be included in its measure of net debt.

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23. Agenda paper 14A/67A proposes a definition for the financing section that is significantly narrower than what was proposed in the discussion paper (see paragraph 47 of agenda paper 14A/67A). That definition also excludes treasury assets from the financing section (see paragraph 52 of agenda paper 14A/67A). If the boards support the staff recommendation in that paper, the financing section subtotal cannot be a net debt measure. However, if the boards **do not** support the staff recommendation in that paper **and** they indicate that the financing section should include treasury assets, Alternative B may be a viable approach.

Alternative C — Principles-based definition

24. Alternative C does not provide a rigorous definition of *net debt*. Instead, similar to IAS 1's disclosure requirements with respect to an entity's capital disclosures (paragraphs 134-136), an entity would be required to describe what it considers to be *net debt* and be given full flexibility to define the components of *net debt*. Therefore, an analysis of net debt might incorporate other debt-like liabilities (eg operating leases, pension deficits, deferred tax effects on pension deficits), depending on what management views as debt.
25. However, Alternative C may result in different businesses having net debt measures that have different compositions. In particular, an entity may view some "operating" activities as part of net debt, while another entity may not. Moreover, because the distinction is based upon the way management views its debt position, two entities in the same business might classify similar items differently. This is also true for Alternative B (if the boards retain a broad definition of the financing section).

Staff recommendation

26. The staff think that the boards should not prescribe what comprises net debt and therefore does not support Alternative A. If the boards decide that the financing section should include treasury assets (see Issue 3 in agenda paper 14A/67A), the staff **does not** support linking the net debt definition to the financing section (Alternative B). As noted in paragraph 21, the staff believe it is premature to define a net debt measure.

27. If the boards agree that an entity should disclose information about net debt (Issue 1), the staff think that an entity should decide (and describe) what comprises net debt by determining the *items it manages as debt and the resources available to service those debts*. Therefore, the staff recommends **Alternative C**. Alternative C provides **flexibility** in application of the net debt definition so that the presentation of information in the financial statements is reflective of an entity's business practice.
28. The staff suggest that, as part of this alternative, the boards **provide illustrations** in the exposure draft that an entity could follow in determining which items constitute its net debt position and which items could be excluded from net debt. Those examples could be based on the definitions of net debt provided in FRS 1 or the French Recommendation [see paragraphs 13 and 14 above].

Question 2

The staff recommend that an entity determine its net debt measure by identifying the *items it manages as debt and the resources available to service that debt*. **Do the boards agree with the staff recommendation?**

Issue 3: How to present information about net debt in the financial statements

29. If the boards agree that an entity should provide information in the financial statements to identify the items it manages as debt and the resources available to service that debt (Issue 1), the boards will need to address how an entity should present that information. A possible way is to provide a net debt reconciliation and an analysis of net debt (see paragraphs 32–39). At the October joint meeting, the boards will deliberate the statement of cash flows and the reconciliation schedule. As part of that discussion, the boards will address presentation of supplemental disclosures on key SFP items (among them, debt).
30. Therefore, the staff is not asking the boards to reach a tentative decision on Issue 3 in September. Rather, the staff would like the boards to discuss the method of presentation to allow the staff time to address the boards' suggestions and concerns in the agenda paper for the October joint meeting.

Information about net debt

31. Paragraph 33 in FRS 1 requires two separate pieces of information to enable the movements in debt to be readily understood—a reconciliation of movements in cash with movements in net debt and an analysis of net debt. These are explained in the following paragraphs.

Reconciliation of movements in cash with movements in net debt

32. This reconciliation has two main parts:
- (a) **Changes in net debt resulting from cash.** It begins with the change in cash for the period (as shown in the statement of cash flows) and adds back the cash flows related to liquid resources and borrowings.
 - (b) **Changes in net debt resulting from non cash items.** FRS 1 requires the segregation of:
 - (i) Acquisition or disposal of subsidiary undertakings in a business combination
 - (ii) Changes in market value and exchange rate movements (applicable to net debt movements only)
 - (iii) Other non-cash changes (eg. loans and finance leases).
33. The table below shows an example of the reconciliation required by FRS 1:

RECONCILIATION OF MOVEMENTS IN CASH WITH MOVEMENTS IN NET DEBT	
Increase or decrease in cash (as shown in the bottom of the statement of cash flows)	
<i>Add back (+/-)</i>	
Cash flows from decrease/increase relating to liquid resources and to borrowings	
Movement in net debt resulting from cash flows	
<i>Add</i>	
	Other changes in net debt that do not arise from cash flows (non-cash items)
	<ul style="list-style-type: none"> • Loans and finance leases acquired in subsidiary undertakings • Provisions • Exchange differences
Movement in net funds (debt) in the year	
Net funds (debt) at the beginning of the period	
Net funds (debt) at the end of the period	

Analysis of net debt

34. The analysis of net debt through a reconciliation of opening to closing SFP amounts identifies individual components of net debt (cash and non cash) when those are not apparent in the SFP (eg bank loans and overdrafts included as a single figure within current liabilities).

35. An analysis of net debt could be presented as follows:

	Opening balance	Cash flow	Acquisitions	Other non cash changes	Foreign exchange movements	Ending balance
Cash	X	X	--		X	X
Deposits	X	X	--		--	X
Overdrafts	X	X	--		X	X
Short term debt	X	X	--	X	X	X
Long term debt	X	--	--	X	X	X
Finance leases	X	X	X	--	X	X
Current asset investments	X	X	--		--	X
Total	X	X	X	X	X	X

Alternatives to provide a net debt reconciliation and an analysis of net debt

36. The staff has identified three possible ways to display a net debt reconciliation and to provide an analysis of net debt:
- Alternative A** – Present a net debt reconciliation below the statement of cash flows and an analysis of net debt in the notes
 - Alternative B** – Embed a net debt reconciliation in the statement of cash flows to produce a statement of changes in net debt
 - Alternative C** – Present a net debt reconciliation and an analysis of net debt in the notes.
37. In **Alternative A**, the reconciliation of net debt is presented immediately following (and with the same prominence as) the statement of cash flows. With this display, the generation and absorption of cash of an entity and the analysis of debt is provided simultaneously to provide a broader basis to assess an entity's liquidity, solvency, and financial flexibility. See Example 1 in the Appendix from First Group's 2008 annual report.
38. In **Alternative B** there is a change in focus from the movement in cash to the movement in net debt. Alternative B alleviates those concerns that the cash flow statement fails to reflect appropriately changes in an entity's liquidity or financial flexibility because of the narrow focus placed on periodic changes in cash (and cash equivalents). See Example 2 in the Appendix from BAE Systems' 2007 annual report.
39. **Alternative C** provides reconciled information and an analysis of net debt in the notes. The main focus on liquidity, solvency, and financial flexibility is still maintained in the statement of cash flows with supplemental information on net

debt in the notes to financial statements. See Example 3 in the Appendix from British Airway's 2008 annual report.

Another approach

40. If the boards do not want to require a net debt reconciliation and/or a statement of net debt, but believe information about net debt should be apparent in the financial statements, the boards could **enhance current presentation and disclosure requirements** that relate to components of net debt.
41. **Alternative D** would involve first clarifying the components of net debt and then differentiate such components in the primary financial statements. Ways to accomplish this could be:
 - (a) To require disaggregation in the SFP of items that are managed as obligations within net debt and the resources available to service those obligations
 - (b) To identify line items in the SFP (and amounts within those line items if not the entire amount) that an entity considers part of its net debt.
 - (c) To require disaggregation in the SCF of activities that increase or decrease net debt.
 - (d) To identify the portion of non-cash activities that would affect the computation of net debt. (Information about significant noncash activities is to be disclosed in the notes.)
42. There are several drawbacks to identifying components of net debt within the financial statements:
 - (a) One of the primary benefits, the highlighting of the total change in net debt, is lost in Alternative D.
 - (b) Not every change to net debt is found within the SCF
 - (c) The disaggregation and identification of net debt items may clutter the financial statements.

The staff believe that if it is important that users be able to find the change in net debt in the financial statements, a net debt reconciliation should be disclosed separately.

Questions 3 and 4

Q3: Do board members have any suggestions regarding other ways information about net debt could be presented in the financial statements?

Q4: Do board members have a preference for any of the alternatives described in paragraphs 37–41? If so, which alternative and why?

Appendix A: Illustration of net debt reconciliation alternatives

Example 1 (Alternative A) – net debt reconciliation below the SCF

First Group		
Consolidated cash flow statement and net debt reconciliation		
Year ended 31 March 2008	2008	2007
	£m	£m
Net cash from operating activities	365.8	295.5
Investing activities		
Interest received	14.0	9.4
Proceeds of disposal of property, plant and equipment	32.5	18.3
Purchases of property, plant and equipment	-302.6	-251.2
Grants received	0.0	29.1
Investment in joint venture	-1.2	0.0
Acquisition of businesses	-1,461.1	-17.9
Net cash used in investing activities	-1,721.4	-212.3
Financing activities		
Monies received on exercise of share options	5.5	2.8
Dividends paid	-69.5	-57.1
Dividends paid to minority shareholders	-11.1	-11.3
Repayment of obligations under finance leases	-17.5	-14.4
Repayment of loan notes	-0.7	-4.8
Payment of new bank facility issue costs	-9.6	0.0
Proceeds on issue of shares	0.0	216.9
Release of insurance captive assets	115.7	0.0
Repayment of borrowings	-377.4	0.0
Proceeds of bank borrowings	1,556.1	22.4
Net cash from financing activities	1,191.5	154.5
Net (decrease)/increase in cash and cash equivalents before foreign exchange movements	-164.1	237.7
Cash and cash equivalents at beginning of year	410.3	169.9
Effect of foreign exchange rate changes	-6.5	2.7
Cash and cash equivalents at end of year	239.7	410.3
	2008	2007
Cash and cash equivalents for cash flow statement purchases comprise:	£m	£m
Cash and cash equivalents per balance sheet	242.3	411.2
Overdrafts	-2.6	-0.9
	239.7	410.3
Note to the consolidated cash flow statement - reconciliation of net cash flows to movement in net debt		
Year ended 31 March 2008	2008	2007
	£m	£m
Net (decrease)/increase in cash and cash equivalents in year before foreign exchange movements	-164.1	237.7
Increase in debt and finance leases	-1,160.5	-3.2
Inception of new finance leases	0.0	-84.0
Debt assumed on acquisition of businesses and subsidiary undertakings	-300.1	0.0
Fees on issue of new loan facility	9.6	0.0
Other non-cash movements in relation to financial instruments	-2.1	-0.8
Foreign exchange differences	-27.6	38.5
Movements in net debt in year	-1,644.8	188.2
Net debt at beginning of year	-516.2	-704.4
Net debt at end of year	-2,161.0	-516.2

Example 2 (Alternative B) – net debt reconciliation embedded in the SCF (Statement of changes in net debt)

BAE Systems 2007 Annual Report

Directors' report

Reconciliation of cash inflow from operating activities to net cash

	2007	2008
	£m	£m
Cash inflow from operating activities	2,162	778
Capital expenditures (net) and financial investment	-262	-141
Dividends received from equity accounted investments	78	145
Operating business cash flow	1,978	782
Interest and preference dividends	-65	-207
Taxation	-112	-85
Free cash flow	1,801	490
Acquisitions and disposals	-1,574	1,330
Debt acquired on acquisitions of subsidiary	-538	0
Issue/(purchase) of equity shares	603	-71
Equity dividends paid	-396	-346
Dividends paid to minority interests	-1	0
Preference share conversion	245	6
Other non-cash movements	57	-11
Foreign exchange	36	323
Movement in cash on customers' accounts	32	-9
	265	1,712
Opening net cash/(debt) as defined by the Group	435	-1,277
Closing net cash as defined by the Group	700	435
Analysed as:		
Term deposits - non-current	0	4
Term deposits - current	164	503
Cash and cash equivalents	3,062	3,100
Loans - non-current	-2,197	-2,776
<i>Loans-current</i>	-283	-308
<i>Overdrafts-current</i>	-16	-26
Loans and overdrafts - current	-299	-334
Cash on customers' account (1)		
(included within trade and other payables)	-30	-62
Closing net cash as defined by the Group	700	435

(1) cash on customers' accounts is the unexpected cash received from customers in advance of delivery which is subject to advance guarantees unrelated to Group performance

Example 3 (Alternative C) – net debt reconciliation and analysis of net debt in the notes

Notes to the accounts #24: Cash, cash equivalent and other interest bearing deposits
For the year ended March 31, 2008

b Reconciliation of net cash flow to movement in net debt

£ million	Group	
	2008	2007
(Decrease)/increase in cash and cash equivalents during the year	-1	331
Net cash outflow from decrease in debt and lease financing	424	485
Decrease in current interest-bearing deposits maturing after three months	-458	-389
New loans and finance leases taken out and hire purchase arrangements made	-179	-9
Reduction in finance leases and loans due to disposal of BA Connect	0	85
Changes in net debt resulting from cash flows	-214	503
Exchange and other non-cash movements	-105	147
Movements in net debt during the year	-319	650
Net debt at April 1	-991	-1641
Net debt at March 31	-1310	-991

c Analysis of net debt

£ million						Group
	Balance at Apr-01	Net cash flow	Other non-cash	Disposal of BA Connect	Exchange	Balance at Mar-31
Cash and cash equivalents	398	331			-16	713
Current interest-bearing deposits maturing after three months	2,042	-389			-11	1,642
Bank and other loans	-116	97		57	16	-946
Finance leases and hire purchase arrangements	-2,965	388	-9	28	158	-2,400
Year to March 31, 2007	-1,641	427	-9	85	147	-991
Cash and cash equivalents	713	-1			-29	683
Current interest-bearing deposits maturing after three months	1,642	-458			-3	1,181
Bank and other loans	-946	68			2	-876
Finance leases and hire purchase arrangements	-2,400	184	7		-75	-2,298
Year to March 31, 2008	-991	-207	7		-105	-1,310