Debt-to-Equity Ratio Calculation Appendix

The Financial Debt-to-Equity Ratio is a financial metric that measures the company's leverage level, namely the ratio between debt and equity. This ratio serves as a measure of the company's financial risk level.

Within the framework of Section 2.4 in the RFP for foreign construction companies published on DD/MM/YYYY, offerors are required to meet a threshold condition of net financial debt-to-equity ratio. Below is the calculation method for this ratio for the purpose of meeting the threshold condition detailed in Section 2.4 and for quality scoring purposes in Section 4.2.

Formula for Calculating Debt-to-Equity Ratio:

The accepted formula for calculating the debt-to-equity ratio is:

$$\frac{\text{Debt} - \text{Cash and cash equivalents}}{\text{Equity}} = Debt\ to\ Equity\ Ratio$$

Detailed Calculation Components:

This definition details which components shall be included under each calculation element.

Gross Financial Debt:

The company's debt shall include all financial obligations of the company including: bank overdrafts, obligations to banks and/or financial institutions and/or other parties for short and long term, revolving credit lines, current maturities of long-term loans, lease obligations (IFRS 16), issued bonds, senior bonds or subordinated debt, convertible bonds (the liability component), shareholder loans classified as liabilities in the financial statements, loans from related parties, pledges and mortgages, government loans or development loans, unpaid obligations to government authorities, obligations to employees, fines, tax authority obligations, obligations arising from legal claims, other contractual obligations including those arising from hedging transactions, swaps, hedging and derivatives.

Cash & Cash Equivalents:

As appearing in the audited reports and in accordance with IAS7 standard, net of restricted cash.

Equity:

The equity component as appearing in the reports, in accordance with accounting standard IAS32.

Average Debt-to-Equity Ratio Calculation

The RFP allows offerors to present an average net financial debt-to-equity ratio calculated based on annual, quarterly, or monthly audited financial statements for a period of 24 consecutive months ending at the conclusion of the last fiscal year or thereafter. This option is intended to provide maximum opportunity to meet the threshold conditions, given that the net financial debt-to-equity ratio reflected in an annual financial report represents a point-in-time figure at the period end and does not necessarily reflect the bidder's average financial position throughout the relevant period.

The average calculation shall be performed by summing the debt ratio for each period (year, quarter, or month) and dividing by the number of time periods. That is, if a debt-to-equity ratio is required for 2024, it will be calculated by summing the debt-to-equity ratio of each quarter and dividing by 4.

$$\frac{\mathrm{Q1}_{\mathrm{ratio}} + \mathrm{Q2}_{\mathrm{ratio}} + \mathrm{Q3}_{\mathrm{ratio}} + \mathrm{Q4}_{\mathrm{ratio}}}{4} = 2024\ Debt\ to\ Equity\ Ratio$$

Similarly, calculating the debt-to-equity ratio based on monthly reports will be done by summing the ratios for each month and dividing by 12.

Calculating the debt-to-equity ratio for two fiscal years will be done by summing the debt-to-equity ratio calculated on the same basis - annual, quarterly, or monthly for each year and dividing by two, as follows:

$$\frac{2023 ratio + 2024\ ratio}{2} = 2023 - 2024\ Debt\ to\ Equity\ Ratio$$

<u>Illustration: How Quarterly-Based Debt-to-Equity Ratio Calculation Enables Meeting Threshold Conditions</u>

This illustration is intended to demonstrate how using net financial debt-to-equity ratio calculation based on quarterly reports, rather than only annual reports, may enable a bidder to meet the threshold conditions set in the RFP. Namely, that the net financial debt-to-equity ratio shall not exceed 80% in each year (2023, 2024) and that the two-year average shall not exceed 60%. In the example before us, Company A presents an annual balance sheet for 2024 where the debt-to-equity ratio exceeds the 80% threshold, but in the quarterly average calculation the ratio is lower, enabling it to meet the threshold condition for this year. It is important to note that the equity, cash, and debt components in the fourth quarter of the year are identical to those in the annual report, in accordance with reporting rules.

Fictitious Annual Balance Sheet - Company A, 2024

Component	Amount (in thousands USD)
Equity	1,000

Component	Amount (in thousands USD)
Net Financial Debt	850
Debt-to-Equity Ratio	85%

Detailed Quarterly Balance Sheet - Company A, 2024

Quarter	Equity (in thousands USD)	Net Financial Debt (in thousands USD)	Debt-to-Equity Ratio
Q1	1,100	600	54.5%
Q2	1,200	700	58.3%
Q3	1,050	700	66.7%
Q4	1,000	850	85%

Average Debt-to-Equity Ratio Calculation for 2024 Based on Quarterly Data

Average Debt-to-Equity Ratio = (54.5% + 58.3% + 66.7% + 85%)/4 = 66.1%

In this example, in the 2024 annual report the debt-to-equity ratio stands at 85%, meaning it exceeds the required 80% threshold. However, in the quarterly calculation per the RFP requirements, the average ratio is only 66.1% - below 80%. Thus, the company may meet the threshold condition for this year when using quarterly calculation, and improve its chances of also meeting the two-year average (combined with 2023 data, if these support this).