

ANNEX

Formula¹ to calculate maximum amount of rescue aid to qualify for the simplified procedure:

$$\frac{\text{EBIT}_t + \text{depreciation} + (\text{working capital}_t - \text{working capital}_{t-1})}{2}$$

2

The formula is based on the operating results of the company (EBIT, earnings before interest and taxes) recorded in the year before granting/notifying the aid (indicated as t). To this amount depreciation has been added. Then changes in working capital must be added to the total. The change in working capital is calculated as the difference between the current assets and current liabilities² for the latest closed accounting periods. Similarly, if there would be provisions at the level of the operating result, this will need to be clearly indicated and the result should not include such provisions.

The formula aims at estimating the negative operating cash flow of the company in the year preceding the application for the aid (or before the award of the aid in case of non-notified aids). Half of this amount should keep the company in business for a six-month period. Thus the result of the formula has to be divided by 2.

This formula can only be applied where the result is a negative amount.

In case the formula leads to a positive result, a detailed explanation will need to be submitted demonstrating that the firm is in difficulty as defined in Article 2 paragraphs 2) and 3).

Example:

Earnings before interest and taxes (EUR million)	(12)	
Depreciation (EUR million)	(2)	
Balance sheet (EUR million)	December 31, X	December 31, XO
<i>Current assets</i>		
Cash or equivalents	10	5
Accounts receivable	30	20
Inventories	50	45
Prepaid expenses	20	10
Other current assets	20	20
Total current assets	130	100

¹ EBIT (earnings before interest and taxes as set out in the annual accounts of the year before the application, indicated as t) must be increased with depreciation in the same period plus the changes in working capital over a two-year period (year before the application and preceding year), divided by two to determine an amount over six months, i.e. normal period for permitting rescue aid.

² Current assets: liquid funds, receivables (client and debtor accounts), other current assets and prepaid expenses, inventories.

Current liabilities: financial debt, trade accounts payable (supplier and creditor accounts) and other current liabilities, deferred income, other accrued liabilities, tax liabilities.

<i>Current liabilities</i>		
Accounts payable	20	25
Accrued expenses	15	10
Deferred income	5	5
Total current liabilities	40	40
Working capital	90	60
Change in working capital	(30)	

Maximum amount of rescue aid = $[-12 + 2 + (-30)] / 2 = -\text{equivalent in ROL of EUR 20 million}$.

As the outcome of the formula is higher than EUR 10 million, the simplified procedure described in point 30 cannot be used. If this limit is exceeded, the initiator should provide an explanation of how the future cash-flow needs of the company and the amount of rescue aid have been determined.