

The Net Financial Position: Doctrine Compared



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ABSTRACT: The net financial position of a firm represents an information item concerning the financial situation of a firm. This value provides valuable information about the financial balance or imbalance of firms. This figure is very useful on an informational level only if the reader knows its exact composition. Regarding this issue, doctrinaire positions vary and sometimes present very significant diseases. For such a posture to be used effectively to manage the enterprise and to understand its business situation, it is necessary to understand its content and composition. The net financial position of an enterprise represents an informative element concerning the financial crisis of an enterprise. This value provides valuable information about the financial balance or imbalance of companies. This figure is instrumental on an informative level -only if the reader knows its exact composition. Regarding this issue, doctrinaire positions vary and sometimes present very significant diseases. For such mail to be used effectively to manage the enterprise and to understand its business situation, it is necessary to understand its content and composition

1. BRIEF INTRODUCTORY REMARKS

Generally, the simplified definition of net financial position is as follows: net financial position is the difference between a firm's receivables and its financial debts.

Many textbooks use the following simplified formula: NFP (i.e., net financial position) = financial payables - financial receivables - cash.

Therefore, the calculation of NFP is not a simple task, but a complex equation that involves Financial debts ("interest bearing debts"), Debts similar to financial debts ("debt like items"), Severance pay and TFM, Cash and cash equivalents ("cash"), and Assets similar to cash ("cash equivalents"). This complexity, as we will see, is a key aspect of understanding the net financial position.

Our journey through the following pages will reveal that the concept of net financial position is far from a simple, one-size-fits-all definition. We will explore the diverse interpretations of NFP that have emerged in recent years, as articulated by scholars and study centres, and the intriguing impact of these notions on companies.

Understanding the net financial position requires the summation of precedently reclassified balance sheet aggregates. In the next chapter, we will highlight some reclassifications proposed by the doctrine. This is crucial to get the overall picture of the situation and underscores the importance of your role in determining the effectiveness of the reaggregation of balance sheet assets and liabilities to determine NFP.

Before addressing these issues, it is necessary to point out a very relevant observation. Since the reclassifications proposed by the doctrine are multiple and distinguished by the use of equal terms to define distinct aggregates or different vocabularies to identify equal aggregations, it is necessary to understand how it is indispensable that whoever uses the value of NFP to express an opinion on the company's financial position, is aware of the balance sheet reaggregation used and the composition of the aggregates summed for NFP determination.

Using net financial position as a piece of information about the company's financial position without knowing what reclassification the analyst who calculated the NFP used and not knowing the aggregates included in the overall summation is extremely dangerous and potentially misleading.

The figure itself only means something if the calculation methodology of the aggregate under study is fully understood. Therefore, it is also recommended that companies that include NFP in documents intended for third parties indicate all of the above information as its absence would render the aggregate being calculated and interpreted, namely NFP, meaningless.

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2. BALANCE SHEET RECLASSIFICATION USEFUL IN DETERMINING NET FINANCIAL POSITION

Reclassifying the balance sheet to determine the aggregates that make up the summation leading to the net financial position calculation is a crucial step. This process provides a clear starting point and simplifies the calculation.

It's important to note that calculating the net financial position based on the non-reclassified balance sheet significantly complicates all calculations. This is due to the lack of information regarding individual items, underscoring the necessity of a reclassified balance sheet.

The essential notions required to calculate the net financial position, in its various meanings, are as follows:

- Financial items: these items identify financial receivables and payables, i.e., those bilateral relationships in which an entity lends money to another entity.

- Operating assets: scholars and practice have attributed various completely differentiated notions to such assets. Some authors interpret operational assets as a synonym for characteristic assets. On the other hand, other authors differentiate the two assets by making the characteristic asset, capital asset (i.e., concerning non-typical business investments) and financial asset fall under the operational asset. From this brief consideration, it can be understood how to attribute meaning to NFP; it is necessary to know what meaning has been given to the term operating assets if the latter is used to determine the items to be included in the calculation of NFP; Operating asset items are the accounting items arising from the performance of operating assets.

- Patrimonial asset items: these items are the accounting items arising from the performance of operating assets. All the considerations outlined in the previous point apply to operating asset items. It is well understood, then, how knowledge of the exact composition of the aggregates summed for the purpose of determining NFP is, not useful, but rather indispensable so that the interpretation of this aggregate does not lead to erroneous and misleading judgments

All the considerations outlined in the previous point apply to operating asset items. It is well understood, then, how knowledge of the exact composition of the aggregates added together to determine NFP is, not useful but indispensable so that the interpretation of this aggregate does not lead to erroneous and misleading judgments

- Liquidity: There are generally no interpretation problems in this post. Liquidity always tends to be the sum of cash and the bank. The only problem is the presence of active banks and passive banks. The former should be included in liquidity; the second should be considered a financial debt. On the following pages we will see how, in some cases, NFP is calculated using all the values. In those cases, we will explain the posts not illustrated so far.

To understand the difficulty of illustrating the above items, it is necessary to point out how each scholar often uses terms that, for other authors, possess other meanings. Therefore, in the following pages, we will propose some reclassifications illustrated by doctrine. The non-comparableness of the schemes requires that, when calculating the NFP, we specify the real meaning of the terms used to identify the aggregates that lead to the determination of the NFP. With such further explanation, the NFP value determined could be understood correctly and correctly because the source data may be understood correctly.

We begin the illustration of some balance sheet reclassifications by starting with the diagram that is part of the integrated information system.

RECLASSIFICATION SCHEME BALANCE SHEET/BUDGET BALANCE SHEET IMPLEMENTED AS PART OF AN INTEGRATED INFORMATION SYSTEM.

ASSETS	31/12/N	LIABILITIES AND EQUITY	31/12/N
SHORT-TERM ASSETS		SHORT-TERM LIABILITIES	
1. Immediate liquidity		1. Short-term financial liabilities	
2. Deferred liquidity			
* Trade receivables			
* Financial liquidity			
* Tax-deferred income		2. Short-term tax liabilities	
* Non-characteristic deferred income			

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3. Availability (inventories)		3. Short-term non-financial liabilities	
4. Short-term assets non-characteristic			
5. Advances to trade suppliers			
LONG-TERM ASSETS		LONG-TERM LIABILITIES	
1. Long-term tangible assets		1. Long-term financial liabilities	
2. Long-term intangible assets		2. Long-term tax liabilities	
3. Long-term credit assets * <i>Trade accounts receivable</i> * <i>Financial assets</i> * <i>Tax assets</i> * <i>Non-typical accounts receivable</i>		3. Long-term non financial liabilities	
4. Long-term assets non characteristic		EQUITY	
Stand-alone items		Stand-alone items	
NET ASSETS		BALANCE TOTAL	

- Immediate liquid assets include everything that is already cash and related liquid assets;
- - deferred cash includes only and exclusively short-term receivables. The division of this aggregate into four micro-aggregates (commercial, financial, tax, and noncharacteristic by definition) is necessary for determining a range of income and financial ratios;
- - commercial deferred cash includes substantially all short-term commercial receivables net of allowance for doubtful accounts;
- - deferred financial liquidity includes all receivables of a short-term financial nature;
- - tax-deferred cash includes all receivables of a tax and social security/welfare short-term nature;
- - noncharacteristic deferred liquidity includes all future income (realizable within 12 months) not already included in previous aggregates, which has the characteristic of not being able to be considered as belonging to typical business operations. Consider, for example, receivables related to a sale of multi-year assets. It is evident how, by theoretical definition, this receivable cannot be included in the performance of typical corporate assets (otherwise, the receivable would be from customers). For this reason, it can be included in this sub-aggregate;
- - short-term assets comprise all accounting items held for purposes such as securities/shares held with the purpose of sale within the successive year;
- - liquid assets constitute the total inventories of the enterprise;

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- - tangible long-term assets include everything that will provide the enterprise, through the initiation of the production process, with income in the long term and which, at the same time, has physicality;
 - - the intangible long-term asset, on the other hand, consists of everything that will provide the enterprise, through the initiation of the production process, with long-term income but which, at the same time, is not endowed with physicality;
 - - The division of long-term credit assets into 4 micro-aggregates (commercial, financial, tax, and non-characteristic by definition) is necessary. This detailed classification aids in the accurate determination of a range of income and financial ratios, providing a comprehensive view of an enterprise's financial standing.
 - - commercial long-term credit assets include all long-term trade receivables net of allowance for doubtful accounts;
 - - the long-term financial credit asset includes all receivables of a long-term financial nature;
 - - tax long-term receivable asset includes all long-term tax and social security/welfare receivables;
 - - Long-term non-characteristic credit assets, by definition, include all future income (realizable beyond 12 months) not already included in previous aggregates, which have the characteristic of not being able to be considered as belonging to typical business operations. Consider, for example, receivables related to a sale of multi-year assets. It is evident how, by theoretical definition, this receivable cannot be included in the performance of typical corporate assets (otherwise, the receivable would be from customers). For this reason, it can be included in this sub-aggregate;
 - - Long-term patrimonial assets, a significant aspect of financial reporting, include long-term items that identify capital investments. Examples of such items may be civil buildings and the securities and participations in balance sheet not for speculative purposes but intended as a lasting investment in the company;
 - - Stand-alone items, a concept that is essential to understand in financial reporting, are those that cannot be explained here. For the reasons why it is essential to include this item in the reclassified balance sheet, the reader is referred to the analysis of patrimonial items below;
 - - short-term financial liabilities include all debts of an economic nature that will result in monetary outgoings within one year;
 - - short-term tax liabilities include all debts of a tax and social security/welfare nature that will result in monetary outflows within one year;
 - - short-term non-financial liabilities include all non-tax and non-financial liabilities that will result in monetary outlays within one year;
 - - long-term financial liabilities include all debts of a financial nature that will result in monetary outgoings beyond one year;
 - - long-term tax liabilities include all tax and residential/welfare liabilities that will result in monetary outlays beyond one year;
 - - non-financial long-term liabilities include all non-tax and non-financial liabilities that will result in monetary outlays beyond the year;
 - - equity is interpreted as the firm's wealth that will result substantially in the firm's ultimate output. Only when the firm is put into liquidation will net worth become a future output;
 - - stand-alone items: it is impossible here to explain why it is necessary to add this particular aggregate. For the reasons why it is essential to include this item in the reclassified balance sheet, the reader is referred to the analysis of patrimonial items below
- In conclusion, it is necessary to explain why, in addressing the issue of valuable reclassification for analysis, this "financial" re-grouping was defined by using quotation marks. The quotation marks of the term identify the circumstance that the locution takes on spurious meaning, at least in some reclassification hypotheses. As the reader will have the opportunity to verify in the following pages, for some particular items, the pure financial reclassification gives way to a "spurious" re-grouping in which the consideration of the mere maturity of the impact on liquidity takes second place to other considerations that lead to the insertion of these items in aggregates other than those that, at first glance, might seem to be the best "reclassification dislocation."
- Financial reclassification embedded in an integrated information system is the most analytical re-aggregation that doctrine has identified. In the writer's opinion, as will be read in the following pages, this reclassification represents the best scheme to comprehend the company's financial-monetary situation, an objective, of course, that is achieved medially by contextual interpretation of the cash-flow statement.

Also, for determining the net financial position, whichever composition of this aggregate is considered more correct, the above reclassification provides the quantitative values that are useful for determining NFP. As we shall have occasion to point out later, this is not the case with the other reclassifications proposed by the doctrine.

Given the reclassification at hand, it's imperative to grasp the emergence of other types of schedules that may not offer a similar level of analyticity. It's worth noting that the reclassifications we'll be discussing contain items with ambiguous names, as they are interpreted differently by various entities.

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The re-grouping process, based on the criterion of investment allocation and source constraint, is of paramount importance, despite its limited usefulness for analysis. This process necessitates the division of assets into fixed and liquid categories. While these categories may have non-unique definitions, it's generally accepted that:

- fixed assets are formed by the values that are to be permanently maintained (in the company), (i.e., values that) in the company. That is, the value that cannot be sold or mobilize

- available assets constitute the set of all accounting items that can mobilize without harming the enterprise

Therefore, the discriminating element between fixed and disposable assets lies in the durable or nondurable permanence of certain accounting items and the possibility of selling the values that are the subject of interest without such an operation permanently damaging the company's management.

According to this approach, the elements of liabilities are generally divided according to their maturity and thus into short-term, long-term, and equity.

As seen in the preceding pages, managers of enterprises, when implementing balance sheet analysis, are primarily interested in checking the enterprise's financial strength. However, reclassification according to the allocation of investments is unable to meet this information need because the analysis of asset values completely disregards their sca-denza/liquidity.

Therefore, it is not believed that the reclassification scheme presented here can be advantageously used for the management analysis of enterprises, whether of small or large dimensions. Using this reclassification to calculate net financial position is also not practical since it needs evidence of some useful aggregates in the summation of assets and liabilities that enable the determination of NFP.

version)

Re-aggregation, according to the link that can be found between elements of the patrimonial assets and the company's production c-cycle (which, again, presents minimal usefulness for the purposes of management analysis), provides that the assets of the patrimonial state are divided into fixed assets and current assets according to whether the asset elements considered participate in several production cycles or are substantially exhausted within the same cycle.

The re-aggregation process eliminates the limitations of the previous classification. It ensures that the category of fixed assets includes only fixed assets and excludes the fixed part of liquid assets. Similarly, the category of current assets includes only liquid assets and excludes the available part of fixed assets.

The considerations made regarding the previously illustrated scheme also apply to this reclassification structure.

Therefore, using the structure analyzed here cannot be proposed as a useful managerial tool to deepen the company's financial situation.

Re-aggregation according to the functional-operational criterion (whose usefulness for management analysis purposes is minimal) involves comparing characteristic and nontypical management.

The purpose of such a reclassification "is to obtain a balance-sheet format that reproduces the distinction between uses and sources related to core operations and those arising from other questions (patrimonial, financial, and fiscal)" (Coda, Brunetti, Airoidi, 2005).

For the information that can be drawn from such a reclassification structure to be, by users, immediately intelligible, it is advisable to adopt a progressive (or scalar), rather than an opposing section scheme.

The structure of such a reclassification, as outlined by Coda, Brunetti, Airoidi in 2005, can be briefly identified as follows¹:

DEFERRED LIQUIDITY

+ CASH AND CASH EQUIVALENTS

CURRENT ASSETS FROM ORDINARY OPERATIONS

- CURRENT LIABILITIES FROM OPERATIONS

NET WORKING CAPITAL OPERATING ACTIVITIES

+ TECHNICAL FIXED ASSETS

+ INTANGIBLE FIXED ASSETS

- SEVERANCE FUND

¹ . Coda-Brunetti-Airoidi, *Lezioni di economia aziendale*, p. 366.

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NET INVESTED CAPITAL

SO FINANCED:

NET FINANCIAL POSITION

(derived from the algebraic sum of financial receivables and payables)

TAX FUND

EQUITY CAPITAL

The adoption of this structure calls to mind the reclassification of the income statement to cost of sales and revenues-allows one to derive information about the forms of financing that the enterprise has adopted to meet the needs arising from the performance of typical and extra-typical assets, respectively.

While recognizing implicit usefulness to this structure, it is believed that the most immediate information need of a firm's managers concerns the verification of the existence of short- and long-term financial balance. This need, however, cannot be met immediately by the application of the structure illustrated above since this analysis concerns the separation, not between short and long term (as is the case with pure financial reclassification), but between uses/sources inherent in characteristic assets (short and long term) and uses/sources relative to the performance of other business assets.

Therefore, the use of the reclassification structure of the "economic-functional" type can only be proposed as a tool to refine and deepen the information that can be drawn from a scheme that can satisfy the primary information needs of managers, a scheme that, as we had to point out earlier, is identified in the reclassification carried out according to the "financial" criterion. Also, in this scheme, net financial position is cited as the difference between financial receivables and payables, a circumstance that is not always shared by doctrine and practice.

After this brief overview of the main reclassifications proposed by the doctrine, it's important to note that the financial reclassification included in the integrated information system is designed for ease of use and clarity. It presents such analyticity that it makes it easy to determine the NFP, even if one wanted only to contrast between financial payables and receivables. These items, in the last reclassification mentioned, are highlighted as aggregates, a feature not present in the other regrouping schemes. In these other schemes, even if one wanted to focus attention only on these items, they are not highlighted separately but must be calculated by the analyst without these being part of a complete overall scheme of each financial/equity item.

If NFP is determined by aggregating other values, which is possible, as seen in the following pages, the only useful reclassification is the one entered in the integrated information system. If NFP is determined by summing other aggregates as well, the only scheme that highlights all the items essential for the purpose of calculation is the reclassification mentioned above. All other schemes do not particularly highlight the items that, for some, must be included in the NFP anyway. In the opinion of the writer, therefore, regardless of the formula chosen to calculate the net financial position, it is indispensable to use the reclassification just mentioned, as this ensures the identification of every item useful for the purpose of calculating the net financial position, whatever the composition adopted by the analyst.

3)THE CONCEPT OF NET FINANCIAL POSITION PROPOSED BY DOCTRINE AND RESEARCH CENTERS

The net financial position is an indicator of financial performance that, when used appropriately, can help to understand whether the company is experiencing a financial crisis opportunity or is about to enter a period of financial distress.

This aggregate, the components of which will be analyzed in the following pages, is often considered one of the most significant indicators for assessing a state of corporate crisis. The writer disagrees with this assertion because a corporate crisis, whether financial, earnings or global, can only be assessed by the systemic and systematic interpretation of a set of ratios whose intertwining allows an understanding of the corporate situation. NFP is a less relevant indicator in the context of financial analysis because, regardless of the formula used, the focus is only on items of financial nature. This is reductive because the company's financial situation can only be understood if, alongside financial items, items of a current or carat-touristic nature are also considered.

Despite the above considerations, there is no doubt about the net financial position.

In this regard, however, an issue of no small concern should be noted. The notion of NFP is by no means unambiguous. On the contrary, in doctrine and practice, one can see very different calculations leading to determining the aggregate analyzed here.

In the presence of multiple formulas of the net financial position, it is essential for the interpreter of corporate data to know, in-depth and analytically, the composition of the aggregates that led to the calculation from the NFP. Only an awareness of the

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structure of the NFP being analyzed can, in fact, help to understand the corporate financial position. On the contrary, the mere value of that aggregate, without knowledge of its composition, not only prevents the use of the value for the purpose of understanding the company's situation but can, even, lead to making erroneous and misleading judgments about the company because of the different composition from the NFP of the one the analyst thinks was used.

Therefore, it's imperative that the determination of NFP is always supplemented by an analytical illustration of its composition. Without this information, the value of the net financial position is not only useless but can also be potentially misleading. This emphasis on the composition of NFP is crucial for making the NFP value useful and not misleading.

The net financial position gained relevance in terms of study and pragmatically when the OIC (Organismo Italiano di Contabilità, i.e., the organisation that issues accounting standards and helps the legislature when the latter has to enact laws related to the financial report.) issued Document No. 6 Debt Restructuring and Financial Reporting. Although that document is no longer in effect as of 2017, regarding NFP, we can draw valuable insights regarding the standard definition that was and still is attributed to this aggregate.

The OIC 6 Debt Restructuring and Disclosure document plays a pivotal role in our understanding of the net financial position. It states that the NFP is considered an alternative performance indicator, without a specific definition of its calculation within the context of national and international accounting standards (IFRS).

For net financial position, accounting doctrine and practice have developed different ways of calculation; the best known and most widely used require information about 'short-term debt and medium- to long-term debt.'

Later, we will take up the composite definition illustrated in Document 6 OIC.

For now, we will focus on the various definitions attributed to this aggregate.

NFP is frequently defined as the difference between financial debt and financial receivables.

NFP version 1

NFP= total financial receivables - total financial debts

Notably, such a definition is not marked by actual usefulness since a similar difference, in the writer's opinion, needs to provide significant information regarding the enterprise's financial situation. There is no reference to the maturities of payables and receivables, and focusing only on financial values does not provide significant information about the financial balance of an enterprise. Other items, e.g. commercial, could make up for financial deficits that, at certain times in the life of companies, are, among other things, only momentary.

Therefore, the mere difference between financial receivables and financial payables is not a useful definition for informative purposes regarding the company's situation.

As has been pointed out in OIC 6, a universally accepted definition of NFP does not exist. That is why, in some works, the aggregate of net financial position is determined by the summation of other data than the above.

In an article in Il sole 24 ore of Nov. 20, 2019 (leading Italian economic-financial newspaper), "Private equity and debt. EBITDA and financial position matter.", NFP is shown as the difference between exposure to the financial system (banks first and foremost) and active cash. This underscores the significance of your work in understanding and analyzing NFP's role in the financial system..

NFP version 2

NFP= exposure to the financial system (primarily passive banks)- cash assets

This definition, in the writer's opinion, does not provide any valuable information to the analyst as the summation proposed above does not allow any judgment on the company's financial position.

Also in a 2016 article in Il sole 24 ore online, NFP is defined as follows: Net financial position is the difference between financial debt, regardless of temporal maturity, short-term financial assets and cash and cash equivalents. Net financial position can be

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negative; in this case, net financial debt is often used as a synonym. If, on the contrary, it is positive, it means that the company has "cash" and is referred to as "net cash".

NFP version 3

NFP= financial debts - financial assets including cash and cash equivalents.

In this case, the proposed definition is close to the first definition given in the previous pages, with the difference in adding cash and cash equivalents. Again, however, the lack of any reference to the maturity dates of financial payables and receivables and the focus only on these items does not have a very high significance.

Another position is found by analyzing when stated by Bigi. According to this author, "Net financial position (or N.F.P.) or Net Financial Debt represents the sum of all debts of a company's financial nature to be valued net of cash and cash equivalents and assimilated assets: it can be a very interesting indicator of a company's financial health."²

NFP version 4

NFP= debts of a financial nature - cash and cash equivalents and similar items

From the above, it can be understood that the definition of NFP is not unanimous and has numerous differentiations. These are accentuated in OIC Document No. 6 as, in principle, a complete and comprehensive definition of NFP is proposed. The reader is referred to the following pages for an illustration of definition above indicated.

Before analyzing the definition of NFP illustrated by standard OIC 6, no longer applicable since 2017 but equally useful for determining a significant definition of NFP, it is important to recall how CONSOB ((Consob is the Companies and Stock Exchange Commission. This commission is the Italian analogue of the American Sec.), in Communication no. DEM/6064293 of 28-7-2006, having as its object the Corporate disclosure of listed issuers and issuers with financial instruments that are widespread among the public under Article 116 of the TUF - Requests under Article 114, paragraph 5, of Legislative Decree 58/98, points out that "In this regard, under Article 114, paragraph 5, of Legislative Decree no. 58 of February 24, 1998, we invite companies issuing financial instruments listed on regulated Italian markets and companies with financial instruments circulated among the public under Article 116 of Legislative Decree No. 58/98 to provide the following disclosure...[.....]

On NFP, Consob states:

"..... In the notes to the financial statements, the amount of the net financial position must be disclosed, giving details of its main components and an indication of the debt and credit positions vis-à-vis related parties. To define net financial position, reference is made to what is indicated on the subject in the CESR Recommendation of February 10, 2005, "Recommendations for the Uniform Implementation of the European Commission's Regulation on Prospectuses." This document is also available on the European Commission's website."

In the CESR document, RECOMMENDATIONS FOR THE UNIFORM IMPLEMENTATION OF THE EUROPEAN COMMISSION REGULATION ON DISCLOSURE PROSPECTS (*) - FEBRUARY 10, 2005- a number of definitions were outlined to which companies to which Consob had sent the above-mentioned communication had to refer. Specifically, in that CESR document, definitions were provided for:

"I. Introduction Paragraphs 1 - 19.

II. Aspects related to financial reporting

Selected financial information Statement of operating and financial position

Financial resources

² Bigi R., *il commercialista telematico* 13 dic. 2017

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Forecasts or estimates of earnings

Financial information regarding past years

Pro forma financial information

Financial information not extracted from the issuer's audited financial statements.

Interim financial information

Statements regarding working capital

Own funds and indebtedness

III Non-financial information items

1. Specialized issuers

1a - real estate companies

1b - mining companies

1c - companies operating in the field of scientific research

1d - companies that have started assets for less than three years (start-up companies)

1e - shipping companies

2. Clarification on the various points -

2a - Property, plant and equipment Paragraph.

2b - Compensation Paragraphs

Consob, as the regulatory authority, has mandated the use of the definitions in the CESR recommendation to define the concepts of financial debts and credits.

In these documents, however, it is impossible to identify a precise and analytical definition of NFP. The Consob communication mentioned above and the CESR recommendation do not identify a complete and comprehensive illustration of the net financial position.

In 2008, IRDEC issued a management report paper that indicates a definition of net financial position that calls to mind the aggregate suggested by OIC Document No. 6.

The significance of this aggregate is substantiated by the fact that the summation of values divides, in part, what is short-term from what, on the contrary, is long-term. This applies however, only for financial debts.

The aggregate proposed by IRDEC in 2008 is as follows:

Version IRDEC 2008

cash
+ other cash and cash equivalents
+securities held for trading
a)Cash and cash equivalents
(b)Current financial receivables
Current bank debt
+part of non-current debt
+Other current financial debt
c)Current financial debt
d)Net current financial debt(c)-b)-a)) or current or short-term NFP
Non-current bank debt
+bonds issued
+other non-current debt
(e) Non-current financial debt
(f) Net financial debt (d) + (e)) or total NFP

As can be seen from the above table, IRDEC proposes a division between short-term financial debt and long-term financial debt but does not divide, in a consistent manner, financial receivables. In the chart, long-term financial receivables need to be included since net NFP is derived from the sum of cash, short-term or current financial receivables, and total financial debt (short-term and long-term).

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The writer disagrees with this aggregate because it is inconsistent to consider both short-term and long-term financial debts and includes only short-term financial receivables and cash in the summation.

Also in 2013, in Paper No. 22, The recognition of indicators in the management report. Net financial position, IRDCEC arrives at the same considerations as above based on the following determinations/definitions:

(a) Cash and readily liquid assets (< 3 months)

(b) Short-term financial assets (< 12 months)

Short-term financial receivables

Short-term securities

Short-term financial receivables from subsidiaries/associates

Other short-term financial assets

Short-term (financial) accrued income and prepaid expenses

(...)

(c) Medium- to long-term financial assets (> 12 months)

M/l-term financial receivables

M/l-term securities

M/l-term financial receivables vs. subsidiaries/associates

Other m/l-term financial assets

Multi-year accrued income and prepaid expenses (financial)

(...)

TOTAL FINANCIAL ASSETS (a+b+c)

(d) Short-term financial debts

Current account overdrafts

Short-term financial debts

Payables to/from factoring companies

Payables to/from leasing companies

In summary then, IRDEC has re-proposed the FFN composition of 2008.

IRDEC version 2013 document No. 22, The inclusion of indicators in the management report.

(a) Cash and readily liquid assets (< 3 months)

(b) Short-term financial assets (< 12 months)

Short-term financial receivables

Short-term securities

Short-term financial receivables from subsidiaries/associates

Other short-term financial assets

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(...)

(c) Medium- to long-term financial assets (> 12 months)

M/l-term financial receivables

M/l-term securities

M/l-term financial receivables vs. subsidiaries/associates

Other m/l-term financial assets

Multi-year accrued income and prepaid expenses (financial)

(...)

TOTAL FINANCIAL ASSETS (a+b+c)

(d) Short-term financial debts

Current account overdrafts

Short-term financial debts

Payables to/from factoring companies

Payables to/from leasing companies

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Short-term payables to other lenders
Short-term accounts payable to subsidiaries/associates
Short-term accrued expenses and deferred income (financial)
(...)
(e) Medium- to long-term financial debts
Debts vs. banks
Debenture loans
M/I-term interest-bearing payables to shareholders
Financial debts to subsidiaries and affiliates
Debts vs/other lenders
Debts vs/leases
Long-term accrued expenses and deferred income (financial)
(...)
TOTAL FINANCIAL DEBTS (d+e)
SHORT-TERM net financial position
Net financial position I level = (a-d)
Net financial position II level = (a+b) - d
LONG-TERM net financial position
Net financial position I level (a) - (d+e)
Net financial position II level (a+b) - (d+e)
Overall net financial position = (a+b+c) - (d+e)

-More than the composition of the net financial position proposed by IRDCEC, what assumes considerable relevance is the conclusion reached by that research institute. After highlighting the proposed determination of the net financial position above, the IRDCEC states verbatim that "it constitutes only one of the possible approaches that can be taken."

All this demonstrates that the awareness is alive that the locutions used by doctrine and practice to identify financial (and income) aggregates will continue to be marked by substantial and formal differences regarding their composition and determination.

The National Foundation of Chartered Accountants, in the paper "The net financial position co-as a performance indicator," Document September 15, 2015, points out that by far used in the balance sheet analysis aimed at assessing the sustainability of financial debt repayment, the Net financial position (NFP for short) indicator. This is an alternative performance model that, together with other ratios, allows to va-lute:

- the company's overall level of indebtedness;
- the soundness of the capital structure, when compared with equity, which takes the name "financial debt ratio" (NFP/equity);
- the debt repayment capacity when compared with sales, a case where it is termed "debt absorption ratio" (NFP/Sales).

This value results from the algebraic sum of financial magnitudes, whether short- or medium- to long-term.

NFP =

+ Financial debt (at LT and MLT)

- Immediate availability

- Deferred availability

The document mentioned above of the National Foundation of Certified Public Accountants points out that the synthetic indicator expresses the ability to cover financial debts in relation only to immediate and deferred cash and cash equivalents at a specific date: a positive value of the indicator indicates a stock of financial debts at that date greater than the liquidity potentially available on an immediate basis. It is, therefore, an indicator of the company's overall financial debt.

The indicator can also be calculated as the difference between only short-term financial debts and immediate and deferred cash, in this case offering a

summary of the sustainability of only the short-term financial debts generated by financial debts.

In this sense, the rationale behind the determination of net financial position is to be found in the desirability of purifying current assets and current liabilities, as well as

fixed assets and fixed liabilities, from all those components that, in one way or another, are attributable to the company's operations, to dwell on specifically financial assets and debts. In the latter case, it is a matter of understanding how financial investments, by their natural location, which are more easily liquidated,

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can ensure the payment of financial debts and possibly, residually, be put back into the company's monetary circuit.

Rather than responding to specific cognitive purposes, the magnitude highlights components outside the operating area (already included in the asset side determination) and attributable, lato

sensu, to the corporate financial structure. First, the net financial position differs depending on whether the asset-side valuation was based on cash flows or expected

income; variations cannot be assumed in external information.

The accurate determination of NFP hinges on the reclassification of certain balance sheet data from a financial perspective. It is crucial for the company to furnish the analyst with data on its financial ratios that are as precise and reliable as possible, as these ratios play a significant role in the calculation of NFP.

As previously highlighted, the reclassification of the balance sheet is a pivotal step in calculating the net financial position. The level of analytical detail in the reclassification directly impacts the accuracy of the NFP. The financial reclassification, as illustrated in the preceding pages and integrated into the information system, is considered the most analytical scheme proposed by doctrine. It is, therefore, the most effective structure for determining the net financial position.

The document issued by the National Foundation of Certified Public Accountants identifies various notions of NFP. In concise terms, that paper outlines the following concepts of net financial position:

Net short-term first-tier financial position = Readily liquid financial assets

- Short-term financial debts

Readily liquidate financial assets are basically defined as cash and bank,

government securities, other securities (as long as they can be easily monetized), stocks held for speculation, etc.

Short-term financial debts, on the other hand, are considered to be financial debts to subsidiaries, associates, parent companies, bank debts, factoring debts, bank advances, accrued liabilities, etc.

Short-term net financial position of the second level =

Readily liquid financial assets

+ Short-term financial assets

- Short-term financial debts

In addition to the previous two classes of values, short-term financial assets are found in this configuration, which include: financial receivables from subsidiaries, associates and control lants, securities that cannot be readily liquidated, and financial accrued income and prepaid expenses, ecc..

Net financial position at medium and long-term first level

Readily liquid financial assets

- Total financial debts

In addition to financial assets and short-term financial debts, M/L-term financial debts such as bank loans, promissory notes, so-ci debts, financial debts to subsidiaries, associates and parent companies, debts from leases, etc.

Medium- and long-term net financial position of second-tier

Readily liquid financial assets

+ Short-term financial assets

- Total financial debts

Medium and long-term net financial position of third level or overall

Readily liquidate financial assets

+ Short-term financial assets

+ Medium and long-term financial assets

- Total financial debts: To define total NFP, medium- and long-term financial assets are also considered, including financial receivables from subsidiaries, affiliates and parent companies, securities fixed assets, equity investments, other medium- and long-term financial receivables, multi-year accruals, etc..

By reclassifying the balance sheet according to the functional criterion, a comparison is made between the capital raised outside the enterprise (equity and

financial indebtedness) and net investments by understanding them to be the total capital invested (patrimonial state assets) net of operating debts. The functional criterion is based on the concept that a firm's solvency is egged on its ability to generate necessary and sufficient resources to meet its financial needs.

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In summary terms, the various definitions of NFP identified in the document issued by the National Foundation of Certified Public Accountants are as follows:

Version 1 National Foundation of Certified Public Accountants, document September 15, 2015

Net short-term first-tier financial position =
liquid financial assets
- Short-term financial debts

Version 2 National Foundation of Certified Public Accountants, document September 15, 2015

Net financial position of short-term second-tier =
Readily liquid financial assets
+ Short-term financial assets
- Short-term financial debts

Version 3 National Foundation of Certified Public Accountants, document September 15, 2015

Net financial position of medium and long term first level
Readily liquid financial assets
- Total financial debts

Version 4 National Foundation of Certified Public Accountants, document September 15, 2015

Net financial position of medium and long term second level
Readily liquid financial assets
+ Short-term financial assets
- Total financial debts

Version 5 National Foundation of Certified Public Accountants, document September 15, 2015

Mid- and long-term net financial position of third tier or overall
Readily liquid financial assets
+ Short-term financial assets
+ Medium- and long-term financial assets
- Total financial debts

The document issued by the National Foundation of Chartered Accountants, in addition to illustrating the definitions previously analyzed, highlighted the structure of NFP proposed by Asso-nime and the OIC 6 Debt Restructuring standard, no longer in force since 2017.

Assonime proposes the following representation of NFP for the reclassification of financial statements according to the functional criterion (source Assonime Circular 12/1989).

A. Net fixed assets (intangible, tangible, financial)

B. Working capital

(Inventories, trade receivables and other assets) - (trade payables, provisions for risks and charges and other debts)

= C. Capital employed (A+B)

D. SEVERANCE PAY

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E. Net capital requirement (C-D) covered by:

F. Equity capital

G. Net financial debt (m/l-term borrowings, net financial debt net short-term) (i.e., net cash and cash equivalents)

H. Net capital requirement (F+G)

After setting out these pointers, the document of the National Foundation of Certified Public Accountants September 15, 2015 refers to the definition of NFP highlighted in the OIC 6 standard, which we have already had to refer to.

Although the document is no longer in use, it provides a definition of NFP (or net financial indebtedness) that is widely adopted and referred to by many authors and companies. The NFP illustration in the OIC 6 document stands out as the most widely used and agreed upon among the various definitions outlined above.

The following definition of NFP is proposed in the OIC 6 standard:

Cash and cash equivalents

Other current financial assets

Current financial receivables

Current bank debt

The current portion of the noncurrent debt

Other current financial debts

Current financial lease payables

Net current financial debt (a)

Noncurrent bank debt

Bonds issued

Other noncurrent financial debts

Noncurrent financial lease payables

Noncurrent financial debt (b)

Net financial indebtedness or Net financial position (c = a +b)

In summary therefore, the versions of the net financial position proposed by Assonime and OIC Principle 6 debt restructuring, respectively, are as follows:

Version Assonime, document 12/1989

A. Net fixed assets (intangible, tangible, financial)

B. Working capital

(Inventories, trade receivables and other assets) - (trade payables, provisions for risks and charges and other debts)

= C. Capital employed (A+B)

D. SEVERANCE PAY

E. Net capital requirement (C-D) covered by:

F. Equity capital

G. Net financial debt (m/l-term borrowings, net financial debt net short-term) (i.e., net cash and cash equivalents)

H. Net capital requirement (F+G)

. Version standard OIC 6 debt restructuring

Cash and cash equivalents

Other current financial assets

Current financial receivables

Current bank debts

Current portion of non-current debt

Other current financial debts

Current financial lease payables

Net current financial debt (a)

Non-current bank debt

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Bonds issued
Other non-current financial debts
Non-current financial lease payables
Non-current financial debt (b)
Net financial debt or Net financial position ($c = a + b$)

From the above, it is understood that a unanimously accepted notion of net financial position does not exist. In fact, in the doctrine and research centres, one finds very diverse concepts that, from time to time, are defined as synonyms of NFP. In paper No. 22 of 2013, entitled "The inclusion of indicators in the management report. The net financial position," 2013 IRDCEC expresses this concept of variety about the notion of net financial position very clearly. That document states that "business-economics doctrine has not devoted ample space to the issue. Nevertheless, interpretative positions can be found that are sometimes not entirely convergent, leading to the formulation of different configurations of Net financial position. The issue is mainly attributable to the consideration (and relative interpretation) of the items that become part of the calculation: one alludes, in particular, to the declaration of non-liquid/liquidable financial assets, given that while one part of scholars seems to exclude them, others vice versa seem to advocate it."

. After conducting a theoretical survey of the doctrinal proposals considered to be of most significant value, IRCDEC concludes by stating that "the review conducted so far makes it possible to highlight how, on a theoretical and methodological level, there coexist a variety of approaches identifying the net financial position, although there is no prevailing representation. Rather, it is necessary to pay the utmost attention to the correct interpretation of this magnitude, therefore specifying the calculation modalities on occasion undertaken, as these are strictly instrumental to the related cognitive fabrications."

In March 2024, the National Council of Certified Public Accountants CNDCEC, emanated a document on EBITDA AND NFP entitled "EBITDA and NFP for valuation and negotiation purposes", in which it reiterated the concept of NFP mentioned above. Specifically, this paper stated that NFP can be traced to the following equation:

Borrowings ("interest bearing debt") + Debts similar to borrowings ("debt like items") +
Severance pay and TFM - Cash and cash equivalents ("cash") - Cash-like assets ("cash equivalents")
= Net financial position.

In the IAS/IFRS accounting standards, the issue is addressed according to the logic of the CNDCEC mentioned in the above document. In that document, it is pointed out that "Although this is not the most appropriate place for a complete discussion of the approach to

calculation of NFP according to the dictates of international accounting standards, we nevertheless consider it worthwhile to provide some hints on the most relevant and impactful elements in the calculation of NFP should the perspective adopted was that of IFRS. In particular, we intend to make specific reference to the application of accounting standard IFRS 16, which provides, as already mentioned in the section dedicated To EBITDA, there is a different accounting for leases and rent payable. According to financial reportings statutory, there would be no relevance of either leases or rent expenses in terms of the corporate debt position, since both of these items refer to assets owned by third parties and, therefore, outside the perimeter of the balance sheet

The only relevance is the costs related to them

related to them, under the item "use of third party assets," which is included among the costs of production in the profit and loss account, and thus, have a relative impact on the calculation of economic margins. The approach of the IFRS 16, on the other hand, provides for the prevalence of "substance" over "form" in the classification of the item and therefore requires evidence of a de facto liability as a result of the existence of a long-term contract that commits the company to the payment of periodic fees, and which therefore provides for cash outflows on a periodic and multi-year basis. Therefore, the application of this principle requires breaking down the item of cost for the use of third parties and dividing it into two separate components, one relating to the equivalent depreciation charge on the value of the leased asset and the second equivalent to the share of interest implicit in the lease/rental contract. In this way, the previous item of cost for using leased assets is excluded in full from the calculation of EBITDA, which increases by an equivalent amount. At the same time, the residual value of the lease and lease is assimilated among the company's financial debts, and the equivalent value of the leased asset, net of related depreciation, is included among the company's assets. As a result, NFP undergoes an increase in the residual amount of leases and rent payable."

To conclude this excursus about the definition of NFP expressed by the various authors and the leading accounting organizations, the definition of NFP expressed by ESMA is also recalled. According to ESMA, NFP should be calculated as follows:

A Cash and cash equivalents

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B Cash and cash equivalents

C Other current financial assets

D Cash and cash equivalents (A+B+C)

E Current financial debt (including debt instruments, but excluding the portion current portion of non-current financial debt)

F Current part of non-current financial debt

G Current financial debt (E+F)

H Net current financial debt (G-D)

I Non-current financial debt (excluding current portion and debt instruments)

J Debt instruments

K Trade and other non-current payables

L Current financial debt (I+J+K)

M Total financial debt (H+L)

Finally, it should be noted that the ESMA template does not include medium- to long-term financial asset items.

It is clear from the above that it is essential that in the financial reporting in the management report, the reference to the net monetary position is accompanied not only by the amounts of this aggregate but also by its exact composition. The absence of this information invalidates the usefulness of the indicator included in the disclosure destined to third parties since the lack of knowledge of the content of the summation that leads to the determination of NFP prevents any assessment of the company's situation expressed in terms of net financial position.

4. FINANCIAL RATIOS BASED ON NET FINANCIAL POSITION

Net financial position is an absolute value that provides valuable information to third parties who wish to delve deeper into a company's economic situation.

As we pointed out in the previous pages, the notion of NFP varies depending on the author or research centre. We will not repeat what we have highlighted in paragraph No. 4 about the variety of NFP concepts found in the doctrine and in the documents issued by various corporate research centres.

After what has been pointed out, we take it for granted that any judgment of a company's net financial position must be accompanied not only by knowledge of the value of this aggregate but also by its analytical composition.

However, it's important to note that the absolute value of NFP is just one piece of the puzzle. NFP provides a wealth of information about a company's financial situation, making it a multifaceted tool for analysis.

The analysis of the absolute value trend represents information that is, indeed, of primary relevance, primarily if the NFP represents a complete aggregate such as that proposed by the principle OIC 6 Debt Restructuring. Alongside this information, however, an analysis that assumes a comparison between the absolute value of NFP and other indicators directly or indirectly connected to this summation can be added.

Therefore, ratios that, in the numerator or denominator, involve NFP must be considered a necessary step for the corporate financial analysis to be considered complete and comprehensive.

The 4 most relevant ratios whose calculation involves knowledge of the absolute amount of NFP will be analyzed below. As with all indicators, it is evident that the analysis can be profitably conducted only if implemented inter-temporally. The point value of a ratio is, in fact, not very meaningful. Only considering the temporal trend over the years of the indicator can, on the other hand, provide helpful information about the company's financial situation, the deepening of which requires always the focus not on a particular ratio but on the temporal trend of the latter.

Lastly, it's crucial to remember that the analysis by ratios is systemic in nature, akin to the financial reporting it's derived from. Therefore, the analysis of the indicators that will be discussed below must always be conducted in conjunction with a comprehensive analysis of every other corporate ratio. Without this comprehensive approach, it's possible to make judgments about a ratio's performance that are erroneous and potentially misleading, as they don't consider all other corporate ratios.

A very useful ratio for the purpose of net financial position analysis is as follows:

Comparison of net working capital, net of financial items and NFP:

net working capital, net of financial items /NFP

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This ratio compares non-financial net working capital derived from the algebraic sum of 'non-financial short-term assets and non-financial short-term liabilities' total net financial position.

This indicator shows the ability of non-financial net working capital to create valuable sources to cover, if negative, or to increase, if positive, NFP.

As can be seen, this indicator exhibits a discrepancy between the numerator and denominator: the numerator is a short-term post, while the denominator represents a value that contains both short-term data and long-term values (assuming reference is made to overall NFP).

For this reason, it may be helpful to disaggregate the values so that the posts are compared according to their natural maturity. Short-term items compared with short-term NFP and long-term items compared with long-term NFP.

In this case, the above ratio is duplicated so as to separate the short-term analysis from the long-term analysis. If one decides to go that route, the indicators to be used are as follows

Comparison of short-term non-financial assets net of short-term liabilities without financial items and short-term NFP:

short-term non-financial assets net of short-term liabilities without financial items / short term NFP

Comparison of long-term non-financial assets net of long-term liabilities without financial items and long-term NFP:

long-term non-financial assets net of long-term liabilities without financial items / long-term NFP termine

Another useful indicator is comparing a dynamic figure, such as cash flow, and a static figure, such as NFP.

This ratio shows the ability of cash flow to cover any negative NFP or to increase upbeat NFP.

For the ratio to provide helpful information about the ability of the net financial position to be covered/increased by the firm's cash flow, it is appropriate to focus on the characteristic monetary cash flow, i.e., the cash flow resulting from the firm's characteristic operations.

Characteristic cash flow, which represents a liquid value, plays a significant role in a firm's financial health. It is the result of the interplay between characteristic revenues transformed into monetary sources and characteristic costs that create liquid requirements.

However, liquidity is one of many references for calculating cash flows.

The same national accounting standards issued in 2005 (and before that, in 1994 published by the National Commission of Chartered Accountants for the Statement of Accounting Standards), in the OIC document No. 12 Composition and schedules of the financial reportings for the financial year of mercantile, industrial and service enterprises, explain how the concept of financial resources as the basis of the statement of accounts could be interpreted in two ways:

- 1) cash in hand and at banks (cash and active bank) plus other immediately withdrawable cash deposits without risk of change in value;
- 2) net working capital i.e., the excess of short-term or current assets over short-term or current debts.

Both the document concerning the composition and formats of financial reporting of mercantile, industrial service enterprises, issued by the Commission for the Station of Accounting Standards in January 1994 and the 2005 standard OIC No. 12 Composition and formats of financial reporting of mercantile, industrial and service enterprises emphasized that the preparation of the cash flow statement could be developed, not only by having liquidity as a reference but by focalizing its attention to net working capital. About this type of flow, however, the OIC No. 12 document highlighted that the cash flow statement in terms of liquidity, and in particular the one expressed in terms of cash disponibility flows, should be attributed to a superior signalling capacity of the financial situation compared to the cash flow statement expressed in terms of working capital, which, according to the OIC 12 standard, nevertheless continued to retain its informative validity.

2014, the standard OIC 10 Statement of Cash Flows was published and amended in 2016. In that document, it was pointed out that flows expressed in terms of net working capital did not have acceptable informative value and, therefore, standard OIC 10 Statement of Cash Flows required the determination of flows expressed in terms of cash (cash and bank) only.

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Despite this, the writer believes it is relevant to understand the methodology for determining net working capital flows, not so much for preparing the statement of cash flows but to comprehensively and comprehensively understand the mechanism for deciding cash flows. Only understanding net working capital flows makes it possible to understand the indirect determination of cash flow, an operation illustrated in the following pages. A perfect understanding of these flows also makes it possible to master, in an accomplished and agile manner, each step related to calculating cash flows and preparing the statement.

It's for this reason that we've made a deliberate decision to also tackle the issue of cash flow expressed in terms of Characteristic Net Working Capital. This decision underscores the importance of understanding net working capital flows, which although a technical step with limited informative value, is of high practical utility for the overall understanding of cash flows.

The determination of flows expressed in terms of net working capital involves the recognition of transactions that directly have impacted the reference aggregate taken as the basis of the statement. The importance of identifying, in a precise manner, the cost-impacting values of such a micro-summit appears evident. This aggregate has, over time, been the subject of different interpretations by both doctrine and practice. The writer believes that the most appropriate concept for implementing a financial analysis is net working capital confined to typical business assets.

This aggregate is identified with the phrase characteristic net working capital.

Since working capital focuses its attention on short-term assets and liabilities, it is clear that characteristic net working capital consists of all items inherent in the typical asset marked by maturities, of collection or payment, of a current or short-term nature.

This focus on short-term assets and liabilities is a key aspect of financial analysis, as it provides a snapshot of a business's immediate financial situation. In simplifying and summarizing terms, it can be said that characteristic NET WORKING CAPITAL consists of cash, trade receivables, inventories, and accounts payable (this last item must be deducted).

Relevant transactions in the context of determining characteristic net working capital flows are only those that change at least one of the items included in the above sub-aggregate. To understand the difference between characteristic net working capital flow and cash flow, consider this simple example:

sales 1000

customers at 1/1: 100, at 12/31: 110

Based on these figures, the revenue-related cash flow amounts to 990. In fact, the fact that a part of sales was the subject, not of collection, but of the birth of a commercial credit does not create a cash flow for the amount equal to the increase in customers. If, on the other hand, the flow expressed in terms of characteristic net working capital is to be determined, the following reasoning must be carried out: have sales-related revenues impacted on characteristic net working capital? The answer is positive, and, in particular, the flow expressed in terms of characteristic net working capital is equal to all sales proceeds because, in part, the proceeds changed the cash and, in part, the accounts receivable from customers. Since both items are part of characteristic net working capital, the cash flow, expressed in terms of the latter aggregate, is equal to the entire amount of sales.

It can be understood from this simple example why flows expressed in terms of net working capital are less significant than those described in terms of cash.

Take, for example, the case where revenues amounted to 2,000 and receivables from customers increased by precisely this amount. In terms of cash flows, there would be no source. If, on the other hand, the flows are to be expressed in terms of characteristic net working capital, the source amounts to exactly the amount of revenues, i.e., 2,000.

Identifying a source equal to 2,000 highlights how a financial situation, if monitored in terms of characteristic net working capital, could appear more than satisfactory even without cash and active bank movements. Suppose, for example, that in the enterprise in which revenues have created a source equal to 2,000, even in the absence of cash movements, a requirement related to purchases of raw materials of 1,000 is realized, corresponding to which no debt has arisen. Reasoning in terms of characteristic net working capital, the firm would have a source that doubles the requirement amount and shows substantial "financial balance." While it's true that the enterprise, in the hypothesis previously considered, could face serious financial problems, it's important to understand the gravity of these issues. These problems are not just financial in a broad sense, but they are specifically related to the enterprise's liquidity. In fact, in the face of outgoings equal to 1000, there would be no monetary income, which could severely impact the enterprise's financial health.

This simple example shows how the financial analysis carried out in terms of flows expressed as a change in characteristic net working capital has peculiarities such as making the interpretation of the results obtainable through the preparation of the statement extremely delicate.

For this reason, doctrine and practice agree that cash flows expressed in terms of liquidity are more meaningful.

Since, however, the flows calculated as changes in Characteristic Net Working Capital, while significant less than those expressed in terms of liquidity, are of interest to some users of financial reporting, it is considered appropriate to highlight the concept

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because a complete analysis, including of NFP, should be carried out considering financial flows expressed in terms of both Characteristic Net Working Capital and liquidity (or cash/banking assets)

Characteristic net working capital flows identify items whose management action directly impacted at least one item constituting characteristic net working capital.

About the determination of the latter aggregate, we have already had to point out how simplifying the reality, it consists of cash, active bank, short-term commercial receivables, cash and cash equivalents and, with a negative sign, trade payables save within twelve months.

These essential elements of Characteristic Net Working Capital will likely have to be supplemented by all short-term items, which, in some way, correlate with the above items. Therefore, for example, advances from customers, advances to trade suppliers, etc., should also be included in Net Operating Working Capital.

Cash flow expressed in terms of characteristic net working capital flows results from the contrast of typical revenues and expenses that have impacted Net Working Capital consisting only of typical business items.

We have already needed to re-lactate how doctrine and practice agree on the informational prevalence of cash flows instead of those expressed in terms of Net Working Capital. Although the former is significantly more prevalent, it is necessary to fully understand the interconnections between the two types of values concerning business dynamics.

Only a full understanding of the interrelationships between cash flows and characteristic Net Working Capital cash flows allows for the correct interpretation of the data determined in the analysis of financial reporting. This understanding is not just beneficial but necessary for accurate financial analysis.

. The correct interpretation of the points of contact and the discrepancies identifiable between the two types of flows allows the complete and exhaustive understanding of the values highlighted in the statement-to, whether expressed in terms of liquidity and/or net working capital .

First, it is necessary to highlight the connections between the different notions of characteristic cash flow.

Cash flow can be understood as the flow of typical operations expressed in monetary or financial terms. The first concept is often called monetary cash flow or cash flow in the narrow sense. In contrast, the cash flow associated with typical operations expressed in terms of Net working capital is known as cash flow in the broad sense (or expressed in financial terms).

.The tables below show how cash flow can be determined by adjusting the flow from characteristic operations expressed in terms of net working capital with the amount of the same characteristic net working capital.

Since Characteristic Net Working Capital includes cash (and active bank), the passage between the two types of cash flow must take this value into account. The transition from financial cash flow to cash flow can be made by algebraically adding to the first value, either the characteristic net working capital without cash or the characteristic net working capital including cash adjusted, in turn, by the change between beginning cash and bank and ending cash and bank.

These concepts can be summarized as follows:

CASH FLOW EXPRESSED IN FINANCIAL TERMS			
+	/-	Δ	NET WORKING CAPITAL CARATTERISTICO WITHOUT CASH
CASH FLOW EXPRESSED IN FINANCIAL TERMS			

The above considerations allow us to illustrate the differences between characteristic financial cash flow and characteristic monetary cash flow.

In the previous pages, the cash flow generated by typical operations we have previously referred to cash flow as the summation of "monetary" or "financial" costs and revenues. The procedure for calculating cash flow used up to this point provides that the flow of typical operations represents the result of the aggregation of positive and negative components of income expressed respectively in monetary terms if the flow to be determined is monetary or identified in financial terms if the cash flow of interest is the financial flow of typical operations in the broad sense.

Cash flow, however, can also be determined by a calculation technique that considers the interconnections between characteristic net working capital, cash flow, and operating income.

Per comprendere questa tecnica di calcolo si consideri il seguente esempio:

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Revenues		2000
Purchases		400
Rim. Initial		100
Rim. Final		200
Wages		130
Ind. costs		30
Customers	100	110
Suppliers	200	220
Stocks	100	200

On the basis of this data, the following table can be constructed..

REVENUES CHARACTERISTIC	RECTIFICATION	REVENUES CH. "MONETARY"	COST CHARACTER..	RECTIFICATION	COSTS CHARACTER. "MONETARY"
2000 revenues	(10)	1990	400 purchases	(20)	380
200 stocks	(200)	-----	100 initial stocks	(100)	-----
130 wage		130			
30 ind. costs		30			
2360	(210)	2150	500	(120)	380

As can be seen, the sum of characteristic management revenues corresponds, by accounting and mathematical definition, to the algebraic sum of "monetary" revenues and corresponding adjustments. In the same way, total characteristic management costs equals the sum of monetary costs and corresponding adjustments.

This implies that the sum of typical operating revenues expressed in monetary terms can be determined either directly by considering "monetary" revenues and costs or by algebraically adding the corresponding adjustments to typical operating revenues and costs.

The sum of typical revenues and costs expressed in "monetary" terms identifies the characteristic cash flow (or cash flow in the narrower sense).

The sum of the above typical operating expenses and revenues gives rise to the determination of characteristic cash flow expressed in Net Working Capital.

The adjustment items, taken together, represent the Characteristic Net Working Capital.

Therefore, as previously demonstrated, it is possible to state that the cash flow represents the algebraic sum of the flow from characteristic operations expressed in financial terms and the characteristic Net Working Capital.

Generalization of this principle leads to the following mathematical formulation:

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REVENUES CHARACTERISTIC	REVENUES CHARACTERISTIC	REVENUES CHARACTERISTIC	REVENUES CHARACTERISTIC	REVENUES CHARACTERISTIC	REVENUES CHARACTERISTIC	RECTIFICATIONS	REVENUES CH. "MONETARY"	CO CH
X	α	A	Y	β	B			

A - B = CASH FLOW FROM CHARACTERISTIC OPERATIONS OR CASH FLOW IN THE MONETARY SENSE (OR CASH FLOW IN THE NARROW SENSE)

X - Y = FLOW OF CHARACTERISTIC OPERATIONS EXPRESSED IN TERMS OF CHARACTERISTIC NET CIRCULANT CAPITAL OR FINANCIAL CASH FLOW (OR CASH FLOW IN THE NARROW SENSE)

$$(X - \alpha) - (Y - \beta) = A - B$$

BECAUSE THE ALGEBRAIC SUM OF ADJUSTMENTS REPRESENTS THE CHARACTERISTIC NET WORKING CAPITAL: $\alpha - \beta = \Delta$ CHARACTERISTIC NET WORKING CAPITAL WITHOUT CASH

At this point, it is necessary to ask what connection there is between financial cash flow expressed in terms of Net Working Capital and operating income from characteristic operations (GOP).

The financial flow understood as the dynamic element impacting ca-rather Net Working Capital (cash flow in the broad or financial sense) is represented by the costs and revenues associated with the characteristic business operations from which, however, all typical negative income components that do not affect cash, trade receivables/debts, and inventories are excluded. In the context of financial cash flow, therefore, costs arising from financial year-end valuations are not considered, which, on the contrary, must be deducted from GOP instead.

The last logical step is necessary for understanding the methodology that indirectly leads to the calculation of the monetary cash flow starting from a notion of income is the one that allows us to determine the cash flow of characteristic operations expressed in terms of liquidity considering, as an initial data, the profit of financial reporting.

Since operating income is obtained by algebraically adding to GOP all patrimonial, financial, noncharacteristic by definition, and tax costs and revenues, it is evident that should the starting figure be operating income, monetary cash flow can be determined by adding to that figure, all noncharacteristic costs and revenues and any nonmonetary costs arising from year-end valuations.

In simple terms, this principle can be summarized with a basic accounting formula.:

OPERATING INCOME

+NON-CASH COSTS ARISING FROM YEAR-END VALUATIONS

+FINANCIAL, CAPITAL, NONCHARACTERISTIC COSTS BY DEFINITION AND TAX COSTS

- FINANCIAL, CAPITAL, NONCHARACTERISTIC INCOME BY DEFINITION

- WRITE-OFF OF TRADE RECEIVABLES

+/- Δ CHARACTERISTIC NET WORKING CAPITAL WITHOUT CASH

CASH FLOW FROM CHARACTERISTIC OPERATIONS (MONETARY CASH FLOW)

As can be seen from the results, the two cash flow calculation methodologies (direct and indirect) lead to the same result.

From the writer's perspective, the direct cash flow calculation method, which involves summing up the 'monetary' costs and revenues that directly impact the cash or active bank, stands out as the most precise and understandable approach.

The indirect method, while leading, for reasons of financial reporting accounting reconciliation, to an unimpeachable result, can be difficult to understand by those who have a reasonable basis of accounting culture.

Indeed, it appears difficult to understand how a monetary amount can result from the summation of non-monetary values (operating income is not money, non-monetary costs do not represent cash movements, etc.).

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This is logical, following the steps identified above. There is no doubt, however, that calculating cash flow by summing up costs and re-accruals that impacted cash is more immediately intelligible.

Based on the above, the two ratios contrasting cash flow to net financial position are as follow

Comparison of characteristic financial cash flow as a source of negative NFP coverage or positive NFP increase

Financial Cash flow characteristic/NFP

Comparison of monetary characteristic cash flow as a source of negative NFP coverage or positive NFP increase

Monetary Cash flow monetario characteristic/ NFP

Both ratios measure the capacity of the characteristic cash flow, interpreted respectively as a financial or monetary source, as a source to cover negative NFP, or as a source that can increase favourable net financial position.

The NFP/EBITDA ratio is supposed to express in how many years the company would be able to re-pay its financial debts if it used all of its "potential" operating flows (expressed by EBITDA) for that purpose. The ratio is widely used by the financial community, professionals, and banks as an indicator that can reveal a company's desirability.

In some cases, the judgment of a company's financial position is based on net financial position performance instead of being determined by the juxtaposition of cash flow and NFP and is calculated by comparing NFP and EBITDA. The latter identifies a value many interpret as overall cash flow after interest, taxes, depreciation and amortization.

One key to unlocking the power of the NFP/EBITDA ratio is understanding how NFP was determined. This understanding is not just a technical detail, but a crucial piece of knowledge that can help us interpret the ratio accurately and make informed financial decisions.

It is noteworthy that this ratio, just as with the previous two ratios determined based on financial or cash flow, should, in theory, show how long it would take the company to pay off financial debt net of financial assets if it used the flow from EBITDA.

The writer believes that ratios calculated based on characteristic cash flow are, decidedly, more meaningful than this indicator.)

Compariso between NFP e EBITDA

NFP/EBITDA

The last ratio useful for understanding the relationship between sources that can increase NFP and close the negative NFP gap is the ratio that contrasts total turnover with NFP.

Turnover, of course, should be interpreted as total characteristic revenues and, therefore, should be shown net of returns, rebates, discounts and direct taxes.

Total turnover as a source that can bridge negative NFP or increase positive net financial position:

Revenues /NFP

Another ratio relevant to understanding the indebtedness of the firm using NFP as a comparison value is the following ratio:

net financial position /Equity

By contrasting NFP with Equity, this indicator highlights an aspect of debt due to the items that the analyst considers to be included in the calculation of the net financial position. The actual interpretation of the ratio depends, in large part, on the items included in NFP. As the component items change, the ratio interpretation also changes.

5 CONCLUSIONS

From what has been set out in the preceding pages, it can be seen that the notion of net financial position is not the univocal point. For this reason, whoever uses this aggregate must, first of all, choose the idea that comes closest to the reality that he

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intends to highlight by using the net financial position and, furthermore must, in the documents intended for third parties, make explicit in an obvious way the way in which this aggregate is calculated. In the absence of such information about the content of the net financial position used by the analyst, the aggregate itself can be judged neither positive nor negative since, depending on the author or the body to which the calculation used by the analyst refers, the value takes on different meanings. It is, therefore, essential that the analyst clearly and analytically explain the way of calculating the net financial position used in the report intended for internal managers of the company or for third parties external to the company.

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