Introduction

The market value of debt (or net debt) and debt and equity equivalents must be be deducted from Enterprise Value (operating Enterprise Value plus the market value of non-operating assets)('EntV') to calculate Equity Value ('EqV'), and form the 'Bridge' between the two. This paper discusses some components of non-operating assets (cash, deferred tax assets) and debt and debt-equivalents (straight debt, leases, pension deficits), as well as related IFRS financial reporting and UK tax issues. Part 5 discusses option-embedded bridge items (convertibles and employee stock options).

Non-Operating Assets

Cash

In Part 2, the treatment of cash in a DCF valuation was briefly discussed. Cash (whether it be just 'excess cash' or total cash) can be netted off gross debt or kept separate and treated as a non-operating asset. If cash is netted off debt, then income on cash balances should be included in the cost of debt (or rather cost of net debt). If cash is added as a non-operating asset, any related income should be ignored as it is non-operating.

Deferred Tax Assets

A fundamental principle of accruals based financial reporting ('Generally Accepted Accounting Practice' / 'GAAP', such as IAS and IFRS financial reporting standards issued by the International Accounting Standards Board) is that expenditure is matched with related income and both are accrued for in the same period (booked according to the period they relate to rather than when the cash effect arises). For example, the upfront cost of acquiring an asset should be matched over time in the income statement against the periodic revenue and profits arising from the use of the asset (including its sale). This is achieved via depreciation (tangible assets) and amortisation (intangible assets). The deduction for tax purposes in respect of the cost of the asset may not equal the expense for accounting purposes due to permanent differences (amounts that are disallowed for tax purposes, just as some income might be exempt) and 'temporary' differences (mainly due to timing differences that arise when the expense is included in the accounting profit in one period but in the taxable profit in another, but can arise in other cases, such as when assets are revalued for accounting purposes but not for tax purposes). Such differences also arise for income and gains.

In the UK, a tax deduction for the cost of a tangible asset might be accelerated and arise in full in the year of acquisition or be allocated on a reducing balancing basis. Depreciation in the income statement is usually based on a straight-line allocation of the 'Depreciable Amount' (qualifying cost less 'residual value' at the end of its useful life – IAS 16 para.6) over the period during which the asset is available for use by the business ('Useful Life'). This difference is only temporary, however, as whilst in early years 'tax depreciation' is greater than accounting depreciation (taxable profit is less than accounting profit)

a reversal occurs later on (taxable profit is more than accounting profit). Over the life of the asset, tax depreciation will equal accounting depreciation.

For these assets, the carrying amount in the balance sheet equals cost less accumulated depreciation, whilst the 'tax base' (on which capital allowances are based) equals cost less accumulated tax allowances. If the carrying amount exceeds the tax base, the accumulated deductions for tax purposes given so far have been greater than those for accounting purposes. When the temporary difference reverses, more tax will be payable and this should be provided for via a deferred tax liability. Under IFRS, a liability is a present obligation arising from past 'obligating' events that will, in all probability, lead to an outflow of economic benefits and is provided for (non-current) if it can be measured reliably (IAS 37). Discounting is not permitted under IAS 12 (para.53).

A deferred tax liability on 'taxable temporary differences' will arise on the excess of the carrying amount of an asset over its 'tax base' (tax rate applicable for the period x (A_{IFRS} - A_{TAX})) and vice versa for a liability (tax rate x (L_{TAX} - L_{IFRS})). The deferred tax charge is the increase in the liability over the period. When calculating NOPAT or FCFF, deferred tax needs to be determined for operating assets and liabilities and only the increase in operating deferred tax liabilities is deducted from the statutory tax that applies to taxable operating EBITA (Koller at al. (McKinsey) (2025) p.220 and ch.20). Deferred tax liabilities are otherwise ignored in the valuation (Holthausen & Zmijewski (2020) p.117).

A deferred tax asset arises where there are 'deductible temporary differences' (A_{TAX} - A_{IFRS} for assets and L_{IFRS} - L_{TAX} for liabilities) and where tax losses carried forward from prior periods are available to reduce taxable profits (s45- s45D Corporation Tax Act 2010 in the UK, subject to carry forward restrictions under part 7ZA of that Act). A deferred tax asset can only be recognised if its recovery is probable and sufficient taxable profits will be available in the future to utilise the deductible temporary differences [para. 25, 27 IAS 12]. Deferred tax assets should be treated as non-operating assets and valued separately (Koller at al. (McKinsey) (2025) p.216).

Debt and Debt-Equivalents

Straight Debt

Valuation

Debt is measured in the Weighted Average Cost of Capital (WACC) at market value (via the leverage ratio – see Part 2 of this series), and so the amount to be deducted from the EntV to calculate EqV should also be the market value. The fair price of a debt instrument (without any embedded option, such as a straight bond) is the present value of its future cash flows (interest or coupons plus redemption or maturity amount), discounted at a risk adjusted rate. Basic, traditional bond pricing uses a single discount rate: the current required 'Yield to Maturity' (YTM) or 'Gross Redemption Yield' (the Internal Rate of Return, IRR, for a given market price), which, at the date of issue, may be set with reference to some benchmark issue.

If coupons are paid annually, the fair price at the start of a coupon period ('Clean Price' excluding accrued interest) will be as follows:

$$\text{Price} = \frac{c}{(1+r)^1} + \frac{c}{(1+r)^2} + \ldots\ldots + \frac{c+P}{(1+r)^n}$$

$$= c \frac{1}{r}\left(1 - \frac{1}{(1+r)^n}\right) + P \frac{1}{(1+r)^n}$$

where c Equal annual coupon, starting in 1 year
P Redemption amount (principal)
r Yield to Maturity (IRR) % per annum
n Number of complete years until maturity

If coupons are paid more than once during the year, each coupon equals the annual coupon divided by the number of coupon periods, which, together with the redemption amount, would be discounted at the nominal Yield to Maturity:

$$\text{Price} = \frac{c/m}{(1+r/m)^1} + \frac{c/m}{(1+r/m)^2} + \ldots\ldots + \frac{c/m+P}{(1+r/m)^{nm}}$$

$$= c/m \frac{1}{r/m}\left(1 - \frac{1}{(1+r/m)^{nm}}\right) + P\left(\frac{1}{(1+r/m)^{nm}}\right)$$

where c Equal annual coupon (coupon % x bond face value)
m Number of *equal length* coupon periods per year
(n x m is the number of time periods)

Daily interest is accrued on a bond up until the date the coupon is paid, so that, if a bond is purchased during a coupon period, the purchase price ('Dirty Price') includes accrued interest from the last coupon date to the day before the purchase or 'settlement' date (inclusive): accrued interest = coupon p.a. x days accrued / days in coupon period (if the 'actual / actual' convention is used, as is the case for accrued interest on UK bonds and some US bonds – otherwise, the days in the year are used). The price can be calculated using an Excel function or from the past or next coupon date.

IFRS Accounting

Under IAS 32, a financial liability includes a liability (a present legal or constructive obligation arising from a past 'obligating' event that results in an outflow of economic benefits – IAS 37) that is a contractual obligation to deliver cash to another entity where the company has no unconditional right to avoid delivery of that cash. Such contractual financial liabilities (which would include many types of preference share capital) are financial instruments that are measured and recognised by the issuer under IFRS 9 initially at fair value (the price that would have to be paid to transfer the liability in an

orderly transaction in the market – IFRS 13) and thereafter, subject to some exceptions, at 'Amortised Cost'.

A loan or bond, therefore, would usually be recognised on the issuer's balance sheet at amortised cost. The IRR of a bond is the discount rate (YTM) that discounts future expected cash flows to the price or fair value of the bond. The YTM changes as the required yield changes in the market, increasing (after yields fall) or decreasing (after yields rise) the price of the bond. The 'Effective Interest Rate' (EIR) is the IRR of the bond at the date of initial recognition by the issuer, and is not re-calculated unless the financial liability is substantially modified. The EIR will equal the interest or coupon rate if the instrument is initially recognised at face value. It represents the effective cost of debt, and may differ to the cash rate (such as a zero coupon instrument), and the resulting amortisation charge is the interest expense booked to the income statement.

The EIR is used to calculate the carrying amount (book value) of the financial liability, the amortised cost:

Fair Value on recognition (FV_0)	x
Add: EIR % x FV_0 (P&L)	x
Less: interest or coupon paid (cash flow statement)	(x)
Amortised cost at end of year 1 (FV_1) (balance sheet)	x
Add: EIR % x FV_1	x
Less: interest or coupon paid	(x)
Amortised cost at end of year 2 (FV_0)	x
Etc	

At any date, the book value and fair value (market value) will equal the remaining cash flows discounted at the EIR and YTM, respectively. Book value and market value will differ, therefore, if the YTM on initial recognition (the EIR) has changed since recognition. A simple example follows:

A 5.0% p.a. 5 year bond (Face Value 'FV' = Redemption Amount 'RA' = 100) is issued at 100 (Market Value 'MV' or 'PV'), with a YTM of 5.0%.

EIR = coupon rate:
∴ BV = FV

YTM is constant:
∴ BV = MV

		1	2	3	4	5
Required rate of return		5.0%	5.0%	5.0%	5.0%	5.0%
Discount factor	=	1.0000	0.9524	0.9070	0.8638	0.8227
		1 + 5.00%	1 + 5.00%	1 + 5.00%	1 + 5.00%	1 + 5.00%
	=	0.9524	0.9070	0.8638	0.8227	0.7835
Coupon	5.0%	5.00	5.00	5.00	5.00	5.00
Redemption Amount		-	-	-	-	100.00
PV of cash flows	100.00	4.76	4.54	4.32	4.11	82.27
PV at each period (excl. coupon)		100.00	100.00	100.00	100.00	100.00
		(100.00 + 5.00) / (1 + 5.00%) = 100.00				
Effective Interest Method						
Amortised Cost at Start		100.00	100.00	100.00	100.00	100.00
Interest at EIR	5.0%	5.00	5.00	5.00	5.00	5.00
PV at each year end		105.00	105.00	105.00	105.00	105.00
Interest paid		(5.00)	(5.00)	(5.00)	(5.00)	(5.00)
Amortised Cost at End (Book Value)		100.00	100.00	100.00	100.00	100.00

Note: to allow for varying discount rates, $DF_n = 1 / \{(1 / DF_{n-1}) \times (1 + r_n)\} = DF_{n-1} / (1 + r_n)$

If the coupon is 1.0% and YTM still 5.0%, the redemption amount will have to increase to 122.10 for the price to equal 100.

EIR ≠ coupon rate:
∴ BV ≠ FV

YTM is constant:
∴ BV = MV

		1	2	3	4	5
Required rate of return		5.0%	5.0%	5.0%	5.0%	5.0%
Discount factor	=	1.0000	0.9524	0.9070	0.8638	0.8227
		1 + 5.00%	1 + 5.00%	1 + 5.00%	1 + 5.00%	1 + 5.00%
	=	0.9524	0.9070	0.8638	0.8227	0.7835
Coupon	1.0%	1.00	1.00	1.00	1.00	1.00
Redemption Amount		-	-	-	-	122.10
PV of cash flows	100.00	0.95	0.91	0.86	0.82	96.45
PV at each period (excl. coupon)		104.00	108.20	112.61	117.24	122.10

(117.24 + 1.00) / (1 + 5.00%) = 112.61

Effective Interest Method

Amortised Cost at Start		100.00	104.00	108.20	112.61	117.24
Interest at EIR	5.0%	5.00	5.20	5.41	5.63	5.86
PV at each year end		105.00	109.20	113.61	118.24	123.10
Interest paid		(1.00)	(1.00)	(1.00)	(1.00)	(1.00)
Amortised Cost at End (Book Value)		104.00	108.20	112.61	117.24	122.10

If at a future date yields change, BV ≠ MV. Assume the YTM 'spot rate' increases to 6.0%, at the start of year 3, the 108.20 price at the end of year 2 will immediately fall and years 3 and 4 prices will be lower. BV will stay the same, whatever market yields do.

		1	2	3	4	5
Required rate of return		5.0%	5.0%	6.0%	6.0%	6.0%
Discount factor	=	1.0000	0.9524	0.9070	0.8557	0.8073
		1 + 5.00%	1 + 5.00%	1 + 6.00%	1 + 6.00%	1 + 6.00%
	=	0.9524	0.9070	0.8557	0.8073	0.7616
Coupon	1.0%	1.00	1.00	1.00	1.00	1.00
Redemption Amount		-	-	-	-	122.10
PV of cash flows	97.27	0.95	0.91	0.86	0.81	93.75
PV at each period (excl. coupon)		104.00	108.20	110.50	116.13	122.10

(116.13 + 1.00) / (1 + 6.00%) = 110.50

The cash flows in this example are the promised contractual cash flows, that, given the initial price paid to acquire the loan or bond, provide the investor with their minimum required return (the promised YTM). If there is a risk of default, such that the expected cash flows will be less than the promised cash flows, then the true cost of debt will be less (Cooper & Davydenko (2001)). In practice, if the market expected yields to rise in year 3, the bond price would be calculated based on these expected future spot rates rather than the constant YTM.

UK Taxation

In the UK, taxation of debt instruments for companies falls under the Loan Relationship Rules (LRR) contained in Corporation Tax Act 2009 (CTA 2009), which includes 'money debts' arising from the actual lending of money (settled in cash, in another money debt or shares in any company). All profits and losses in the form of credits and debits (including interest) under the LRR are taxed as trading or non-trading income even if they are of a capital nature (i.e. capital gains and losses). Amounts recognised are those recognised in the profit and loss account under GAAP, unless the tax rules override the accounting rules (lending between connected companies, for example, has to be recognised using the amortised cost method and not fair value accounting, which the lender can use depending on its

business model and other factors). Losses (excess debits over credits, or 'deficits') are relieved differently for trading and non-trading items.

Subject to avoidance arrangements, interest (not defined) is deductible for tax purposes, but may be restricted under the Corporate Interest Restriction ('CIR') provisions under Taxation (International and Other Provisions) Act 2010. These aim to restrict tax deduction for UK tax resident companies in a worldwide group (or single companies) in respect of net interest payable in excess of £2 million, so as to ensure deductions are commensurate with business activity subject to UK tax (OECD based rules designed to remove the advantage of shifting group debt to higher tax rate jurisdictions to maximise dedutions). The amount restricted ('Interest Capacity') is based on a percentage ('fixed ratio' 30%) of tax adjusted Earnings Before Interest Tax Depreciation & Amortisation ('tax-EBITDA) for the UK companies, subject to a cap. If the worldwide group's net finance cost (making adjustments to align with UK tax rules and other adjustments) as a percentage of its EBITDA is higher than 30%, the UK companies in the group may elect to use this higher 'group ratio' in instead of the 30% fixed ratio (again subject to a cap). The group decides how to allocated the Interest Allowance to its UK group companies. The disallowed amount may be carried forward for deduction in future years ('reactivation'), subject to rules.

Interest deductions on a corporation tax return will be challenged if it is suspected one of the main purposes of the loan relationship is the avoidance of tax. These would include loans for an 'unallowable purpose' (not amongst the purposes of the company)[s441 CTA 2009], loan transactions not at arm's length [s444 CTA 2009] and interest which treated as a non-tax deductible distribution [s1000 CTA 2010].

As for a loss making company (where LRR deficits, including interest expense, would be carried forward for relief), restricting interest deductions under the CIR reduces the value of the tax shield (see Part 2) by delaying the tax benefits (until used in a future period), and hence increases the after-tax cost of debt in the affected years.

Leases

Features of a lease

Under a lease agreement, one party (the 'lessor') grants another (the 'lessee') full use of an asset for a period ('primary lease term') in return for a rental, subject to certain terms and conditions. The lessor may have legal title to the asset, or lease it from its legal owner (the 'head lessor'); the lessee may be entitled to 'sub-lease' the asset to a 'sub-lessee'. There may, therefore, be more than one lease agreement relating to a single asset. The lessee would normally return the asset to the lessor at the end of the primary lease term, having maintained it and restored it to the minimum condition stated in the lease agreement; however, it may be granted the right to extend the lease into a 'Secondary' term at a stipulated rent ('Renewal Option') or to purchase the asset ('Purchase option'). A significant risk for the lessor is the uncertainty associated with the value of the asset at the end of the lease term ('Residual Value').

If the lessor can earn its required rate of return from cash flows that the lessee has contracted to pay or guarantee over a non-cancellable term ('Minimum Lease Payments' / 'MLP', being rentals and any

guaranteed payments for all or part of the Residual Value), the lease would be termed a 'Full Payout' lease. The lessor has effectively sold its economic interest in the asset to the lessee, and its required return would be achieved whatever the Residual Value: any proceeds from the sale of the asset at the end of the lease could be returned to the lessee as a rebate of rentals (if the asset had a nil Residual Value, the lease term would represent 100% of the asset's remaining economic life at the start of the lease). The PV of the MLP, as a percentage of the asset fair value is an indication of how much effective economic ownership has been transferred to the lessee.

IFRS Accounting

Prior to the introduction of IFRS 16 (effective from 2019), under IAS 17 leases classified as Finance Leases ('FL') (substantially all the risks and rewards associated with ownership transferred to the lessee) were capitalised by lessees at the PV of MLP. By contrast, where the lessor retained enough risk, the lease was classified as an Operating Lease ('OL') with lessee rentals charged to the P&L and no requirement for lessee to capitalise lease payments (a form of off-balance sheet financing).

The PV of future lease payments under a FL effectively represent debt servicing (payments of principal and interest added into the lease rental) on borrowings used to purchase the asset, which would be treated separately (a liability for future rentals, a depreciated asset and interest and depreciation expenses in the P&L). An OL required only the rental charge to be shown as an expense.

If an agreement conveys the right to the lessee to control the use of an identified asset for a period of time in return for consideration, it should be classified as a lease under IFRS 16 (there are detailed rules on the identification and definition of a lease, which will not be discussed here) and the lessee will be required to capitalise the underlying 'right-of-use' asset ('ROUA'), even if it would have been classified as an OL under the old rules (the lessee can opt out if the lease is for 12 months or less and does not contain a purchase option, or if the lease is deemed to be of low value).

On initial recognition, the cost of the ROUA is recognised as an asset and the PV of the Lease Payments ('LP') as a liability discounted at the interest rate implicit in the lease. LP are the enforceable payments over the lease term (actual and 'in-substance' fixed payments, variable payments that depend on an index or rate, the exercise price of any purchase option that the lessee is reasonably certain to exercise and amounts payable by the lessee under any RV guarantees).

The term starts on the date the asset is made available for use by the lessee and ends when the lease is no longer enforceable. This includes the non-cancellable period and any period covered by an option granted to the lessee to extend the lease (where it is reasonably certain the extension option will be exercised) or terminate the lease (where it is reasonably certain the termination option will not be exercised). If the lessee has the right to purchase the ROUA, and exercising the right was reasonably certain, that would be considered as well. When the lessor and lessee can terminate the lease for an insignificant penalty and without permission from the other party, the lease is no longer enforceable and has come to an end.

The interest rate implicit in the lease is the IRR that discounts the lessee's LP and any unguaranteed RV that the lessor expects to receive to the asset fair value (plus any 'initial direct costs'). If the lessee cannot readily determine this rate (if it does not know what unguaranteed RV the lessor is expecting), it may use its 'incremental borrowing rate' (the rate the lessee would expect to pay to borrow funds to obtain an asset of similar value to the ROUA, based on a similar term, security and economic environment).

UK Taxation

For some leases a lessee is able to claim capital allowances in the UK, and thereby accelerate tax deductions compared to relief available for rental payments on other leases. Prior to 2006, the availability of allowances was restricted to legal ownership (and assets under Hire Purchase agreements). Since that date, lessees under Long Funding Leases (LFL) can claim allowances as if they owned the asset (Capital Allowances Act 2001). A LFL is a Funding Lease that is neither a Short Lease (7 years or less) nor an Excluded Lease (including Hire Purchase agreements), and is a lease of qualifying plant and machinery ('P&M') where one of the following tests applies at the inception date (the date the contract is agreed and all conditions have been met):

- The lease qualifies as finance lease (or loan) under GAAP in the lessee's accounts; or
- The PV of the MLP is at least 80% of the fair value of the leased P&M, discounted at the implicit rate or, if that cannot be determined, the incremental borrowing rate (as defined under GAAP); or
- The lease term is more than 65% of the remaining useful economic life of the leased P&M

Capitalised leases that do not meet these tests will be eligible for relief on the rental expense (no accelerated allowances are given), if the lease gross rental charge is consistent with the accruals concept under GAAP. The rental charge will represent the finance charge and depreciation.

An example of a lease is given in the Appendix. This is a leveraged lease, where the lessor has financed the asset with debt, and a short funding lease under UK tax rules (capital allowances remain with the lessor, as in a leveraged lease the lessor would want to maximise tax deductions for the asset in order to obtain its target post-tax return). The implicit rate in the lease is 6.54%, which is used to capitalise the lessee's rentals.

Pension Deficits (Defined Benefit)

In a funded Defined Benefit Plan the company agrees to provide future benefits from a fund of investments built up over the years with contributions by the employer (and possibly the employees). The present value of the Defined Benefit obligations (DBO) may be more than the market value of the fund assets, meaning a shortfall ('deficit'), for which the company is liable, has arisen (a 'surplus' arises if plan assets are valued in excess of the obligations). The fund accumulates from ongoing contributions and a return on investment (dividends, interest) which are reinvested. Whilst the plan assets are easily measured, the liability requires actuarial techniques to forecast future benefit payments. In simplistic terms:

- the fair value of the fund assets will change over the period n to n + 1 as follows:

$$Assets_{n+1} = Assets_n + \text{contributions paid in} + \text{interest income} - \text{benefits paid out} + A_{G/L}$$

- the PV of the DBO will change as follows:

$$DBO_{n+1} = DBO_n + \text{service cost} + \text{interest costs} - \text{benefits paid out} + DBO_{G/L}$$

Where:

- Service cost (P&L operating profits) = increase in PV of DBO from employee service in the current period ('current service cost') + prior periods (amendments and curtailments)
- Net Interest income and costs (P&L non-operating) = the discount rate applied to the opening value of plan assets and DBO (the difference between the discount rate and actual return on assets is included in $A_{G/L}$).The discount rate must reflect the end of period yield on high quality corporate bonds.
- $A_{G/L}$ and $DBO_{G/L}$ (Other Comprehensive Income) = the gain / loss on re-measurement of plan assets at year end market prices and obligations at revised actuarial assumptions.

A surplus is recognised on the balance sheet as an asset subject to an 'asset ceiling' that reflects the surplus recoverable amount (the PV of future refunds and reductions in future contributions resulting from there being a surplus).

Operating EBITA should include the service cost and no adjustment is made for valuation purposes (it is part of NOPAT). If FCFF or NOPAT is calculated from net income, the defined benefit cost excluding the service cost needs to be added back, net of tax.

A DBO net liability for valuation purposes should be treated as a debt equivalent and deducted off the enterprise value. If contributions required to eliminate the deficit are fully tax deductible, the amount deducted is DBO x (1 – marginal tax rate). Any related interest costs (net of tax) should be excluded from FCFF (and included in the WACC along with the deficit as a debt-equivalent). Adjustments may also be made when de-levering and levering betas under CAPM for the cost of equity estimate, to factor in additional risk borne by shareholders if appropriate (betas would need to be estimated for pension liabilities and assets)

(See Koller at al. (McKinsey) (2025) p.455-464, 881; Jin, Merton & Bodie 2006; https://www.footnotesanalyst.com/dcf-and-pensions-enterprise-or-equity-cash-flow/)

Suggested reading

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Cooper, I.A. & Davydenko, S. (2001) "The Cost of Debt," SSRN: https://ssrn.com/abstract=254974

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LEASE	
Asset cost	£1,000,000
Financed by lessor	80.0% debt, 20.0% equity
Lease start date	30 Jun 2025
Primary lease term	6.0 years
Primary lease rental	£48,770 quarterly in arrears
Rental pattern	Fixed
Primary lease term / Asset life	92.3%
Residual Value	£50,000 (5.0% of day 1 value)
Lessee Residual Value guarantee	0%
Lessee renewal and purchase options	Not exercised

LESSEE	
Accounting and tax jurisdiction	UK (IFRS)
First accounting year end	30 Jun 2026
First tax pay date	14 Jan 2026
Tax paid	Quarterly in instalments
Lease Classification for tax	Short Funding Lease
Asset cost allowances?	No
Cost of debt (pre-tax)	Fixed 8.00% nominal
Cost of debt (post-tax)	6.00%
PV of Minimum Lease Payments	£965,818 at Implicit Rate (6.54%)
As a % of asset cost	96.6%
PV of incremental lease cash flows	£961,512

LESSEE CASH FLOWS

Year ending 00 Jan	2026	2027	2028	2029	2030	2031	Total
Rentals	(195,080)	(195,080)	(195,080)	(195,080)	(195,080)	(195,080)	(1,170,480)
Tax relief on rentals	27,434	53,750	51,477	48,986	46,332	64,641	292,620
Actual Cash Flows	(167,646)	(141,330)	(143,603)	(146,094)	(148,748)	(130,439)	(877,860)
Residual Value foregone	-	-	-	-	-	(50,000)	(50,000)
Capital Allowances foregone	(22,500)	(40,950)	(33,579)	(27,535)	(22,579)	(90,358)	(237,500)
Effective Cost of Leasing	(190,146)	(182,280)	(177,182)	(173,629)	(171,327)	(270,796)	(1,165,360)
Present value of Effective Cost	(183,210)	(165,345)	(151,339)	(139,675)	(129,815)	(192,128)	(961,512)

LESSEE ACCOUNTING (IFRS 16)

Year ending 30 Jun	2026	2027	2028	2029	2030	2031	Total
Lease Liability	(829,237)	(683,719)	(528,736)	(363,506)	(187,512)	-	
Finance Charge & Lease Liability							Total
PV of MLP b/f (at 6.54% lessor rate)	965,818	829,237	683,719	528,736	363,506	187,512	
MLP (rentals paid + guaranteed residual)	(195,080)	(195,080)	(195,080)	(195,080)	(195,080)	(195,080)	(1,170,480)
Finance charge	58,500	49,562	40,096	29,851	19,085	7,568	204,662
PV c/f	829,237	683,719	528,736	363,506	187,512	-	
Fixed Assets + Depreciation							
Gross Fixed Asset	965,818	965,818	965,818	965,818	965,818	965,818	
Depreciation on a straight line basis	(160,970)	(160,970)	(161,191)	(160,748)	(160,970)	(160,970)	(965,818)
Net Book Value	804,848	643,879	482,687	321,939	160,970	-	

LESSOR CASH FLOWS

Year ending 30 June	30 Jun 2025	2026	2027	2028	2029	2030	2031	Total
Rentals		195,080	195,080	195,080	195,080	195,080	195,080	1,170,480
Residual Value		-	-	-	-	-	50,000	50,000
Gross Investment		195,080	195,080	195,080	195,080	195,080	245,080	1,220,480
Asset purchase	(1,000,000)							(1,000,000)
Debt Interest paid		(40,000)	(40,000)	(40,055)	(39,945)	(32,534)	(12,534)	(205,068)
Debt Principal	800,000	-	-	-	-	(400,000)	(400,000)	-
Tax		(1,885)	(2,191)	(3,895)	(9,863)	(14,738)	28,720	(3,853)
Equity Cash Flows	(200,000)	153,195	152,889	151,130	145,272	(252,192)	(138,735)	11,559

LESSOR ACCOUNTING (IFRS 16)

Year ending 30 Jun	2026	2027	2028	2029	2030	2031	Total
Profit & Loss							
Rental	195,080	195,080	195,080	195,080	195,080	195,080	1,170,480
Capital element	(134,344)	(143,135)	(152,441)	(162,528)	(173,112)	(184,441)	(950,000)
Gross Earnings	60,736	51,945	42,639	32,552	21,968	10,639	220,480
Interest on debt	-	(45,033)	(45,332)	(45,644)	(45,982)	(23,077)	(205,068)
Profit Before Tax	60,736	6,912	(2,693)	(13,092)	(24,014)	(12,438)	15,412
Current Tax	(3,770)	(612)	(7,179)	(12,547)	(16,929)	37,184	(3,853)
Deferred Tax	(11,414)	(1,116)	7,852	15,820	22,933	(34,075)	-
Net Profit	45,552	5,184	(2,019)	(9,819)	(18,011)	(9,328)	11,559
Balance Sheet							
Net Investment in lease	865,656	722,522	570,081	407,553	234,441	-	
Net Cash Surplus	-	106,084	257,214	402,486	150,293	-	
Current Tax	-	-	-	-	-	18,592	
Total Assets	**865,656**	**828,606**	**827,294**	**810,039**	**384,734**	**18,592**	
Debt	(760,000)	(765,033)	(770,310)	(776,009)	(389,457)	-	
Net Cash Investment	(46,805)	-	-	-	-	(7,033)	
Current Tax	(1,885)	(306)	(3,590)	(6,274)	(8,465)	-	
Deferred Tax	(11,414)	(12,530)	(4,678)	11,142	34,075	0	
Total Liabilities	(820,104)	(777,870)	(778,578)	(771,141)	(363,847)	(7,033)	
P&L Reserves	(45,552)	(50,736)	(48,717)	(38,898)	(20,887)	(11,559)	
Liabilities + Equity	**(865,656)**	**(828,606)**	**(827,294)**	**(810,039)**	**(384,734)**	**(18,592)**	
Earnings Recognition							
Pre-tax earnings at 6.54% implicit rate	60,736	51,945	42,639	32,552	21,968	10,639	220,480
Amortisation of investment	134,344	143,135	152,441	162,528	173,112	234,441	1,000,000
	195,080	195,080	195,080	195,080	195,080	245,080	1,220,480
Net Investment b/f	(1,000,000)	(865,656)	(722,522)	(570,081)	(407,553)	(234,441)	
Net Investment c/f	(865,656)	(722,522)	(570,081)	(407,553)	(234,441)	-	
Gross Investment b/f	1,220,480	1,025,400	830,320	635,240	440,160	245,080	
less: rentals and residual received	(195,080)	(195,080)	(195,080)	(195,080)	(195,080)	(245,080)	(1,220,480)
Gross Investment c/f	1,025,400	830,320	635,240	440,160	245,080	-	
Unearned income b/f	(220,480)	(159,744)	(107,798)	(65,159)	(32,607)	(10,639)	
Earned income	60,736	51,945	42,639	32,552	21,968	10,639	220,480
Unearned income c/f	(159,744)	(107,798)	(65,159)	(32,607)	(10,639)	-	
Net Investment b/f	1,000,000	865,656	722,522	570,081	407,553	234,441	
less: capital element of rentals and residu	(134,344)	(143,135)	(152,441)	(162,528)	(173,112)	(184,441)	(950,000)
less: residual value	-	-	-	-	-	(50,000)	(50,000)
Net Investment c/f	865,656	722,522	570,081	407,553	234,441	-	(1,000,000)

LESSOR — **IMPLICIT RATE OF INTEREST (PRE-TAX)('IR')**

Date	Time Period	Year	Pre-Tax Lease Cash Flows	Discount Factor 6.54% *IR*	Present Value	Cumulative Present Value	Pre-Tax Lease Cash Flows	Allocation: Gross Earnings 6.54% *Implicit Rate*	Allocation: Investment Repaid	Gross Investment
30 Jun 2025	0	0.00	(1,000,000)	1.0000	(1,000,000)	(1,000,000)				(1,000,000)
30 Sep 2025	1	0.25	48,770	0.984150	47,997	(952,003)	48,770	16,105	32,665	(967,335)
31 Dec 2025	2	0.50	48,770	0.968551	47,236	(904,767)	48,770	15,579	33,191	(934,144)
31 Mar 2026	4	0.75	48,770	0.953531	46,504	(858,263)	48,770	12,441	36,329	(900,089)
30 Jun 2026	6	1.00	48,770	0.938581	45,775	(812,488)	48,770	12,146	36,624	(865,656)
30 Sep 2026	8	1.25	48,770	0.923704	45,049	(767,439)	48,770	11,834	36,936	(830,828)
31 Dec 2026	10	1.50	48,770	0.909064	44,335	(723,104)	48,770	11,358	37,412	(795,438)
31 Mar 2027	12	1.75	48,770	0.894966	43,647	(679,457)	48,770	10,594	38,176	(759,198)
30 Jun 2027	14	2.00	48,770	0.880934	42,963	(636,494)	48,770	10,245	38,525	(722,522)
30 Sep 2027	16	2.25	48,770	0.866971	42,282	(594,212)	48,770	9,878	38,892	(685,388)
31 Dec 2027	18	2.50	48,770	0.853230	41,612	(552,599)	48,770	9,370	39,400	(647,656)
31 Mar 2028	20	2.75	48,770	0.839888	40,961	(511,638)	48,770	8,716	40,054	(609,174)
30 Jun 2028	22	3.00	48,770	0.826755	40,321	(471,317)	48,770	8,198	40,572	(570,081)
30 Sep 2028	24	3.25	48,770	0.813687	39,684	(431,634)	48,770	7,772	40,998	(530,467)
31 Dec 2028	26	3.50	48,770	0.800825	39,056	(392,578)	48,770	7,232	41,538	(490,216)
31 Mar 2029	28	3.75	48,770	0.788406	38,451	(354,127)	48,770	6,529	42,241	(449,168)
30 Jun 2029	30	4.00	48,770	0.776045	37,848	(316,279)	48,770	6,061	42,709	(407,553)
30 Sep 2029	32	4.25	48,770	0.763744	37,248	(279,031)	48,770	5,572	43,198	(365,347)
31 Dec 2029	34	4.50	48,770	0.751639	36,657	(242,374)	48,770	4,995	43,775	(322,461)
31 Mar 2030	36	4.75	48,770	0.739983	36,089	(206,285)	48,770	4,295	44,475	(278,770)
30 Jun 2030	38	5.00	48,770	0.728380	35,523	(170,762)	48,770	3,762	45,008	(234,441)
30 Sep 2030	40	5.25	48,770	0.716836	34,960	(135,802)	48,770	3,205	45,565	(189,446)
31 Dec 2030	42	5.50	48,770	0.705474	34,406	(101,396)	48,770	2,590	46,180	(143,727)
31 Mar 2031	44	5.75	48,770	0.694533	33,872	(67,524)	48,770	1,914	46,856	(97,221)
30 Jun 2031	46	6.00	98,770	0.683644	67,524	0	98,770	1,312	97,458	0
			220,480		0		1,220,480	220,480	1,000,000	

LESSOR — **POST-TAX REURN ON EQUITY**

Date	Time Period	Year	Pre-Tax Lease Cash Flows	Debt Principal	Debt Interest & Fees	Pre-Tax Equity Cash Flows	Tax	POST-TAX ROE: Post-Tax Equity Cash Flows	Allocation: Income Post-tax ROE 6.81% 0.00% *Reinvestment Rate*	Allocation: Investment Repaid	Equity Investment 0
30 Jun 2025	0	0.00	(1,000,000)	800,000	-	(200,000)					(200,000)
30 Sep 2025	1	0.25	48,770	-	(10,082)	38,688	-	38,688	3,347	35,341	(164,659)
31 Dec 2025	2	0.50	48,770	-	(10,082)	38,688	-	38,688	2,755	35,933	(128,726)
14 Jan 2026	3	0.54	-	-	-	-	(943)	(943)	325	(1,268)	(129,994)
31 Mar 2026	4	0.75	48,770	-	(9,863)	38,907	-	38,907	1,794	37,113	(92,882)
14 Apr 2026	5	0.79	-	-	-	-	(943)	(943)	235	(1,177)	(94,059)
30 Jun 2026	6	1.00	48,770	-	(9,973)	38,797	-	38,797	1,315	37,482	(56,577)
14 Jul 2026	7	1.04	-	-	-	-	(943)	(943)	143	(1,086)	(57,663)
30 Sep 2026	8	1.25	48,770	-	(10,082)	38,688	-	38,688	817	37,871	(19,792)
14 Oct 2026	9	1.29	-	-	-	-	(943)	(943)	50	(993)	(20,784)
31 Dec 2026	10	1.50	48,770	-	(10,082)	38,688	-	38,688	294	38,393	17,609
14 Jan 2027	11	1.54	-	-	-	-	(153)	(153)	-	(153)	17,456
31 Mar 2027	12	1.75	48,770	-	(9,863)	38,907	-	38,907	-	38,907	56,363
14 Apr 2027	13	1.79	-	-	-	-	(153)	(153)	-	(153)	56,210
30 Jun 2027	14	2.00	48,770	-	(9,973)	38,797	-	38,797	-	38,797	95,008
14 Jul 2027	15	2.04	-	-	-	-	(153)	(153)	-	(153)	94,855
30 Sep 2027	16	2.25	48,770	-	(10,082)	38,688	-	38,688	-	38,688	133,543
14 Oct 2027	17	2.29	-	-	-	-	(153)	(153)	-	(153)	133,390
31 Dec 2027	18	2.50	48,770	-	(10,082)	38,688	-	38,688	-	38,688	172,077
14 Jan 2028	19	2.54	-	-	-	-	(1,795)	(1,795)	-	(1,795)	170,283
31 Mar 2028	20	2.75	48,770	-	(9,945)	38,825	-	38,825	-	38,825	209,107
14 Apr 2028	21	2.79	-	-	-	-	(1,795)	(1,795)	-	(1,795)	207,312
30 Jun 2028	22	3.00	48,770	-	(9,945)	38,825	-	38,825	-	38,825	246,137
14 Jul 2028	23	3.04	-	-	-	-	(1,795)	(1,795)	-	(1,795)	244,342
30 Sep 2028	24	3.25	48,770	-	(10,055)	38,715	-	38,715	-	38,715	283,058
14 Oct 2028	25	3.29	-	-	-	-	(1,795)	(1,795)	-	(1,795)	281,263
31 Dec 2028	26	3.50	48,770	-	(10,055)	38,715	-	38,715	-	38,715	319,978

LESSOR — POST-TAX RETURN ON EQUITY

Date	Time Period	Year	Pre-Tax Lease Cash Flows	Debt Principal	Debt Interest & Fees	Pre-Tax Equity Cash Flows	Tax	Post-Tax Equity Cash Flows	POST-TAX ROE Allocation Income Post-tax ROE	Investment Repaid	Equity Investment
									6.81%		0
									0.00%	*Reinvestment Rate*	
14 Jan 2029	27	3.54	-	-	-	-	(3,137)	(3,137)	-	(3,137)	316,841
31 Mar 2029	28	3.75	48,770	-	(9,863)	38,907	-	38,907	-	38,907	355,748
14 Apr 2029	29	3.79	-	-	-	-	(3,137)	(3,137)	-	(3,137)	352,612
30 Jun 2029	30	4.00	48,770	-	(9,973)	38,797	-	38,797	-	38,797	391,409
14 Jul 2029	31	4.04	-	-	-	-	(3,137)	(3,137)	-	(3,137)	388,272
30 Sep 2029	32	4.25	48,770	(100,000)	(10,082)	(61,312)	-	(61,312)	-	(61,312)	326,960
14 Oct 2029	33	4.29	-	-	-	-	(3,137)	(3,137)	-	(3,137)	323,823
31 Dec 2029	34	4.50	48,770	(100,000)	(8,822)	(60,052)	-	(60,052)	-	(60,052)	263,771
14 Jan 2030	35	4.54	-	-	-	-	(4,232)	(4,232)	-	(4,232)	259,539
31 Mar 2030	36	4.75	48,770	(100,000)	(7,397)	(58,627)	-	(58,627)	-	(58,627)	200,912
14 Apr 2030	37	4.79	-	-	-	-	(4,232)	(4,232)	-	(4,232)	196,679
30 Jun 2030	38	5.00	48,770	(100,000)	(6,233)	(57,463)	-	(57,463)	-	(57,463)	139,217
14 Jul 2030	39	5.04	-	-	-	-	(4,232)	(4,232)	-	(4,232)	134,984
30 Sep 2030	40	5.25	48,770	(100,000)	(5,041)	(56,271)	-	(56,271)	-	(56,271)	78,713
14 Oct 2030	41	5.29	-	-	-	-	(4,232)	(4,232)	-	(4,232)	74,481
31 Dec 2030	42	5.50	48,770	(100,000)	(3,781)	(55,011)	-	(55,011)	-	(55,011)	19,470
14 Jan 2031	43	5.54	-	-	-	-	9,296	9,296	-	9,296	28,766
31 Mar 2031	44	5.75	48,770	(100,000)	(2,466)	(53,696)	-	(53,696)	-	(53,696)	(24,930)
14 Apr 2031	45	5.79	-	-	-	-	9,296	9,296	63	9,233	(15,697)
30 Jun 2031	46	6.00	98,770	(100,000)	(1,247)	(2,477)	-	(2,477)	220	(2,696)	(18,393)
14 Jul 2031	47	6.04	-	-	-	-	9,296	9,296	47	9,250	(9,143)
14 Oct 2031	48	6.29	-	-	-	-	9,296	9,296	153	9,143	0
			220,480	-	(205,068)	15,412	(3,853)	211,559	11,559	200,000	