

Supply Chain Finance for beginners

Q&As

March 2020



Supply Chain Finance (SCF) – Q&As

- This document aims to answer basic questions for
 - Suppliers who may want to access SCF
 - Supply Chain team members who are having initial discussions with suppliers about using SCF

Supply Chain Finance (SCF) – Q&As

- What is Supply Chain Financing?
- Why Supply Chain Financing?
- How does it work?
- What's the catch? (or what's the cost)
- How quickly can I receive payment
- What are the requirements - what do I need to do?
- How long does it take to get access to SCF - I need it now?
- What's the process for signing up? Who do I speak to?
- Is there a minimum term for signing up to SCF?

Supply Chain Finance (SCF) – Q&As

What is Supply Chain Financing?

- All of this is explained in more detail but at a high level:
 - We, EDF, normally clear invoices well ahead of when they are due to be paid under the terms.
 - Supply Chain Financing is a means supplier can get early access - for a very small charge – to payment for the invoices which we, the customer, have cleared and approved through our payment process.
 - The process also allows a supplier to see what invoices are cleared and available for payment and saves having to try to confirm this by email or phone.

Supply Chain Finance (SCF) – Q&As

Why Supply Chain Finance?

- SCF means that if you have invoiced against a Purchase Order and the person who is receiving the goods or services does the validation (Goods Receipt or Service Entry) transaction on our system to let our Accounts Payable team know this, we can clear the invoice for payment. You can then decide whether you want paid now for a small discount or can be paid on the normal date.
- The discount is explained later in the document, but for example if you have an invoice for £100 which has been fully processed and choose to take payment 30 days early, you would receive about £99.86.

Supply Chain Finance (SCF) – Q&As

Can all suppliers use it?

- Almost all. The only suppliers who may not be able to use it are:
 - Those who already use a factoring or invoice discounting scheme; or
 - Those who have given security over their debtors (or accounts receivable) for other purposes to a bank or finance provider.

If you are unsure if this applies to you, please check with your own finance team.

- Even in these circumstances, you may be able to use the facility but Santander would need to discuss that with you and probably your finance provider.

Supply Chain Finance (SCF) – Q&As

How does SCF work?

- It is very simple and explained in more detail further on.
- To set up, you let the bank that runs the scheme – Santander - know that you want to take part
- They will take you through the very simple set up process and let us know that has happened.
- We make a minor change to our system to flag your account as being part of the process
- When the first invoice is available, you sign a two-page agreement with Santander and thereafter you have access to their portal to see invoices available for payment and how much you would receive
- You can then decide if you wish to take payment
- There is no charge if you decide not to take early payment.

Supply Chain Finance (SCF) – Q&As

What's the catch (or what is the cost)?

- The cost is based on the LIBOR rate for the time period (generally one month) and the currency (generally GBP)
 - 1 month LIBOR is currently (@25 March) approximately 0.7% per annum
- An adder for the risk of EDF not paying Santander on the due date.
 - Because there is a low risk of EDF not paying Santander when the invoice is due for payment, this is very low (1.0% per annum).
- When added together this comes to c.1.7%% per year.
- If you are on standard 60 day payment terms and an invoice is cleared such that you can choose to have it paid after 30 days, the amount you would be charged would be about 0.14%. That means for a £100 invoice you would receive £99.86.
- If you choose not to take payment early, you would be paid the invoice in full on the normal due date as is the case today.

On the following page you'll find an example calculation

Supply Chain Finance (SCF) – Q&As

What's the catch (or what's the cost)?

The calculation:

- Libor (0.7%) + Adder (1.0%) = 1.7%
- $1.7\% \times 30 \text{ days early} / 365 \text{ days in the year} = 0.14\%$
 - $1.7\% * 30/365 = 1.7\% * 0.08 = 0.14\%$
- $0.14\% * \text{£}100 = \text{£}0.14$
- $\text{£}100.00 - \text{£}0.14 = \text{£}99.86$

Supply Chain Finance (SCF) – Q&As

How quickly can I receive payment?

- Under normal conditions we will generally have most invoices cleared for payment in less than 20 days against our standard payment terms of 60 days
 - We are aiming to keep to that timescale but the disruption to staffing may cause it to be a bit longer
- Once cleared, the invoice will generally be available the next day and payment the day after that
- There are a variety of options in terms of how payment is triggered. You can opt:
 - to be paid automatically when the invoice is cleared or
 - To choose what invoices to be paid early for or
 - Not to take early payment at all

Supply Chain Finance (SCF) – Q&As

What are the requirements? What do I have to do? How can I ensure this runs as smoothly as possible?

- The key is that the invoice **must be approved for payment**. For this to happen you have to:
 - Have a Purchase Order
 - Invoice accurately against the purchase order (quote the PO number, ensure the details agree, that the EDF entity you are invoicing matches the one on the PO)
 - Submit the invoice in a timely manner, either by post or using Tungsten Networks, our electronic invoice partner. Their contact details are on the last page of this document.
 - WE CAN NOT ACCEPT INVOICES BY EMAIL
 - Tungsten allows c.50 invoices per year free of charge. Above that number there is a charge but this is equivalent to or less than the postage.
 - If you load an invoice to Tungsten, we will normally get it the same day and you will know that we have it.
 - Using Tungsten also allows you to check on the status of invoices and orders through their portal and to create invoices directly from the Purchase Order.

Supply Chain Finance (SCF) – Q&As

What are the requirements? What do I have to do? How can I ensure this runs as smoothly as possible?

- Ensure that the person you are dealing with who ordered the goods or services does the validation transaction.
 - Please note – due to segregation of duties controls, our Accounts Payable team can't do this for the person or for you and can't clear the invoice if this hasn't been done.

Supply Chain Finance (SCF) – Q&As

How long does it take to get access to - I need it now?

- We would expect to enable a supplier within a week of the supplier speaking to Santander and getting the process set up (we don't know what the potential uptake might be at this stage, so in reality this is difficult to predict)
- After the first invoice has been through Santander, the process is very automated.

Supply Chain Finance (SCF) – Q&As

Is there a minimum term for signing up to SCF?

- There is no minimum term for the arrangement. You can sign up and not actually use it, other than to check on the status of invoices
 - If an invoice is visible on the portal it means it will be paid in due course. If it isn't shown, then you know you need to follow up with the person who ordered the goods or services, and potentially contact our Accounts Payable team

Supply Chain Finance (SCF) – Q&As

What is the process for signing up? Who do I speak to?

- Santander Supply Chain Financing
 - You can register on line using the link below
 - www.santandersupplychainfinance.co.uk/bschfyc/onboardingrooms
 - Access code: EDFOR18
 - If you have queries or need further information you can contact
 - confirmingsupplierdeskUK@gruposantander.com or +44 (0) 800 917478
- Tungsten eInvoicing
 - To begin your registration visit: <https://registration.tungsten-network.com/start>
 - If you already have an account click on the “Sign In” link at the bottom of the page
 - Enter your company and user details to create your account
 - Sign into your account and complete the multi-factor authentication
 - Click on Connect to a customer
 - Select EDF GROUP and request to connect
 - Once Tungsten have approved your request you will be ready to send your first invoice.
 - Note that there are a lot of companies already in Tungsten’s network, so registering to send to EDF may mean you can also send to other customers.
 - If you have queries please email
 - register@tungsten-network.com yana.mateva@tungsten-network.com or hayley.mcjill@edfenergy.com