



European Securities and
Markets Authority

Report

**On the use of Alternative Performance Measures and on the
compliance with ESMA's APM Guidelines**



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Acronyms and definitions

<i>Accounting Directive</i>	Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings (as amended by Directive 2014/95/EU)
<i>Ad-hoc disclosures</i>	For the purpose of this report, ad-hoc disclosures mean annual earnings results published to the public according to Article 17 of the Market Abuse Regulation
<i>Applicable financial reporting framework</i>	For the purpose of this study and of the APM Guidelines, any of the following: (i) International Financial Reporting Standards (IFRS) as adopted in the EU pursuant to Regulation (EC) No 1606/2002 on the application of international accounting standards or (ii) the accounting requirements stemming from the transposition of the Accounting Directive (into the legal system of the Member States of the European Union) or (iii) Generally Accepted Accounting Principles (GAAP) laying down equivalent requirements in accordance with Commission Regulation (EC) No 1569/2007 establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant to Directive 2003/71/EC and 2004/109/EC of the European Parliament and of the Council for issuers that are exempted from the requirement of preparing IFRS as endorsed in the EU.
<i>ESMA Regulation</i>	Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority
<i>Financial statements</i>	For the purpose of this study, financial statements refer to annual and half-yearly financial statements and additional periodic financial information prepared in accordance with the applicable financial reporting framework and disclosed by issuers or persons responsible for the prospectus in accordance with the Transparency Directive or the Prospectus Regulation.
<i>Issuer</i>	For the purpose of this study, an issuer is a natural person or a legal entity governed by private or public law, other than a State, whose securities are admitted to trading on a regulated market. In the case of depository receipts admitted to trading on a regulated market, the



issuer means the issuer of the securities represented, whether or not those securities are admitted to trading on a regulated market.

MAR

Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation)

Primary financial statements

For the purpose of this study, primary financial statements comprise the following statements prepared in accordance with paragraph 10 of IAS 1 *Financial Statements Presentation*: (i) statement of financial position as at the end of the period; (ii) statement of profit or loss and other comprehensive income for the period; (iii) statement of changes in equity for the period; (iv) statement of cash flows for the period.

Prospectus

For the purposes of this study, prospectus refers to a document prepared in accordance with the Prospectus Directive.¹

Prospectus Directive (PD)

Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading

Regulated information

All information which the issuer, or any other person who has applied for the admission of securities to trading on a regulated market without the issuer's consent, is required to disclose under the Transparency Directive, under the Market Abuse Regulation, or under the laws, regulations or administrative provisions of a Member State adopted under Article 3(1) of the Transparency Directive (transposition of the Transparency Directive).

Transparency Directive (TD)

Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market

¹ While the Prospectus Directive is repealed by Regulation (EU) 2017/1129 of 14 June 2017 ('Prospectus Regulation') with effect from 21 July 2019, the findings of this report regarding prospectuses are related to the experience of NCAs before the entry into application of the Prospectus Regulation.



Abbreviations

<i>APM</i>	Alternative Performance Measure
<i>APM Guidelines or Guidelines</i>	ESMA Guidelines on Alternative Performance Measures (ESMA/2015/1415)
<i>Capex</i>	Capital expenditure
<i>CEO</i>	Chief Executive Officer
<i>CFA Institute</i>	Chartered Financial Analyst Institute
<i>EBIT</i>	Earnings Before Interest and Taxes
<i>EBITDA</i>	Earnings Before Interest, Taxes, Depreciations and Amortisations
<i>EBT</i>	Earnings Before Tax
<i>EC or Commission</i>	European Commission
<i>ECEP</i>	European Common Enforcement Priorities
<i>EEA</i>	European Economic Area
<i>EFFAS</i>	European Federation of Financial Analysts Societies
<i>EPS</i>	Earnings Per Share
<i>ESMA</i>	European Securities and Markets Authority
<i>ESMA Q&A or Q&A</i>	Questions and Answers on APM Guidelines (ESMA32-51-370)
<i>EU</i>	European Union
<i>FRC</i>	Financial Reporting Council (UK)
<i>FY</i>	Financial Year
<i>GAAP</i>	Generally Accepted Accounting Principles
<i>IAASA</i>	Irish Auditing and Accounting Supervisory Authority
<i>IAS</i>	International Accounting Standards
<i>IASB</i>	International Accounting Standards Board
<i>IFRS</i>	International Financial Reporting Standards
<i>IPO</i>	Initial Public Offering



<i>MR</i>	Management Report
<i>NCA</i>	National Competent Authority
<i>Net Debt / GOP</i>	Net Debt / Gross Operating Profit
<i>NFSA</i>	Norwegian Financial Supervisory Authority
<i>NPL</i>	Non-Performing Loans
<i>OCI</i>	Other Comprehensive Income
<i>R&D</i>	Research and Development
<i>ROE</i>	Return On Equity
<i>ROTE</i>	Return On Tangible Equity

1 Executive summary

Reasons for publication

This report provides an overview of the use of Alternative Performance Measures (APMs) by European issuers and their compliance with the ESMA APM Guidelines (ESMA/2015/1415). The overview builds on a desktop review of the 2018 annual financial reports and ad-hoc disclosures regarding annual earnings results of a sample of 123 issuers and on evidence arising from National Competent Authorities' experience regarding the application of the APM Guidelines in prospectuses.

The review addresses the following key topics: (i) use of APMs² in management reports, ad-hoc disclosures and primary financial statements, (ii) compliance of issuers with the Guidelines in management reports, ad-hoc disclosures and prospectuses.

Use of APMs

Overall, the review shows that all issuers in the sample use APMs in their communications to the market. The number of APMs differs between the different documents and the number of APMs included inside the primary financial statements is significantly lower than the number included in management reports and ad-hoc disclosures.

Most APMs used by issuers in the sample relate to the statement of profit or loss, followed by the statements of financial position and cash flows. Issuers did not disclose any APMs related to other comprehensive income. When analysing the use of APMs by sector of activity and market capitalisation, ESMA observed that, on average, more APMs are disclosed in the energy, health care and financial sectors and by large issuers. Significant differences are found in the type of APMs used between issuers in the non-financial sector and in the financial sector.

The most commonly used APMs in the non-financial sector in both management reports and ad-hoc disclosures are EBIT, Operating Results, EBITDA and Net Debt. Net Interest Income, Cost to Income Ratio and ROE are the most commonly used APMs in the financial sector.

Of the issuers included in the sample, 54% disclose adjusted APMs in their management reports while 63% do so in their ad-hoc disclosures. The most common adjusted APMs are Adjusted EBIT, Adjusted Net Profit, Adjusted EBITDA, Adjusted Net Debt, Adjusted EPS and Adjusted ROE. 17% of issuers in the sample also include adjusted APMs in their primary financial statements.

The most common reconciling items on IFRS figures or non-adjusted APMs are restructuring costs and impairments of assets. While ESMA's APM Guidelines do not establish any specific limitations regarding adjustments, ESMA calls for issuers to exhibit caution when they make adjustments and expects issuers to explain the reasons for such adjustments.

Compliance with the Guidelines

The APM Guidelines became effective in 2016 and constitute the European framework that issuers should apply when disclosing APMs in management reports, ad-hoc disclosures and

² Financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.



prospectuses. When applied consistently by issuers, they improve the comparability, reliability and comprehensibility of financial information, thereby contributing to investor protection. In addition, the APM Guidelines constitute a common basis for enforcement by European authorities.

ESMA reviewed the management reports of 123 issuers and found that only 16 comply with all principles of the APM Guidelines in relation to all APMs used. Furthermore, ESMA reviewed the ad-hoc disclosures of 106 issuers and found that only 10 issuers fully comply with the APM Guidelines. ESMA notes that all the remaining issuers partially complied with the APM Guidelines, either by complying with all principles but not in relation to all APMs or by complying with some principles in relation to all APMs. This compliance level may be due to a lack of identification or understanding of what *is* an APM. In this respect, ESMA highlights that subtotals included inside the primary financial statements such as EBIT, Results of operating activities and ratios also fall under the definition of an APM within the ESMA Guidelines. Therefore, issuers should comply with the Guidelines whenever such APMs are presented outside financial statements.

When analysing compliance with the Guidelines, overall ESMA observed a good level of compliance in relation to the principles on comparatives, consistency and unbiased nature of the APMs reported. On the other hand, shortcomings were identified in relation to compliance with the principles regarding explanations, reconciliations and definitions. These findings apply across all types of documents analysed, including prospectuses. Finally, issuers' overall compliance with the Guidelines is lower in ad-hoc disclosures than in management reports.

Considering its findings, ESMA encourages issuers to improve the transparency of the disclosures provided in relation to APMs. Particular attention should be paid to identifying all APMs used and to the principles on reconciliations, definitions and explanations. ESMA reminds issuers that definitions and reconciliations are two different principles which require different disclosures. As such, definitions should be provided in relation to all APMs used, regardless of whether there are deviations from the commonly used APMs (such as EBITDA). Furthermore, issuers should separately identify all material components and / or all material reconciling line items. As regards explanations, ESMA reminds issuers that explanations should be entity-specific and reflect how the issuer and / or why the investor uses each APM. In view of the high number of APMs disclosed, ESMA lastly encourages issuers to reassess the usefulness of all APMs used. This is particularly relevant when the issuer is unable to provide entity-specific explanations.

Next steps

ESMA expects issuers to consider the findings of this report when preparing management reports, ad-hoc disclosures and prospectuses. To facilitate this process, a set of recommendations is included at the end of the report. ESMA expects that enforcers will (continue to) take appropriate actions whenever material misstatements in connection with the application of the APM Guidelines are identified. With regard to the use of APMs, ESMA will leverage on this study when it responds to the IASB's current work on Primary Financial Statements. ESMA will furthermore continue to closely monitor developments and market practices in relation to the use of APMs. In this respect, ESMA will pay special attention to the expected impact of IFRS 16 *Leases* on the use of APMs in- as well - as outside financial statements.

2 Introduction

2.1 Background

1. ESMA's Guidelines on Alternative Performance Measures (APM Guidelines or Guidelines) became applicable in all EEA countries except Croatia, Denmark and Iceland³ in July 2016. According to the APM Guidelines, an APM is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. The Guidelines are applicable to APMs when such APMs are presented outside the financial statements such as management reports (MR), ad-hoc disclosures (i.e. annual earnings results published in accordance with Article 17 of the Market Abuse Regulation (MAR)) and prospectuses. Examples of APMs are EBITDA, EBIT or Net Debt.
2. In order to promote investor protection, ESMA and European enforcers have continuously monitored European issuers' implementation of the Guidelines since their inception. In its 2015 and 2018 European Common Enforcement Priorities (ECEP), ESMA drew attention to the application of certain principles of the Guidelines.⁴ In 2017, in response to feedback pointing to certain difficulties in the implementation of the Guidelines, ESMA issued a number of Q&As to assist issuers in specific circumstances.⁵
3. In 2017 and 2018, European enforcers have taken a total of 171 actions relating to the application of the APM Guidelines. In 2017, in the context of ESMA's 2015 ECEP, European enforcers examined 170 management reports and took 35 enforcement actions representing an action rate of 20%. In 2018, out of the 746 management reports examined, European enforcers took 136 actions, representing an action rate of 18%.
4. In line with its objective of promoting the effective and consistent application of European legislation (including the Transparency Directive (TD) and by extension the Accounting Directive and MAR), ESMA conducted a study of issuers' implementation of the Guidelines over the course of 2019. This report presents the findings of that study. The report draws on the results of a dedicated desktop analysis of the management reports, primary financial statements and ad-hoc disclosures for a selection of European issuers. In addition, the report provides a qualitative analysis of the application of the Guidelines in prospectuses.

³ Croatia, Denmark and Iceland are still in the process of complying with the APM Guidelines, see [ESMA42-110-812](#).

⁴ [ESMA/2016/1528](#), Public Statement, *European common enforcement priorities for 2016 financial statements*, 28 October 2016.

⁵ [ESMA32-51-370](#), Questions and Answers on ESMA Guidelines on Alternative Performance Measures (APMs), 30 October 2017

2.2 Objective

5. The overall objectives of the study are to gather evidence on the use of APMs, to assess how EU issuers have applied the APM Guidelines since they became effective and to provide informed input into the work of the IASB. More specifically, the study aims to:
 - i. identify the APMs used by issuers inside and outside financial statements;
 - ii. identify the definitions of such APMs (e.g. the most common adjustments to GAAP figures or to non-adjusted APMs); and
 - iii. assess the level of issuers' compliance with the Guidelines.
6. This would allow for:
 - i. an identification of similarities and / or differences at sector / industry level regarding the number of APMs used, their labels and definitions;
 - ii. an identification of similarities and / or differences depending on the size of companies regarding the number of APMs used, their labels and definitions;
 - iii. an understanding of the most common adjustments made to (i) measures defined in the relevant financial reporting framework and (ii) non-adjusted APMs, when these are presented outside the financial statements;
 - iv. an understanding of issuers' compliance with the APM Guidelines in management reports and ad-hoc disclosures, and of whether there are differences in issuer's compliance within these two documents; and
 - v. an understanding of whether there are specific challenges in relation to the application of the Guidelines to APMs within prospectuses.
7. ESMA intends to leverage on the results of this study in its response to projects such as the IASB Primary Statements Project and the IASB Principles of Disclosure Project. For instance, ESMA will be able to provide the IASB with information on the most commonly used APMs in- and outside financial statements. This might facilitate the IASB's assessment of whether it might be helpful to define additional measures in IFRS, and if so which measures, and the identification of areas where the existing IFRS principles may not be sufficient to give a faithful representation of an issuer's performance or business model.⁶

⁶ ESMA notes that issuers often justify the use of APMs as a way to better portray the performance and business model of the company (e.g. entities with significant R&D investment).

3 Methodology

8. The study on the application of the APM Guidelines consisted of three distinct parts: (i) the analysis of the use of APMs in management reports, ad-hoc disclosures and primary financial statements, (ii) a quantitative assessment of issuers' compliance with the APM Guidelines regarding management reports and ad-hoc disclosures and (iii) a qualitative assessment of the application of the APM Guidelines in prospectuses. These three parts of the study had separate methodological approaches, as further explained in the following sections.

3.1 Scope

Management reports, primary financial statements and ad-hoc disclosures

9. The study covered the 2018 annual management reports and 2018 annual earnings releases when these were published in accordance with Article 17 of MAR. In total, the study covered 123 annual financial reports and 106 ad-hoc disclosures.
10. Primary financial statements were only analysed to understand if issuers also include APMs therein. Compliance of issuers with the APM Guidelines in financial statements or the principles included in IAS 1 *Presentation of Financial Statements*⁷ was not addressed in this study.

Prospectuses

11. The qualitative analysis covered feedback from 25 EEA countries. As mentioned in the introduction to this report, the Guidelines are not applied in Croatia, Denmark and Iceland and these countries were therefore not covered in the analysis of how the Guidelines are applied to APMs within prospectuses. Two EEA countries did not provide feedback regarding the application of the APM Guidelines in prospectuses in their jurisdictions.

3.2 Sample

Management reports, primary financial statements and ad-hoc disclosures

12. The study was conducted on a sample of 123 issuers from the 27 EEA countries which apply the APM Guidelines,⁸ representing approximately 40% of the total European equity market capitalisation.⁹ It covered (i) equity issuers of both large and small companies, (ii) all EEA countries where the APM Guidelines are applicable and (iii) various sectors.

⁷ Paragraphs 55A and 85A of IAS 1.

⁸ This excludes Denmark, Croatia and Iceland which currently do not apply the APM Guidelines. Furthermore, no data is included for Liechtenstein.

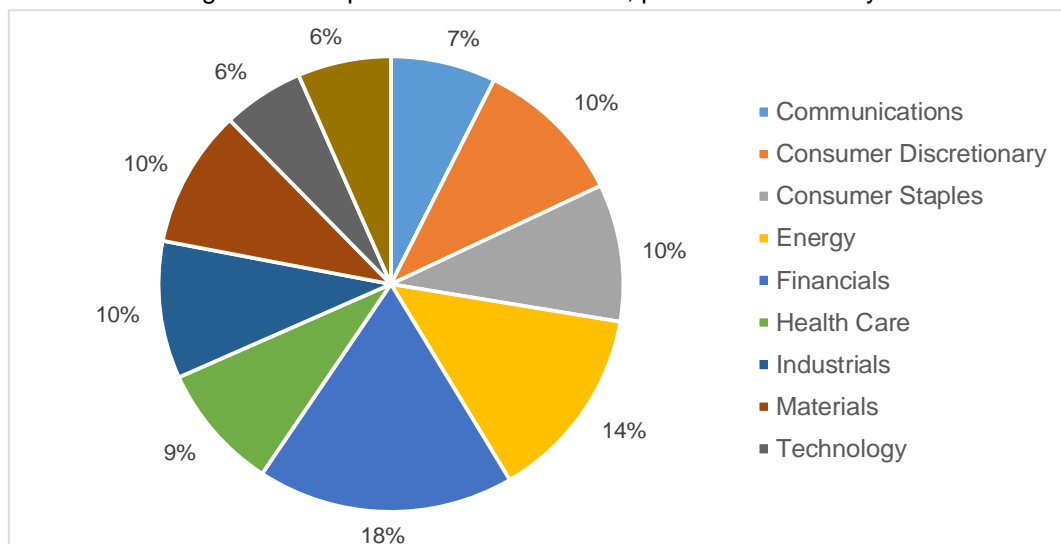
⁹ Data based on ECB Statistical Data Warehouse, please see [here](#).

13. This coverage was ensured by including in the sample:

- i. All Eurostoxx 50 and Stoxx 50¹⁰ companies which prepare IFRS financial statements;
- ii. At least two companies from each EEA country in which the Guidelines are applicable. For countries not represented in the Eurostoxx 50 and Stoxx 50, at least two of the largest companies of their market were included in the sample. Considering the differences in the size of financial markets and companies in Europe, this furthermore ensured that both large and small companies were represented;
- iii. Companies representing all sectors (please see Appendix I).¹¹

14. The chart below shows a breakdown of the sample by sector of activity:

Figure 1: Sample of issuers examined, per sector of activity¹²



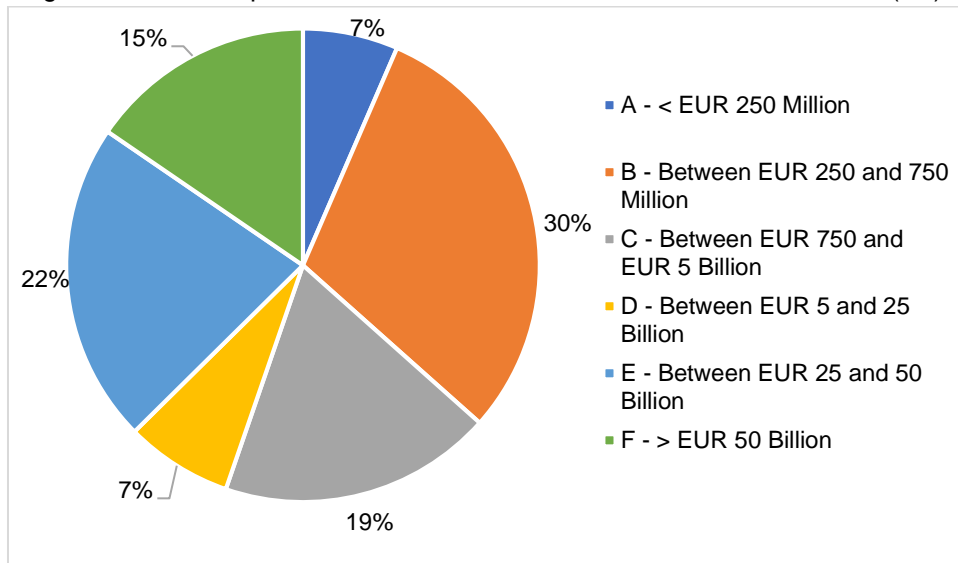
15. The sample was comprised of issuers with a range of market capitalisations, as shown in the chart below.

¹⁰ In the case of UK.

¹¹ For the purpose of the study, ESMA used the Bloomberg Industry Classification Systems (BICS) to classify the sector of activity of the issuers included in the sample (sector level 1).

¹² Appendix I. The financial sector includes insurance companies and real estate companies in accordance with BICS.

Figure 2: Market capitalisation of issuers examined at 31/12/2017 in EUR (mil)



Prospectuses

- The qualitative evidence was based on national competent authorities' (NCAs) experience when approving prospectuses after the application date of the APM Guidelines. Since the effective date of application of the APM Guidelines, NCAs have approved more than 7,000 prospectuses, with most of them containing APMs.¹³

3.3 Collection of evidence

Management reports, primary financial statements and ad-hoc disclosures

- Evidence was collected by way of a questionnaire relating to (i) annual financial reports published pursuant to the TD, focusing on primary financial statements and annual management reports and (ii) ad-hoc disclosures concerning the annual earnings releases.
- Responses to the questionnaire were based solely on a desktop review of the information published by issuers in the documents described above. Additional information was not requested from issuers in order to obtain more insights regarding the labels used or definitions or make a comprehensive assessment regarding the adequacy of the adjustments made.

Prospectuses

- Evidence relating to the application of the Guidelines in prospectuses was collected in a qualitative manner, with NCAs being asked to summarise their assessment of the way the Guidelines were applied in prospectuses under their scrutiny. NCAs were asked to provide narrative, anecdotal feedback based on evidence from their experience applying the Guidelines during the process of scrutinising and approving prospectuses. The provision of examples was encouraged but not required.

¹³ [ESMA31-62-1360](#), Report, *EEA prospectus activity in 2018*, 31 October 2019

3.4 APMs included

20. In order to identify similarities between APMs used, ESMA collected and classified all APMs included in the annual management reports, ad-hoc disclosures and primary financial statements in its sample.
21. Only measures which complied with the definition of an APM¹⁴ were included. Thus, non-financial measures (e.g. physical or sustainability measures), measures defined by the applicable financial reporting framework and measures related to major shareholdings were excluded. Measures included in management reports, ad-hoc disclosures and primary financial statements defined by other applicable legislation also fall outside the scope of the APM Guidelines and were therefore excluded from the analysis as well. When it was unclear whether a measure is set out in other applicable legislation or was not signposted as such (for example by using footnotes), it was gathered and considered an APM for the purpose of the study.
22. APMs which were used to describe both total and segment performance were included only once, unless differences in the definitions and calculations were identified. Whenever ratios were identified, they were collected to the extent that they fulfilled the requirements defined in the APM Guidelines. APMs which were presented only to reflect the variation across periods were not collected, as these lack the aggregated factor¹⁵ usually encountered in the calculation and definition of APMs (e.g. growth of sales or of EBITDA between years). Organic Growth and similar APMs were, however, included.
23. Similar to other studies, and for the purpose of the classification and aggregation of data, all APMs were classified based on the definitions labelled as “Reported” in the European Federation of Financial Analysts Societies (EFFAS) Definition Guide (please see Appendix III).¹⁶ Whenever the APMs presented by issuers in the sample did not follow the definitions labelled as “Reported” in the Definition Guide, they were classified as “Adjusted + original label” (e.g. Adjusted EBITDA). Subsequently, APMs classified as adjusted were compared with the most comparable subtotal included inside financial statements (GAAP figures) or with non-adjusted APMs in order to understand the effect of the adjustments. Descriptive information concerning the nature of such adjustments was also collected in order to identify commonalities on the adjustments made.
24. When definitions were not provided, classification of APMs as adjusted or non-adjusted was based on the label used, i.e. where it was clear from the label that the APM was adjusted, enforcers classified such APMs as adjusted. Conversely, where it was not clear, it was considered that the APM was non-adjusted.

¹⁴ Paragraph 17 to 19 of the APM Guidelines;

¹⁵ Adding or subtracting items of the different natures.

¹⁶ Although ESMA used the EFFAS definition guide when classifying APMs for the purpose of this study, ESMA notes that this document does not form part of the APM Guidelines or guarantees the compliance of issuers with the APM Guidelines, please see [here](#).

3.5 Compliance with the APM Guidelines

25. As mentioned above, the APM Guidelines are applicable to management reports, ad-hoc disclosures and prospectuses.
26. Compliance with the APM Guidelines in management reports and ad-hoc disclosures was assessed quantitatively taking into consideration both the principles included in the Guidelines and the guidance included in ESMA's Q&As on this matter. In Appendix II of this report, it is explained in detail how issuers' compliance with the principles of the APM Guidelines was assessed in management reports and ad-hoc disclosures.
27. Compliance with the APM Guidelines in prospectuses was assessed qualitatively because the submission of a prospectus for approval by a NCA does not occur on a regular basis, as issuers only draw up a prospectus when they decide to offer securities to the public and / or seek admission to trading on a regulated market. Due to the lack of regularity of prospectuses, including them in the analysis on an equal footing with management reports and ad-hoc disclosures would impair any analysis performed with respect to the comparability, comprehensibility and transparency on the use of APMs between entities or industries.

4 Issuers' use of APMs

28. This chapter analyses the use of APMs inside management reports, ad-hoc disclosures and the primary financial statements. Consistent with the methodology, this chapter aims to:
 - i. identify similarities and / or differences at sector level regarding the number of APMs used, their labels and definitions;
 - ii. identify similarities and / or differences depending on the size of companies regarding the number of APMs used, their labels and definitions; and
 - iii. shape an understanding of the most common adjustments made to measures defined in the relevant financial reporting framework or to non-adjusted APMs following the EFFAS Definition Guide.
29. The objective of this fact-finding exercise is to provide the IASB with input regarding which APMs are more commonly used by issuers for the purpose of their standard-setting project on Primary Financial Statements. In this respect, ESMA highlights that IFRS define very few measures and thus issuers often include APMs in their public documents in order to describe their performance.
30. Furthermore, ESMA notes that the APM Guidelines contain reliefs in the application of their principles if such APMs are included simultaneously in- and outside financial statements,¹⁷ notably in relation to reconciliations.

¹⁷ Paragraphs 17 to 19 of the APM Guidelines & ESMA Q&A 2 on APMs.

4.1 Number of APMs in management reports and ad-hoc disclosures

31. All issuers in the sample use APMs in their communications to the market. This is consistent with other studies which have identified a wide use of APMs by issuers in published documents when describing their financial performance.¹⁸ Out of the 229 observations (123 management reports and 106 ad-hoc disclosures), a total of 3,210 APMs were collected, representing 385 different types of APMs.
32. The reason there are 123 management reports and 106 ad-hoc disclosures in the sample is that not all issuers in the sample published annual earnings results in accordance with Article 17 of the Market Abuse Regulation.
33. Issuers in the sample, on average, disclose around 14 APMs in ad-hoc disclosures and management reports. In this respect, it is important to highlight that issuers disclose more APMs in management reports than in ad-hoc disclosures (16 APMs versus 12 APMs on average). The difference in number of APMs between management reports and ad-hoc disclosures can be explained by the fact that ad-hoc disclosures are usually short documents containing the main highlights of the performance of an issuer. On the other hand, management reports are usually long documents of more than 100 pages that include a detailed description of the performance and the main events related to an issuer during a specific reporting period.
34. This study shows that issuers in the energy, financial and health care sectors report more APMs than issuers belonging to other industries (15 APMs on average). In this respect, it is important to recall that in accordance with ESMA's Q&A 3, financial ratios composed exclusively of figures included in financial statements also fall within the definition of an APM. Therefore, in the absence of information in the management report or in ad-hoc disclosures which signposted that the ratios are defined by applicable legislation other than the applicable financial reporting framework,¹⁹ all ratios were considered as APMs for the purpose of the study. This is of particular relevance in the financial sector, as it is common to disclose a significant number of financial and prudential ratios. As regards the health care sector, most issuers in the sample were pharmaceutical companies. The use of APMs in this sector may be related to the fact that companies often adjust IFRS figures to illustrate the effects of their investments in Research and Development.
35. Issuers in the communications, materials and utilities sectors on average disclose fewer APMs in both management reports and ad-hoc disclosures than other issuers.

¹⁸ Mazars. 2016. The use of Alternative Performance Measures in financial information – Current practice of European Listed Issuers.

¹⁹ E.g. prudential regulation or national legislation addressing ratios to be used in the insurance and banking sector

Table 1: Use of APMs in MR and ad-hoc disclosures, by sector, 2018

Sectors/ Document	APMs in MR				APMs in Ad-hoc disclosures				Average MR/Ad-hoc discl.
	N. APMs	N. Issuers ¹	Average	St. Dev	N. APMs	N. Issuers ²	Average	St. Dev	
A- Communications	110	8	14	5.47	65	6	11	3.80	12
B- Consumer Discretionary	187	12	16	6.59	104	11	9	7.09	13
C- Consumer Staples	184	13	14	7.51	162	12	14	6.12	14
D- Energy	335	20	17	6.12	230	18	13	9.40	15
E- Financials	369	22	17	8.04	268	19	14	7.59	15
F- Health Care	202	11	18	7.92	108	9	12	6.60	15
G- Industrials	234	16	15	7.02	152	13	12	7.28	13
H- Materials	105	8	13	8.22	80	7	11	7.58	12
I- Technology	101	7	14	5.39	67	5	13	7.06	14
J- Utilities	82	6	14	5.47	65	6	11	6.31	12
Total	1,909	123	16	7.19	1,301	106	12	7.50	14

¹ 2018 annual management report was analysed in this study

² 2018 annual earnings results ad-hoc disclosure was analysed in this study

36. Although the table above demonstrates that the use of APMs is transversal to all sectors, the extent of their use varies significantly between issuers, even within a given sector. For example, while the average indicates that issuers in the financial sector report around 17 APMs in the management report, this varied from 9 to 37 APMs disclosed.
37. The standard deviation shows the diversity on the number of APMs used amongst issuers within a given sector. Issuers in the financial and materials sectors present the larger difference in the number of APMs used in management reports. Conversely, issuers in utilities and communications present the lowest standard deviation in the number of APMs used.

Table 2: Use of APMs in MR and ad-hoc disclosures, by market capitalisation, 2018

Market Capitalisation/ Document	APMs in MR				APMs in Ad-hoc Disclosures				Average MR/Ad-hoc discl.
	N. APMs	N. Issuers ¹	Average	St. Dev	N. APMs	N. Issuers ²	Average	St. Dev	
A - < EUR 250 million	74	7	11	5.75	41	6	7	4.98	9
B - Between EUR 250 and 750 Million	156	10	16	7.94	102	10	10	7.87	13
C - Between EUR 750 Million and EUR 5 Billion	302	23	14	6.47	193	21	9	5.42	12
D - Between EUR 5 Billion and 25 Billion	365	19	17	7.13	243	15	16	7.19	17
E - Between EUR 25 Billion and 50 billion	557	32	19	7.59	401	31	13	8.45	16
F - > EUR 50 Billion	455	32	13	5.54	321	23	14	6.09	14
Total	1,909	123	16	7.19	1,301	106	12	7.50	14

¹ 2018 annual management report was analysed in this study

² 2018 annual earnings results ad-hoc disclosure was analysed in this study

38. When comparing the use of APMs by size of issuers, the study shows that smaller issuers used less APMs. On average, issuers with a market capitalisation below 250 million EUR used the lowest number of APMs in the management report and ad-hoc disclosures, only 9 APMs.²⁰ On the other hand, issuers with a market capitalisation between 5 and 25 billion EUR used, on average, 17 APMs.

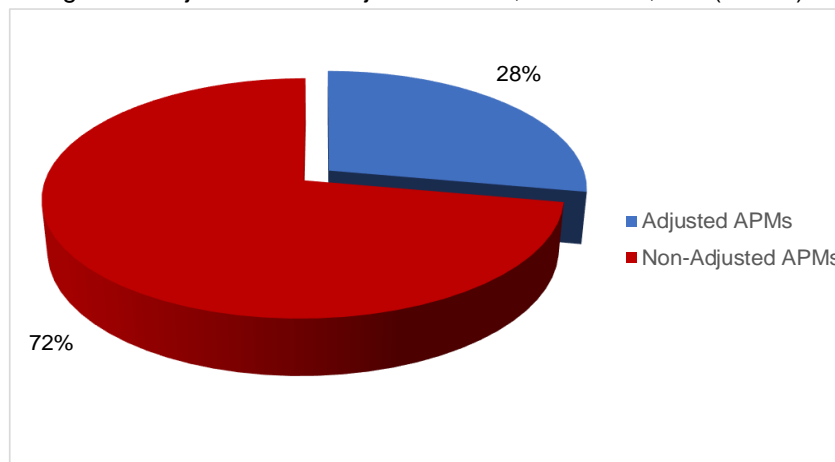
²⁰ This number is the average between APMs included in the management report and ad-hoc disclosures.

39. The study shows that there are similarities in the type of APMs used by issuers in the non-financial sector. Issuers belonging to the financial sector also tend to use similar types of APMs. Differences are, however, identified in the type of APMs used between the financial and the non-financial sectors.

4.2 Most common APMs used in management reports

40. The following subsections illustrate the most common adjusted and non-adjusted APMs reported by issuers in management reports.
41. Taking into account that not all definitions of APMs were provided in the management report, enforcers were not able to identify all adjusted / non-adjusted APMs only based on the labels used. Therefore, when the issuer did not provide the definition and it was not clear from the label that the APM was adjusted, the APM was considered to be non-adjusted. Consequently, had all definitions been provided, the percentage of adjusted APMs compared with the total could have increased.
42. With the above clarifications in mind, from a total of 1,909 APMs disclosed in management reports, enforcers classified 532 APMs as adjusted, representing 28% of the total number of reported APMs.

Figure 3: Adjusted / non-adjusted APMs, all sectors, MR (n=123)



43. 54% of the issuers in the sample use at least one adjusted APM in their management report (Table 3).²¹ Issuers belonging to financial and energy sectors include the highest number of adjusted APMs in the management report. In this respect, it is important to highlight that out of the 22 issuers belonging to the financial sector in the sample, 73% report adjusted APMs.²²
44. On average, issuers in the sample disclose 9 adjusted APMs in the management report. Issuers in the communication and consumer staples sectors disclose the highest average number of APMs, while issuers in the financial sector disclose the lowest average number of APMs.

²¹ 67 issuers out of 123 issuers in the sample.

²² 16 issuers in the financial sector / 22 in the total sample.

Table 3: Use of Adjusted APMs in MR, by sector, 2018

Sectors	N. Adjusted APMs	%	N. Issuers	Adjusted APMs/ issuer (average)
A- Communications	35	7%	3	12
B- Consumer Discretionary	47	9%	8	6
C- Consumer Staples	65	12%	5	13
D- Energy	87	16%	8	11
E- Financials	83	16%	16	5
F- Health Care	62	12%	7	9
G- Industrials	61	11%	9	7
H- Materials	30	6%	3	10
I- Technology	30	6%	4	8
J- Utilities	32	6%	4	8
Total	532	100%	67	9

45. Finally, issuers with a larger market capitalisation report a higher number of adjusted APMs compared with small issuers as illustrated in the following table. Issuers with a market capitalisation below 250 million EUR do not disclose any adjusted APMs.

Table 4: Use of Adjusted APMs in MR, by market capitalisation, 2018

Market Capitalisation	N. Adjusted APMs	%
A - < EUR 250 million	0	0%
B - Between EUR 250 and 750 Million	33	6%
C - Between EUR 750 Million and EUR 5 Billion	75	14%
D - Between EUR 5 Billion and 25 Billion	94	18%
E - Between EUR 25 Billion and 50 billion	169	32%
F - > EUR 50 Billion	161	30%
Total	532	100%

4.2.1 Non-adjusted APMs

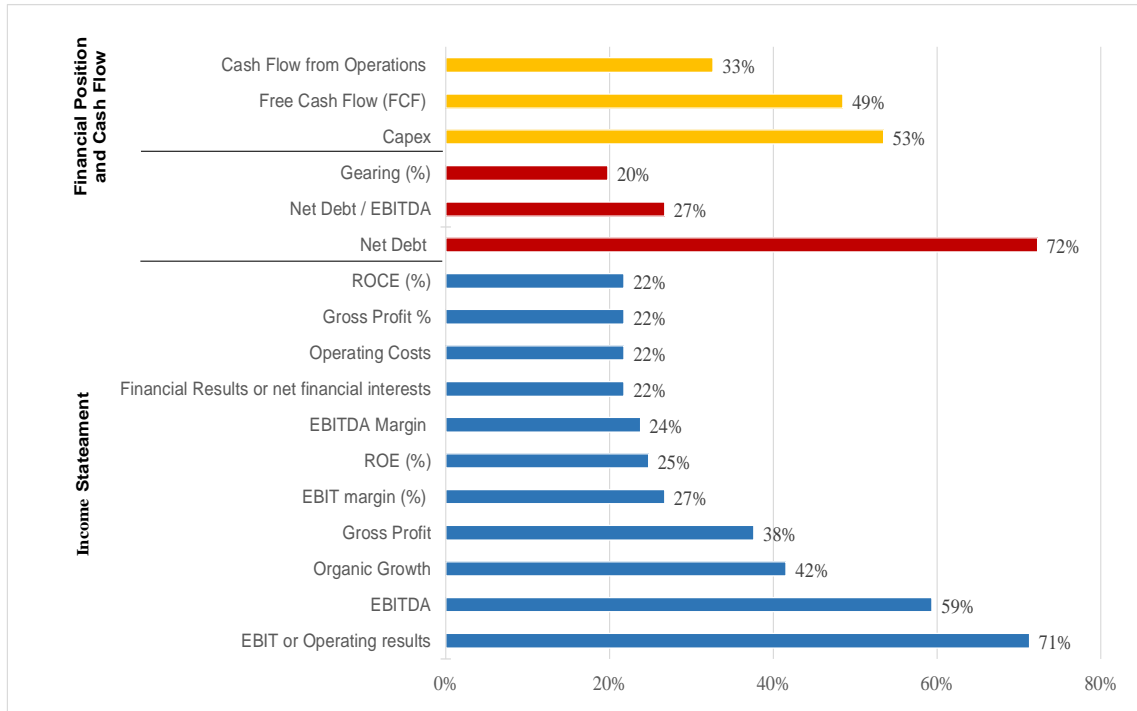
46. Considering the similarities and differences in the type of APMs used mentioned in paragraph 39, in the following subsections, the study focuses on the differences between the APMs used in the non-financial sector compared to the APMs used in the financial sector.

Non-financial sector

47. The graphic below shows that the majority of APMs reported relate to the statement of profit or loss. EBIT or Operating Results, followed by EBITDA, Organic Growth and Gross Profit are the most commonly used by issuers in the sample.
48. With respect to APMs related to the statement of financial position, the most common APMs are Net Debt and the Net Debt / EBITDA and Gearing ratios.

49. Finally, from the APMs related to the statement of cash flows, Capex, Free Cash Flow and Cash Flows from Operations are reported more frequently by the issuers in the sample. None of the issuers analysed disclose APMs related to the statement of other comprehensive income (OCI) in their management report.

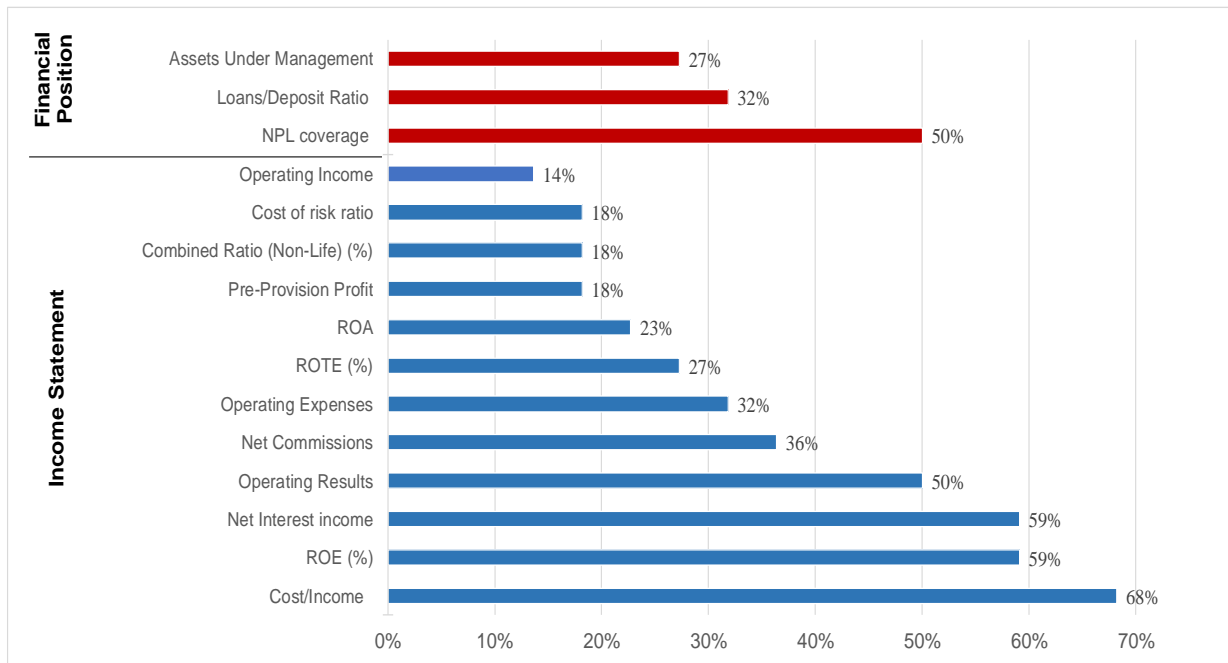
Figure 4: Most common non-adjusted APMs, non-financial sectors, MR (n=101)



Financial sector

50. As was the case for the non-financial sector, the graphic below shows that the majority of APMs reported by issuers in the financial sector relate to the statement of profit or loss. The Cost to Income Ratio and Return on Equity (ROE) are reported more frequently. Net Interest Income, Operating Results or Net Commissions (Net Commission Income) are also commonly reported by issuers in the financial sector.
51. With respect to APMs related to the statement of financial position, the most common APMs reported relate to the credit quality of the loan portfolio, such as NPL Coverage. Liquidity ratio Loan / Deposit Ratio and Assets Under Management are also reported frequently.
52. Conversely to the non-financial sector and with the exception of issuers whose activity is related to real estate business, issuers in the financial sector rarely provide APMs related to cash flows. This may be due to fact that the statement of cash flows as prescribed by IAS 7 *Statement of Cash Flows* (with the notions of operating / investing and financing cash flows) might not be considered relevant for the financial sector.

Figure 5: Most Common non-adjusted APMs, financial sector, MR (n=22)

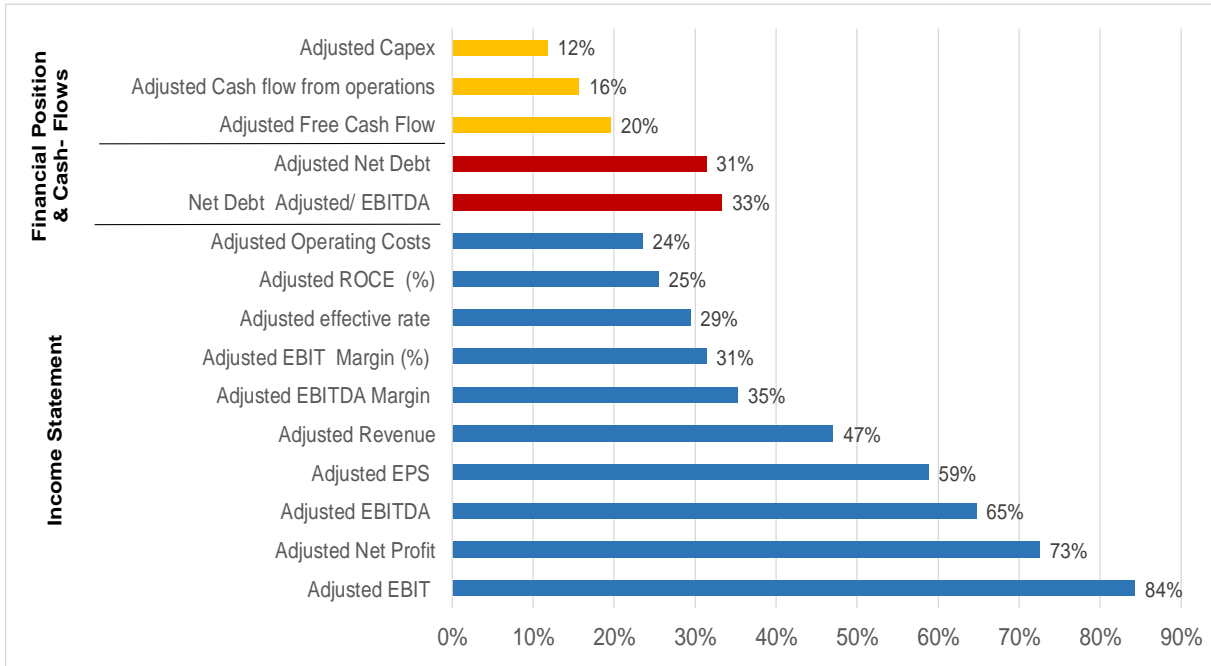


4.2.2 Adjusted APMs

Non-financial sector

53. With regard to the use of adjusted APMs in the non-financial sector, the most common adjusted APMs reported relate to the statement of profit or loss, such as EBIT or Operating Results. It should be noted that some issuers disclose more than one Adjusted EBIT in the management report, i.e. issuers sometimes adjust EBIT to remove different items or to exclude for instance the effects of exchange rates.
54. Adjusted Net Profit, Adjusted EBITDA and Adjusted EPS are also frequently reported by issuers in the non-financial sector.
55. With regard to APMs related to the statement of cash flows and financial position, the most common adjusted APMs are Adjusted Net Debt, Net Debt / EBITDA – either Adjusted Net Debt / EBITDA or Net Debt / Adjusted EBITDA – Adjusted Free Cash Flows and Adjusted Cash Flows from Operations.
56. Although there is some convergence regarding the type of APMs used, the labels and definitions used for each type of APM still differ significantly from one issuer to another, even within the same industry. However, some similarities were found in the use of certain labels by issuers located in the same country (e.g. issuers in one jurisdiction often use the label “recurring” when disclosing adjusted APMs).

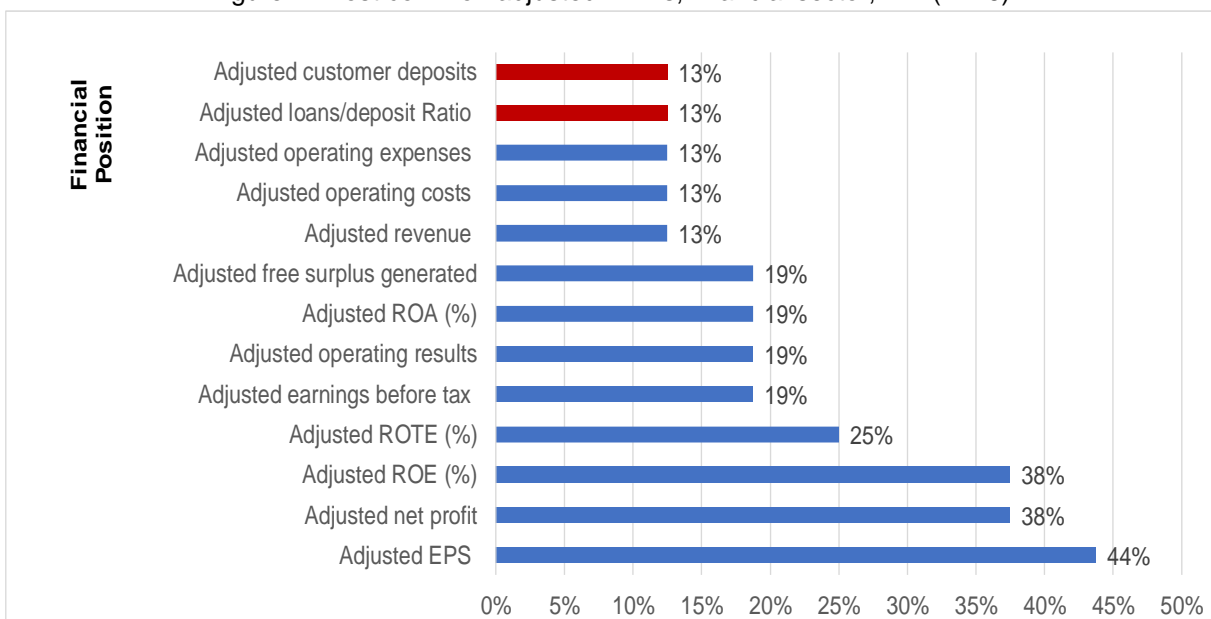
Figure 6: Most common adjusted APMs, non-financial sectors, MR (n=51)



Financial sector

57. With regard to the use of adjusted APMs in the financial sector, the most common adjusted APMs reported also relate to the statement of profit or loss. Adjusted EPS, Adjusted Net Profit and Adjusted ROE are reported frequently by issuers in the financial sector.
58. As regards APMs related to the statement of financial position, the most common adjusted APMs are the Adjusted Loans / Deposits ratio and Adjusted Customer Deposits.

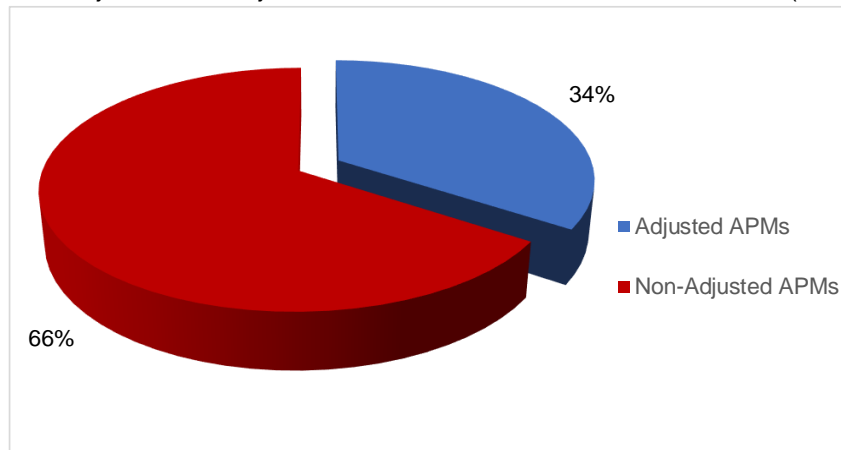
Figure 7: Most common adjusted APMs, financial sector, MR (n=16)



4.3 Most common APMs used in ad-hoc disclosures

59. The following subsections illustrate the most common adjusted and non-adjusted APMs reported by issuers in ad-hoc disclosures, both in the financial and non-financial sector.
60. Not all definitions of APMs were provided in the ad-hoc disclosures analysed and sometimes no link was found to a document where these definitions were included. Therefore, it was not always possible to identify all adjusted / non-adjusted APMs solely based on the labels used. When this was the case, the APM was considered non-adjusted. Therefore, had definitions been provided, the percentage of adjusted APMs compared with the total could have increased.
61. Out of a total of 1,301 APMs disclosed in ad-hoc disclosures, 447 APMs are adjusted, representing 34% of the total number of reported APMs. Despite the fact that the sample size differs from management reports (123 management reports vs. 106 ad-hoc disclosures), the number of issuers disclosing adjusted APMs in ad-hoc disclosures is higher increases. Indeed, some issuers disclose adjusted APMs in ad-hoc disclosures but not in the management report.

Figure 8: Adjusted/non-adjusted APMs, all sectors, ad-hoc disclosures (n=106)



62. Out of 106 ad-hoc disclosures analysed, 65% of issuers include adjusted APMs²³ (Table 5) which is significantly higher than the 54% of issuers using adjusted APMs in management reports.

²³ 69 out of 106 issuers include adjusted APMs in ad-hoc disclosures.

Table 5: Use of Adjusted APMs in ad-hoc disclosures, by sector, 2018

Sectors	N. Adjusted APMs	%	N. Issuers	Adjusted APMs / Issuer (average)
A- Communications	16	4%	4	4
B- Consumer Discretionary	38	9%	6	6
C- Consumer Staples	56	13%	8	7
D- Energy	74	17%	11	7
E- Financials	78	17%	10	8
F- Health Care	38	9%	5	8
G- Industrials	64	14%	10	6
H- Materials	24	5%	5	5
I- Technology	30	7%	5	6
J- Utilities	29	6%	5	6
Total	447	100%	69	6

63. When comparing the use of adjusted APMs within sectors, it can be concluded that issuers that disclose adjusted APMs generally include them in both documents. Exceptions are, however, identified in the sectors of communications and utilities, where some issuers only include adjusted APMs in the ad-hoc disclosures but not in the management report.
64. The use of adjusted APMs is also more prevalent in larger issuers than small size issuers. This finding is consistent with the analysis related to the use of adjusted APMs in management reports.

Table 6: Use of Adjusted APMs in ad-hoc disclosures, by market capitalisation, 2018

Market Capitalisation	N. Adjusted APMs	%
A - < EUR 250 million	1	0%
B - Between EUR 250 and 750 Million	19	4%
C - Between EUR 750 Million and EUR 5 Billion	63	14%
D - Between EUR 5 Billion and 25 Billion	73	16%
E - Between EUR 25 Billion and 50 billion	158	35%
F - > EUR 50 Billion	133	30%
Total	447	100%

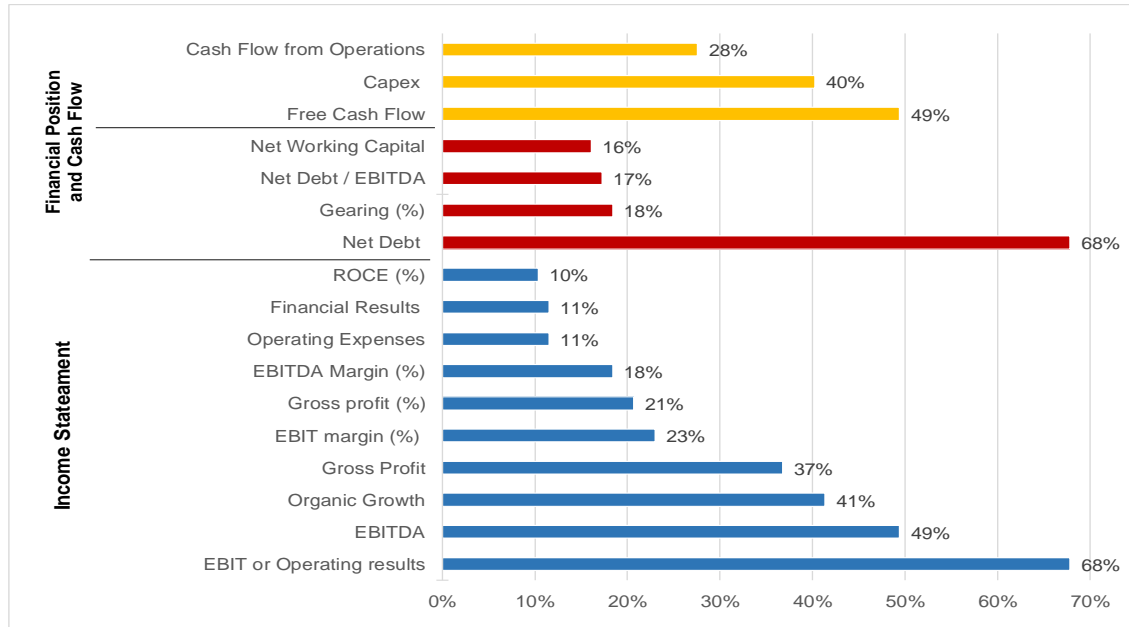
4.3.1 Non-adjusted APMs

Non-financial sector

65. As was the case for the management report, the graphic below shows that the majority of APMs disclosed in ad-hoc disclosures relate to the statement of profit or loss. EBIT or Operating Results, EBITDA, Organic Growth and Gross Profit are the non-adjusted APMs used more frequently by issuers in the non-financial sectors.
66. With respect to APMs related to the statement of financial position, the most commonly reported APM is Net Debt.

67. Finally, from the APMs related to the statement of cash flows, Free Cash Flow, Capex and Cash Flows from Operations are the APMs more commonly used by issuers in the non-financial sector. Again, no issuers in the sample include APMs related to OCI in their ad-hoc disclosures.

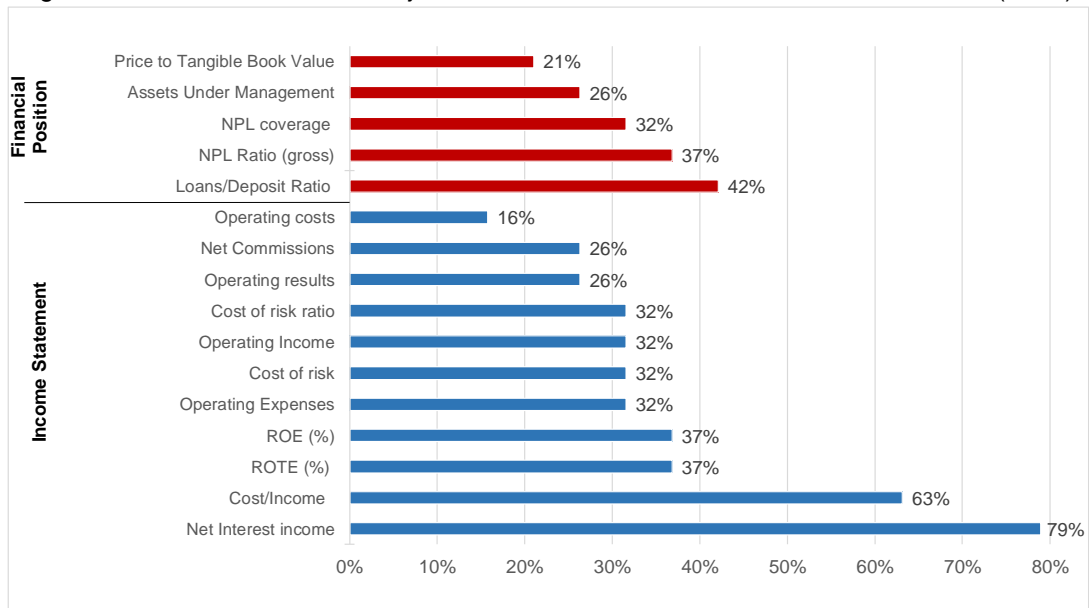
Figure 9: Most common non-adjusted APMs, non-financial sector, ad-hoc disclosures (n=87)



Financial sector

68. As was the case for the non-financial sector, the graph below shows that the majority of APMs reported by issuers in the financial sector relate to the statement of profit or loss. Net Interest Income and Cost to Income Ratio are the most frequently reported APMs. With respect to the statement of financial position, the most common APMs reported are Loan / Deposit Ratio, NPL Gross Ratio and NPL coverage, and Assets Under Management.

Figure 10: Most Common non-adjusted APMs, financial sector, ad-hoc disclosures (n=19)

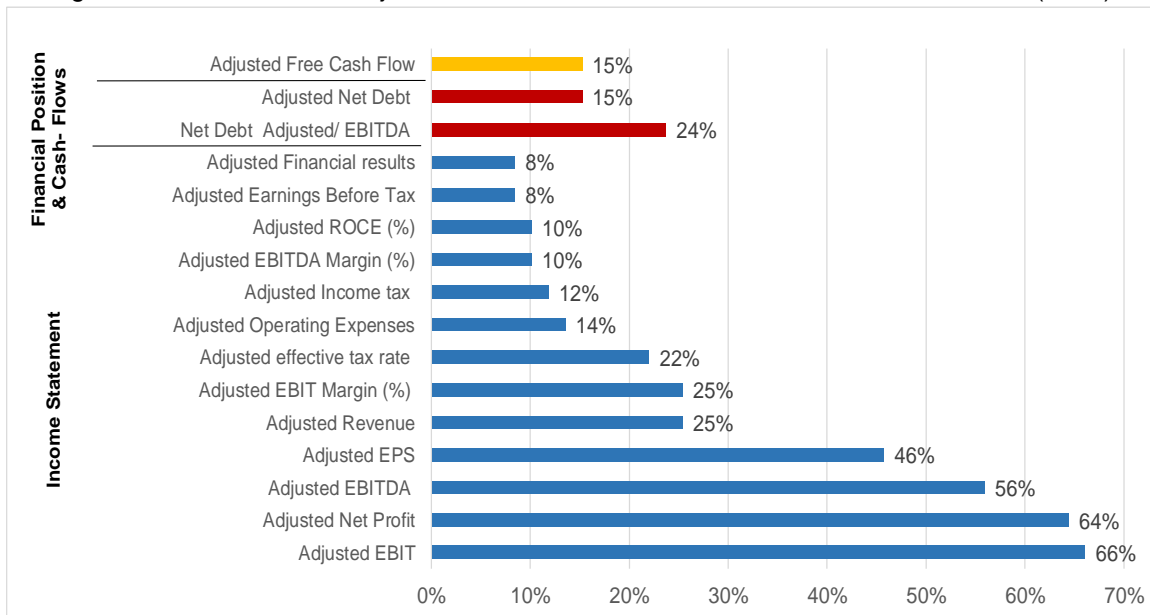


4.3.2 Adjusted APMs

Non-financial sector

69. As regards the use of adjusted APMs in the non-financial sector, the most common adjusted APMs reported relate to the statement of profit or loss and, in particular, to EBIT or Operating Results. It should be noted that sometimes issuers disclose more than one Adjusted EBIT in the ad-hoc disclosures to remove different items. Adjusted Net Profit, Adjusted EBITDA and Adjusted EPS are also reported frequently by issuers in the non-financial sector.
70. With regard to APMs related to cash flows and financial position, the most common adjusted APMs are Net Debt / EBITDA – either Adjusted Net Debt / EBITDA or Net Debt / Adjusted EBITDA – Adjusted Net Debt and Adjusted Free Cash Flows.
71. Although there is some convergence regarding the type of APMs used, labels and definitions used for each type of APM still differ significantly from country to country, between industries and from issuer to issuer.

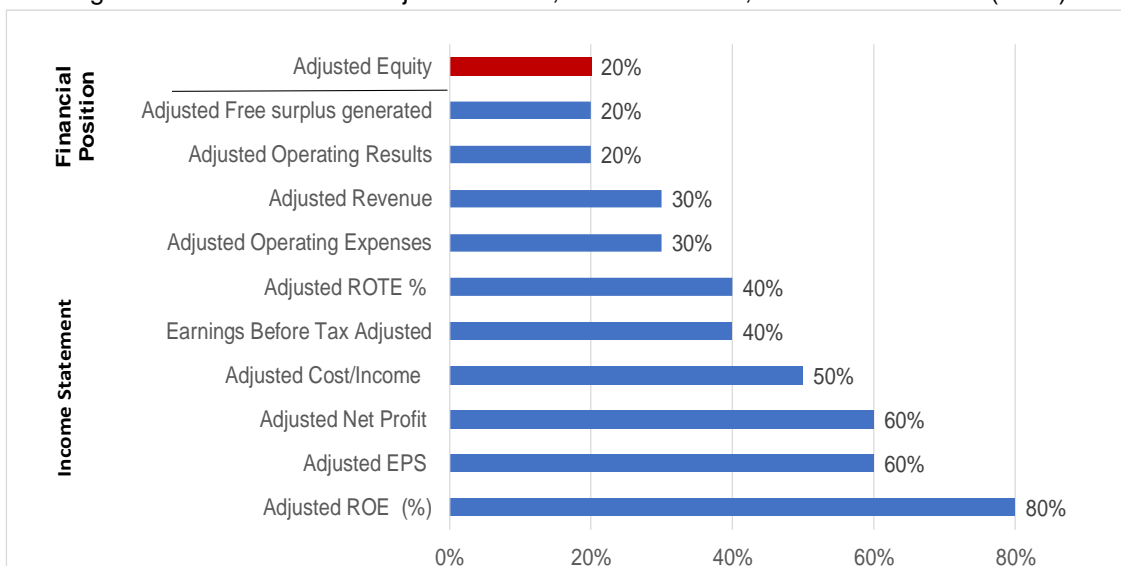
Figure 11: Most common adjusted APMs, non-financial sectors, ad-hoc disclosures (n=59)



Financial sector

72. With regard to the use of adjusted APMs in the financial sector, the most common adjusted APMs also relate to the statement of profit or loss. Adjusted ROE, Adjusted EPS and Adjusted Net profit are the adjusted APMs reported most frequently by issuers.
73. With regard to APMs related to the statement of financial position, the most common adjusted APM is Adjusted Equity.

Figure 12: Most common Adjusted APMs, financial sector, ad-hoc disclosures (n=10)



4.4 Most common APMs included in the primary financial statements

74. Taking into account that the IASB's Primary Financial Statements Project focuses on the subtotals included in the statement of profit or loss and OCI, this chapter also addresses the use of APMs in the statement of profit or loss and OCI.
75. Out of the 123 issuers analysed, only 8 issuers (7%) do not include any APMs in the statement of profit or loss.²⁴ While the use of APMs in the primary financial statements is significantly lower than in management reports or ad-hoc disclosures, issuers still include a significant number of APMs in their primary financial statements. Overall, issuers in the sample disclosed 342 APMs inside the primary financial statements representing an average of 3 APMs per issuer (compared with 14 APMs disclosed in the management report and ad hoc disclosures).²⁵
76. Although the large majority of the APMs used are not adjusted,²⁶ 17% of issuers in the sample which reported APMs disclose adjusted APMs in the statement of profit or loss.

4.4.1 Non-adjusted APMs

77. The most common non-adjusted APMs disclosed by issuers belonging to the non-financial sector are EBIT or Operating Results, followed by Gross Profit and Financial Results. Issuers in the financial sector frequently disclose Net Interest Income, Operating Results and Net Commissions in the statement of profit or loss.

Figure 13: Most common non-adjusted APMs, non-financial sector, Primary FS (n=96)

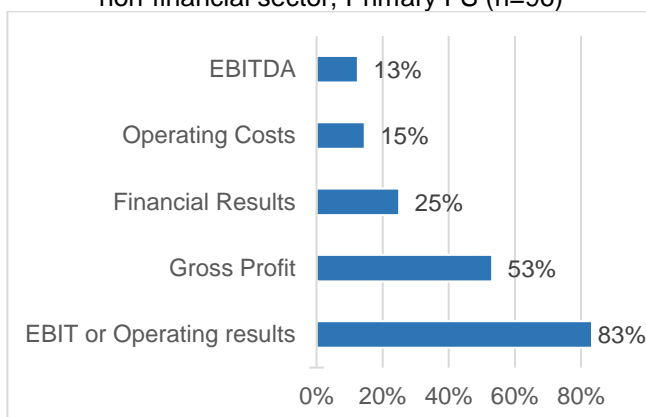
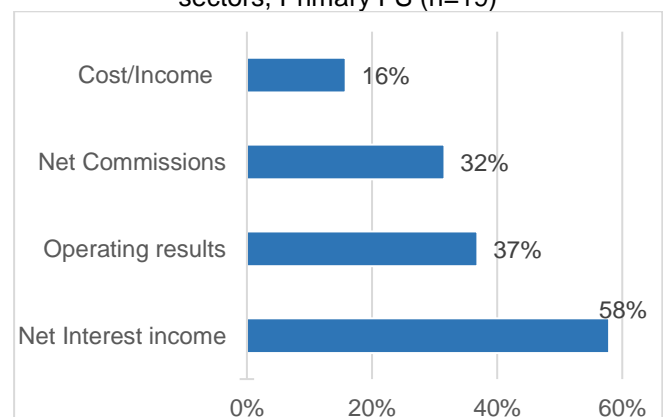


Figure 14: Most common non-adjusted APMs, financial sectors, Primary FS (n=19)



²⁴ Five issuers in the non-financial sector and three in the financial sector.

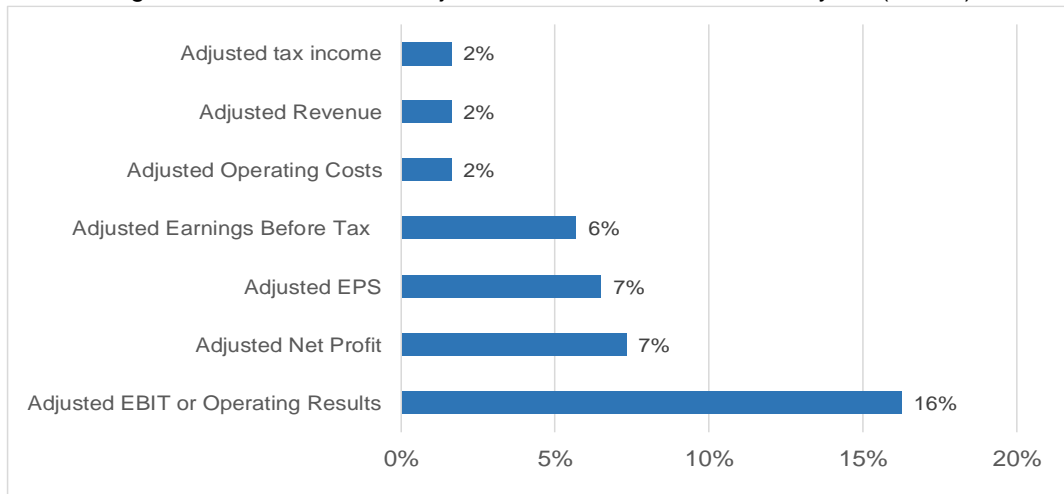
²⁵ Excluding the eight issuers which do not include APMs inside the primary financial statements.

²⁶ Please refer to Appendix III (EFFAS Definition Guide).

4.4.2 Adjusted APMs

78. In relation to adjusted APMs, the most common APMs presented on the face of the statement of profit or loss are Adjusted EBIT or Operating results, Adjusted Net Profit and Adjusted EPS. No significant differences are found when comparing adjusted APMs included as subtotals in the financial and non-financial sector.

Figure 15: Most common adjusted APMs, all sectors, Primary FS (n=115)



4.4.3 Presentation of share of equity method results

79. In light of the current developments in the IASB's Primary Financial Statements Project, ESMA also analysed how issuers with material investments in associates and joint ventures presented the share of results derived from the equity method in the statement of profit or loss. I.e. whether the share of the profit or loss of investments accounted for using the equity method were included within the subtotal of Operating Results / EBIT inside financial statements.
80. The study shows that around 67% of 89 subtotals classified as EBIT, Operating Results or Adjusted Operating Results / EBIT in the statement of profit or loss did not include the share of the profit or loss of investments accounted for using the equity method.

4.5 Most common reconciling items on non-adjusted APMs / IFRS figures

81. As mentioned earlier in the report, only the adjustments disclosed or included in the definitions were considered in this report.
82. Adjustments made to IFRS measures differ significantly from one issuer to another, even within the same sector of activity. However, what seems to be consistent among issuers in the sample that presented adjusted IFRS figures is that most adjustments relate to costs or expenses (such as restructuring, impairment or litigation costs) rather than income. Hence, often the adjusted APMs portray a more positive assessment of an

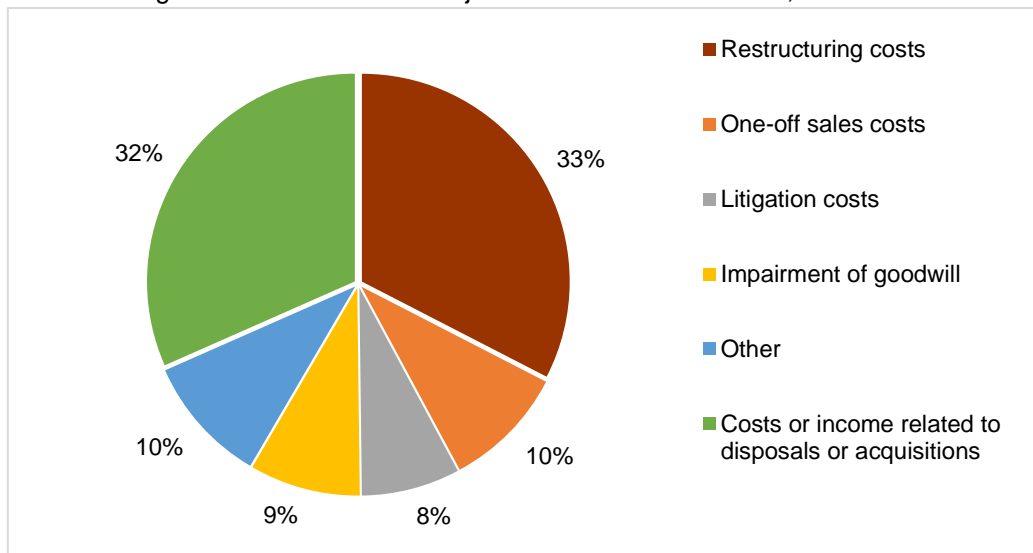
issuer's performance than the disclosed IFRS measures,²⁷ subtotals included inside financial statements or non-adjusted APMs. These findings are consistent with findings in other studies.²⁸

83. The following graphics illustrate the most common adjustments made to EBITDA, EBIT, Net Profit and Net Debt as disclosed in management reports and ad-hoc disclosures. Taking into consideration the consistency of the APMs included in management reports and ad-hoc disclosures, the findings regarding the type of adjustments made to adjusted APMs or IFRS figures are valid for both documents.

Adjusted EBITDA

84. The graph below shows that restructuring costs and cost or income related to disposals or acquisitions of associates and subsidiaries are the most common adjustments made to the EBITDA figures.

Figure 16: Most common adjustments made to EBITDA, all sectors



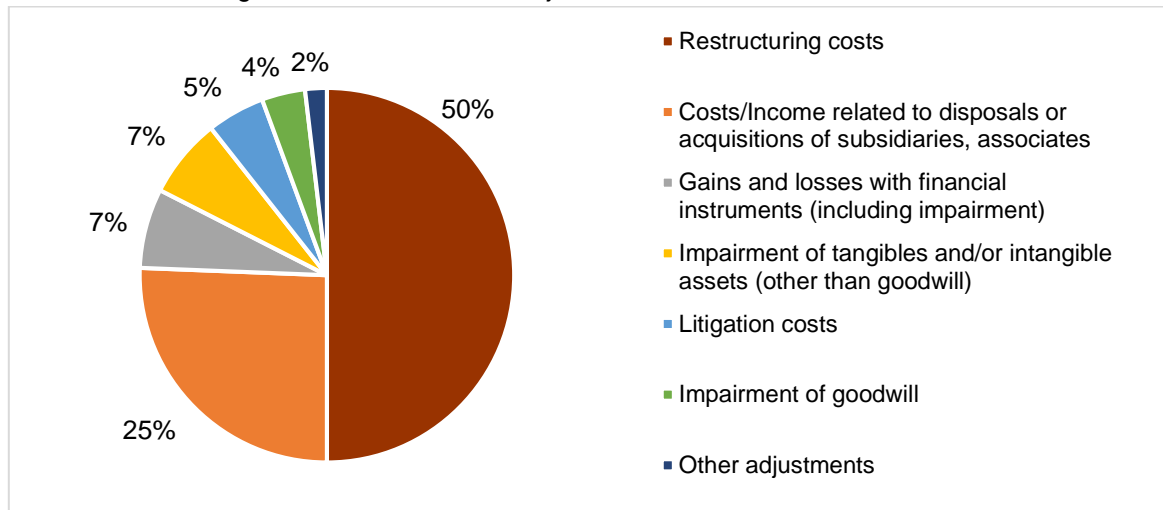
Adjusted EBIT

85. With regard to the most common adjustments to EBIT, the below graphic shows that the nature of adjustments is fairly similar to that observed for EBITDA. However, in the case of EBIT, restructuring costs represent 50% of the adjustments made. Cost or income related to disposals or acquisitions of subsidiaries, joint ventures or associates are also common adjustments.

²⁷ Measures defined by IFRS.

²⁸ Mazars. 2016. The use of Alternative Performance Measures in financial information – Current practice of European Listed Issuers, Young, S. 2014. The drivers, consequences and policy implications of non-GAAP earnings reporting. Accounting and Business Research and Bhattacharya, N., Black, E., Christensen T. and Larson. 2003. Assessing the relative informativeness and permanence of pro forma earnings and GAAP operating earnings. Journal of Accounting and Economics.

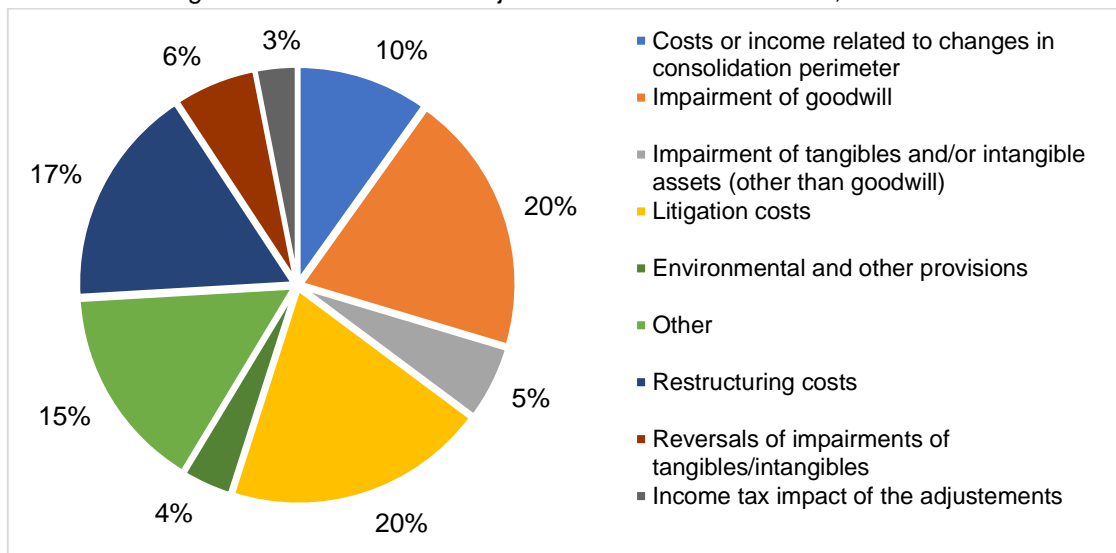
Figure 17: Most common adjustments made to EBIT, all sectors



Adjusted Net Profit

86. Regarding adjustments to the Net Profit level, there are some common features and some discrepancies with those encountered for Adjusted EBITDA and Adjusted EBIT. Litigation costs and impairment of goodwill are the two most common adjustments made at this level by the sample of issuers. The weight of the adjustments related to restructuring costs and changes to the scope of consolidation in Adjusted Net Profit is lower than for the other measures. However, it should be noted that as Net Profit is the bottom line of the statement of profit or loss, the adjustments made to the APMs analysed above should also be reflected in Adjusted Net Profit.

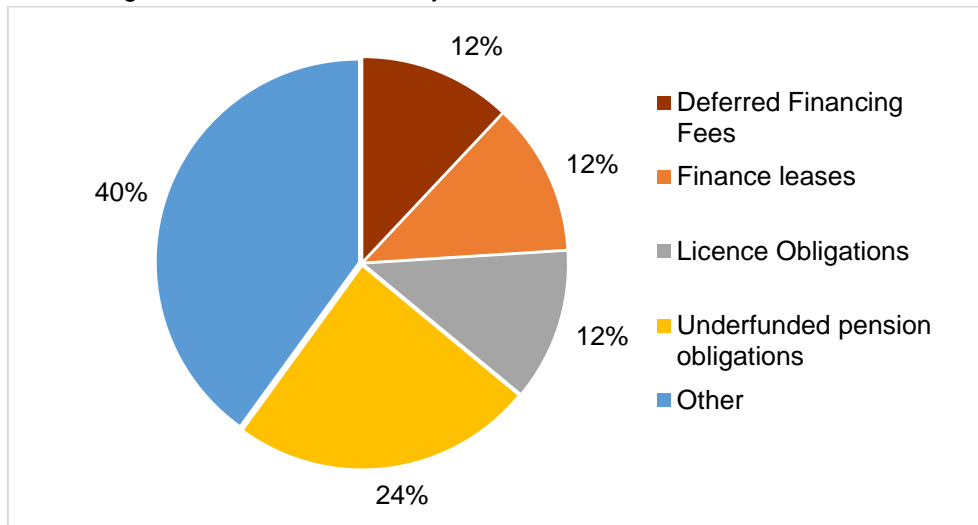
Figure 18: Most common adjustments made to Net Profit, all sectors



Adjusted Net Debt

87. Figure 20 illustrates that the most common adjustments to Net Debt differ in nature. However, the most common adjustments relate to underfunded pension obligations, licence obligations and finance leases. Under the label "Other", adjustments are made to Net Debt to exclude the impact of disposed businesses or of discontinued operations.

Figure 19: Most common adjustments made to Net Debt, all sectors



4.6 Labels used

88. With regard to labels, it is important to highlight that there was a low level of consistency between issuers included in the sample on their use of certain labels for reported APMs. This conclusion, consistent with the results of other studies, has the effect of impairing comparability of the financial information disclosed by issuers in Europe. The lack of consistency between labels used in APMs, which affect similarly financial information included in management reports, ad-hoc disclosures and primary financial statements, is a direct result of an absence of a framework to define each one of such measures. For example, two of the most commonly used APMs were EBIT and Net Debt. However, the labels used to depict a similar performance measure varied significantly. The tables below demonstrate this lack of harmonisation of the labels used.

Table 7: Labelling of EBIT and Net Debt, in MR and ad-hoc disclosures

EBIT		Net Debt	
Labels	N. Issuers	Labels	N. Issuers
Operating profit	24	Net Debt	46
EBIT	16	Net financial debt	12
Operating Results	5	Net Interest Bearing Liabilities	3
Operating income	4	Net Cash	2
Operating profit (loss)	3	Net Borrowings	2
Income from operations	3	Interest bearing debt	2
Profit from Operations	2	Total	67
Other	15		
Total	72		

89. Even when adjusted APMs are included in management reports, ad-hoc disclosures or primary financial statements, the labels used differ between issuers. The differences in the labels used is also visible between issuers operating within the same sector of activity. For instance, some issuers use the term “Reported” to refer to APMs which stem

from primary financial statements and use terminology such as “adjusted”, “underlying”, “core” or “recurring” to refer to adjusted APMs.

4.7 Conclusions and recommendations

90. The use of APMs is widespread in all sectors and across all sizes of issuers. Issuers disclose on average more APMs in management reports, followed by ad-hoc disclosures and primary financial statements. While these findings may be due to several factors relating to the financial communication strategy of individual issuers, ESMA believes that they are also partly due to the fact that very few performance measures are defined in IFRS.
91. In general, most of the APMs used refer to the statement of profit or loss, followed by APMs related to the statement of cash flows and to the statement of financial position. None of the APMs collected refer to the statement of OCI.
92. The findings of this study show that there are similarities in the type of APMs used by issuers within the financial sector, and these differ from the APMs used by issuers within non-financial sector.
93. More specifically, issuers in the financial sector disclose more APMs related to the financial position than issuers in the non-financial sector, but rarely use APMs related to cash flows. The use of ratios is also more common in the financial sector than in the non-financial sector. The most common APMs used in the non-financial sector are EBIT or Operating Results, EBITDA and Net Debt. The ratios Cost to Income Ratio, ROE and NPL Coverage, Net Interest Income and Operating Results are the most commonly used in the financial sector. The most common adjusted APMs used in the non-financial sector are Adjusted EBIT or Operating Results, Adjusted Net Profit and Adjusted EBITDA. Adjusted ROE, Adjusted Net Profit and EPS are the most common adjusted APMs used in the financial sector.
94. The diversity of the adjustments made to EBITDA, EBIT, Net Profit and Net Debt illustrate the differences in the definitions of APMs used by issuers. Furthermore, very often the adjustments made to these types of APMs are carried forward to other APMs and ratios. For example, when an issuer presents an Adjusted EBITDA, it also presents an Adjusted EBITDA margin and / or Adjusted Net Debt / EBITDA ratio. This practice leads to a widespread use of adjusted APMs in the documents published by issuers, with a negative impact on the comparability of financial information disclosed.
95. Labels used when disclosing APMs also vary significantly from an issuer to another, both in relation to non-adjusted APMs and adjusted APMs. Amongst the most common labels used regarding the adjusted APMs is the reference to “recurring / non-recurring”, “underlying” or “core”.
96. While some adjustments may be justified due to material one-off events, such as certain disposals / acquisitions of subsidiaries, in general caution should be exercised in relation to other adjustments.

97. On the basis of the evidence gathered, ESMA notes that the adjustments made to IFRS measures / non-adjusted APMs is an area that exposes investors to the risk of relying on misleading information. Therefore, ESMA calls on issuers to be transparent on the adjustments made to IFRS measures and to non-adjusted APMs. In this respect, ESMA notes that if APMs – and, in particular, adjusted APMs – are not properly labelled and are not reconciled back to IFRS measures, investors will not be able to properly assess those APMs, compare the information provided between issuers or make their own adjustments to APMs or GAAP figures.
98. While some academic studies have considered some adjustments made to APMs to be adequate,²⁹ they also noted that it is key that these adjustments are explained in order to allow investors to make their own judgements about their adequacy. In addition, ESMA notes that the frequency of occurrence of a given item may not require the use of an adjusted APM or adjustments being made to IFRS figures / measures. Instead, issuers may consider providing the IFRS figure / measure or a non-adjusted APM and separately presenting quantitative and qualitative information to explain those components which may have affected the performance of an issuer in a given year.
99. For example, studies have confirmed that restructuring costs occur regularly or cyclically,³⁰ and ESMA therefore notes that excluding these costs may not be appropriate. Similarly, it is questionable to exclude impairment costs of tangible and intangible assets from measures such as EBIT or Operating Results. ESMA notes that both tangible and intangible assets contribute to the profits generated by the business, therefore, it may not be appropriate to exclude these items on the basis that these costs do not relate to the underlying performance of an issuer.
100. Finally, in relation to Net Debt, ESMA urges issuers to consider including within Net Financial Debt the financial commitments pertaining to leases in accordance with IFRS 16 *Leases*.

²⁹ Choi, Y., Lin, S., Walker, M., and Young, S. 2007. Disagreement over the persistence of earnings components evidence on the properties of management-specific adjustments to GAAP earnings.

³⁰ CFA Institute. 2016. Investor uses, expectations and concerns on non-GAAP financial measures.

5 Issuers' compliance with the APM Guidelines

101. This chapter analyses the level of compliance of the issuers in the sample with the APM Guidelines. For this purpose, and as explained in the methodology, the compliance with the Guidelines was assessed against a questionnaire which was developed based on the principles included in the Guidelines and on the guidance provided in the related Q&As issued by ESMA.
102. The next subsections address the overall compliance of issuers with the Guidelines in relation to management reports and ad-hoc disclosures, the compliance of issuers by principles and by type of document (i.e. management reports and ad-hoc disclosures) and the application of the Guidelines in prospectuses.
103. As further described in the methodology in Appendix II, issuers' compliance with the Guidelines was assessed against the following eight main principles of the Guidelines: Definitions, Biased / unbiased APMs, Labels, Reconciliations, Explanations, Prominence, Comparatives and Consistency.

5.1 Overall compliance

104. Out of 123 management reports analysed, only 16 issuers fully complied with the APM Guidelines. Fourteen of these had a market capitalisation above EUR 25 billion. With regard to ad-hoc disclosures, out of 106 documents analysed, only 10 issuers complied in full with the APM Guidelines. Eight of these had a market capitalisation above EUR 25 billion. In this respect, ESMA notes that full compliance with the APM Guidelines means that all principles of the Guidelines were complied with in relation to all APMs used. This assessment took into consideration, for instance, that explanations provided on all APMs were informative, reconciliations were effective, definitions were clear and readable and labels not misleading.
105. While the results show that full compliance with the APM Guidelines was only achieved by 13% of the issuers in the sample, it is important to highlight that all the issuers analysed presented partial compliance with the Guidelines, either by complying with all principles of the Guidelines but not in relation to all APMs used or by complying with some principles in relation to all APMs used. Further details on these findings are included in the next subsection.
106. ESMA also notes that in some cases, full compliance of issuers with the APM Guidelines was not achieved due to misapplication of the definition of an APM. For example, some issuers did not consider subtotals included inside financial statements as APMs (e.g. Operating Results). Whilst ESMA acknowledges that the definition of an APM is a broad concept envisaged to capture all measures not defined or specified in the applicable financial reporting framework, the published ESMA Q&As on APMs provide further guidance about how the principles in the Guidelines should be applied (e.g. definition of an APM, interaction of the APM Guidelines and subtotals presented inside the primary financial statements).

107. Finally, the compliance level with the APM Guidelines was higher for the larger issuers in the sample (with a market capitalisation greater than EUR 25 billion). ESMA believes that this finding can be explained by the fact that larger issuers have more resources (in some cases, compliance departments) and are subject to stronger scrutiny from regulators, investors and analysts.

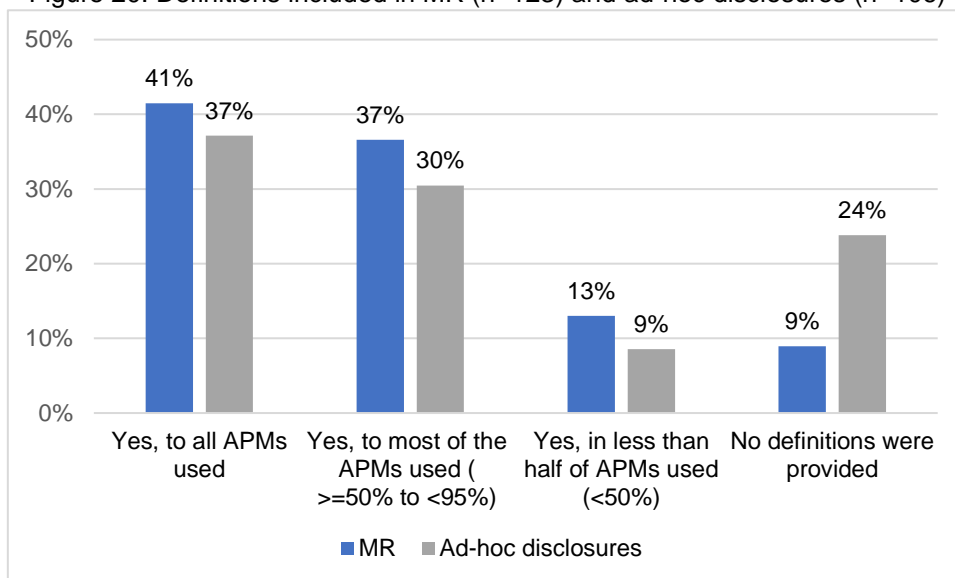
5.2 Compliance with the individual principles

5.2.1 Principle of Definitions

109. The APM Guidelines require that issuers provide definitions for all APMs used. While most of the issuers in the sample disclosed definitions for the APMs disclosed, only 41% of the issuers disclosed a definition for all the APMs used and 9% of the issuers in the sample did not disclose any definitions in the management report. When assessing the quality of the definitions given, only 53% of the issuers which disclosed definitions provided clear and readable definitions for all APMs used.

110. Overall, the definition principle was less complied with in the cases of ad-hoc disclosures than in the management report. 24% of issuers did not disclose any definitions for the APMs used in ad-hoc disclosures and only 37% of the issuers in the sample disclosed a definition for all APMs used in ad-hoc disclosures. When assessing the quality of the definitions given, only 55% of the issuers which disclosed definitions provided appropriate definitions for all APMs used.

Figure 20: Definitions included in MR (n=123) and ad-hoc disclosures (n=106)



111. When the definition did not identify all components separately, this was considered as not being compliant with the Guidelines. In some cases, issuers disclosed a general reference to adjustments related to “non-recurring items” without separately identifying those components in the definition. This broad concept of definition does not ensure the consistency and comparability in the presentation of such APMs across periods as

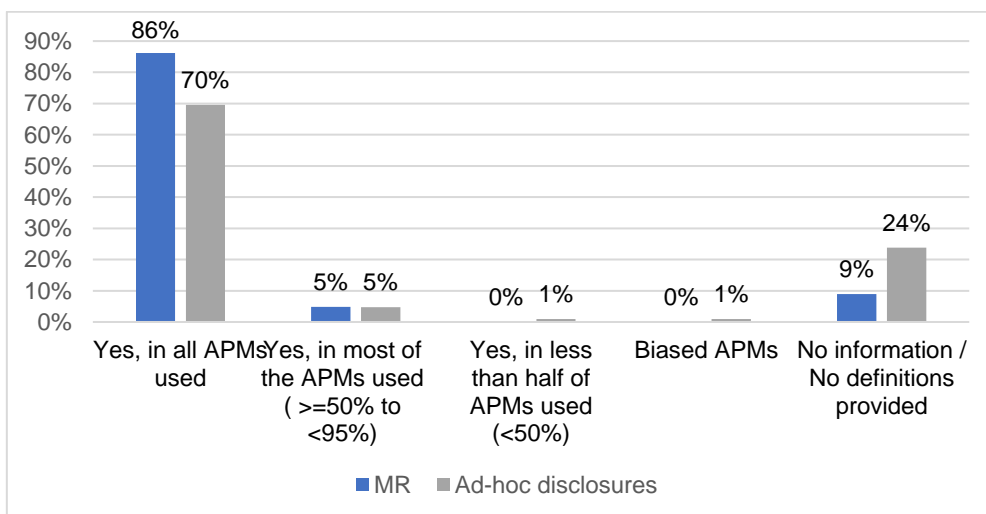
prescribed in the Guidelines, as issuers may apply the concept of non-recurring differently every year depending on whether a specific APM fits the purpose.

112. ESMA also notes that disclosing a table with detailed information concerning the components of the APMs used in a given year does not satisfy the requirement to provide definitions as set out in the Guidelines. Whilst such a table may satisfy the reconciliation requirement in the Guidelines, it does not satisfy the definition principle. This is because a specific line item may have an impact in a given year and not in the previous or following years.
113. Finally, ESMA highlights that measures such as EBIT or Operating Results fulfil the definition of an APM for the purpose of the APM Guidelines.³¹ Consequently, issuers should comply with the Guidelines when such APMs are presented outside of the financial statements (e.g. by providing a definition pursuant to paragraph 21 of the Guidelines).

5.2.2 Principle of Biased / unbiased APMs

114. A key aspect related to the use of APMs is to ascertain whether issuers use these APMs to remove only the negative elements of their performance but include the positive items of similar nature (that is, biased APMs, see ESMA Q&A 17 on the APM Guidelines). For this purpose, ESMA assessed if the components included in definitions indicated that the adjustments made to IFRS figures (such as Net Profit) or to non-adjusted APMs (such as EBITDA, EBIT) had the exclusive purpose of removing negative items of performance.
115. In this respect, the majority of the APMs used were considered neutral both in the management report and in ad-hoc disclosures (86% in the management report vs. 70% in ad-hoc disclosures). However, it was not possible to assess the neutrality of the APMs used when definitions were not provided, which was in 9% and 24% of cases respectively. Overall, the study identifies a very low number of biased APMs.

Figure 21: Unbiased APMs, in MR (n=123) and ad-hoc disclosures (n=106)

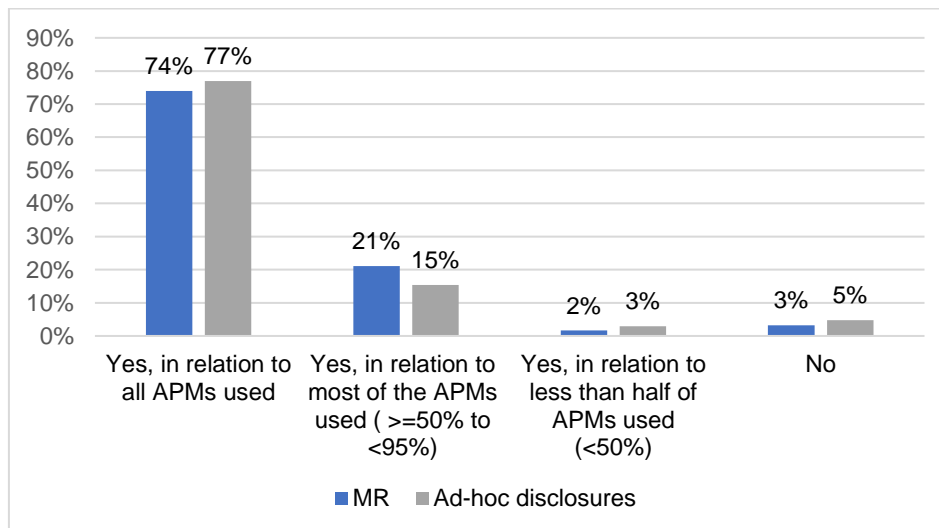


³¹ Please refer to paragraphs 17 to 19 of the APM Guidelines and ESMA Q&A 11.

5.2.3 Principle of Labels

116. The APM Guidelines do not define the exact terminology that should be used by issuers when reporting APMs, however, they require that the labels are clear for the reader in order to avoid conveying misleading messages.
117. With regard to labels, the study focused on three main aspects: (i) use of labels reflecting the APM's content and the basis of calculation, (ii) use of labels which are similar to the terminology used in applicable financial reporting frameworks and therefore investors could be misled by interpreting such APMs as an IFRS figure and (iii) mislabelled components of APMs as non-recurring, unusual or infrequent or mislabelled APMs as recurring but excluding components which had a recurring nature.
118. The graph below demonstrates that 74% of the issuers were considered compliant with the principle of clear labels for all APMs used in management reports.

Figure 22: APM labels used reflecting its content, in MR (n=123) and ad-hoc disclosures (n=106)



119. However, 26% of issuers in the sample used labels which did not reflect the content of the APM or the basis of calculation in at least one APM included in the management reports, 23% did the same in ad-hoc disclosures. For instance, in some cases, issuers labelled certain APMs as EBIT, EBITDA or Capex when these APMs were in fact adjusted APMs. A reader of the management report or ad-hoc disclosures could consider that an APM labelled as EBITDA would represent Earnings Before Interest Taxes Depreciation and Amortisation or an APM labelled as EBIT would represent Earnings Before Interest and Taxes. However, some issuers in the sample adjusted EBITDA or EBIT to exclude expenses such as restructuring costs, impairment of tangible / intangible assets or litigation costs. Another example was “Fixed Assets” which could be interpreted as referring to tangible and / or intangible assets, but in fact in some cases this APM also comprised non-current financial assets and deferred tax assets.
120. In other cases, issuers used labels that were the same or confusingly similar to IFRS measures or IFRS terminology. For instance, some issuers used labels such as “Cash Flows from Operations” whereas the figures did not match with the subtotals required by

IAS 7. Some issuers also labelled APMs as “Revenue of Continuing Businesses”, “EPS of Continuing Businesses” and “Operating Cash Flow of Continuing Businesses”, however, the figures of such APMs neither matched with the figures included inside financial statements nor did they refer to terminology used under IFRS regarding continuing operations.

121. Most notably, the main issue identified in the sample related to mislabelling of components of APMs as non-recurring, infrequent or unusual or mislabelling APMs as recurring, such as “Recurring EBIT” or “Recurring EBITDA”.
122. ESMA observes that in the first case, the argument often used to exclude income and, most frequently, cost items from the operational activity appears to be the result of a yearly assessment of the likelihood of its recurrence. It is very often debatable, as also highlighted by the Guidelines, whether restructuring costs or impairment losses should be labelled as non-recurring. In the second case, labelling APMs as recurring gives a strong indication that all items / components which are not included in these APMs are, by default, non-recurring even when the excluded items are not labelled as such.
123. The Guidelines and the ESMA Q&As do not provide guidance regarding when APMs may be labelled as recurring or when their components may be labelled as non-recurring. However, in the absence of an adequate explanation, it was unclear why items reported over a number of consecutive years were classified as non-recurring or excluded from operational activities.
124. In this respect, ESMA notes that often restructuring programmes that entail staff layoffs or early retirements are prolonged across reporting periods and even if these do not happen every year, the probability that they will occur in the future in some manner or form is very high. Adjusting the business model is unavoidable for companies to survive in a competitive environment and it shows an issuer’s capacity to adapt to a constantly changing reality and its resilience to unforeseen events or progress in technology. As such, without an adequate explanation it is unclear why these costs are not part of the usual operation of a business.
125. For some issuers in the sample, the labels and terminology used were inconsistent within the same document (for example, the same APM was given different labels).
126. Finally, it is worth mentioning that the findings described above regarding mislabelling were consistent between ad-hoc disclosures and management reports.

5.2.4 Principle of Reconciliations

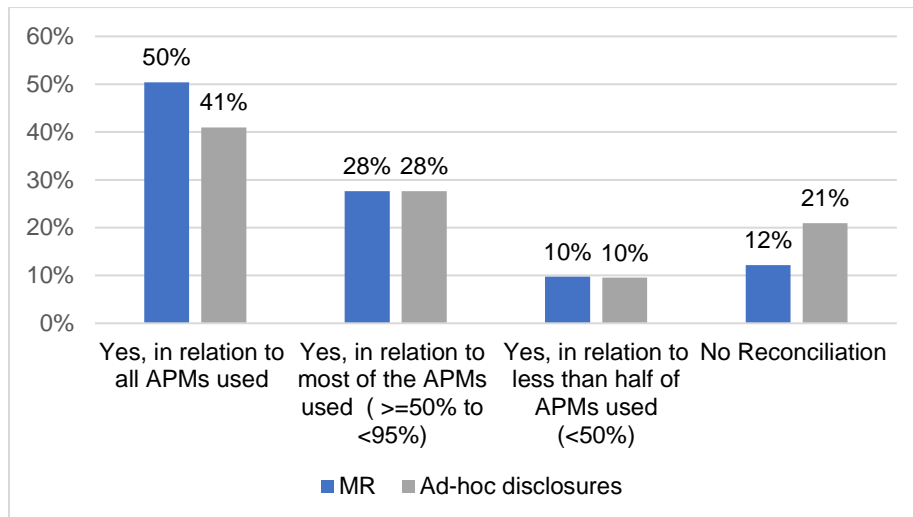
127. Similar to the studies carried out in Ireland and Norway by their respective regulators,³² ESMA’s study also identified shortcomings in the compliance of issuers with the principle included in the Guidelines concerning reconciliations. Very often, reconciliations were not provided for a significant number of APMs or these were not effective. For instance,

³² Irish Auditing and Accounting Supervisory Authority. 2012. Alternative Performance Measures – A Survey of their Use together with Key Recommendations; Irish Auditing and Accounting Supervisory Authority. 2015. Alternative Performance Measures – A Survey of their Use together with Key Recommendations: An Update; Irish Auditing and Accounting Supervisory Authority. 2017. Alternative Performance Measures – Thematic Survey; Finanstilsynet, the Financial Supervisory Authority of Norway. Tematilsyn om Alternative Resultatmal. 2017.

it was common practice amongst some banks in the sample not to give reconciliations in relation to ratios (identifying both the numerator and denominator).

128. The level of compliance with the reconciliation principle was lower in ad-hoc disclosures than in management reports (41% vs. 50%). In addition, the percentage of issuers that did not include any reconciliation was 21% in ad-hoc disclosures and 12% in management reports. This high level of partial compliance or non-compliance demonstrates that there is still a large potential for improvement regarding the principle of reconciliation.
129. It is important to highlight that when APMs were simultaneously included in- and outside financial statements, the reconciliation principle was not applicable³³ and when issuers included reconciliations by reference to another document (particularly relevant in the case of ad-hoc disclosures), it was considered that the issuer complied with the APM Guidelines.

Figure 23: Reconciliations included, in MR (n=123) and ad-hoc disclosures (n=106)



130. Additionally, in some cases the reconciliations provided in ad-hoc disclosures or management reports were not fully effective. For example, 32% of the issuers in the sample did not include in the management report the most directly reconcilable line item included in financial statements. The same thing applied to 37% of issuers in ad-hoc disclosures.
131. In 28% of the cases (34% in ad-hoc disclosures), issuers did not identify all material reconciling items of all APMs used in the management reports and 25% of issuers (29% in ad-hoc disclosures) did not provide further reconciliations in the management report when the material reconciling items were not directly extracted or observable from financial statements. For instance, in some cases the reconciliation referred to non-recurring items without specifying the respective amounts and their respective comparatives.

³³ Paragraphs 4, 17 and 19 of the APM Guidelines and ESMA Q&A 2.

132. Finally, 62% of the issuers that included reconciliations in the management report (56% in ad-hoc disclosures) also included reconciliations for all comparatives presented.

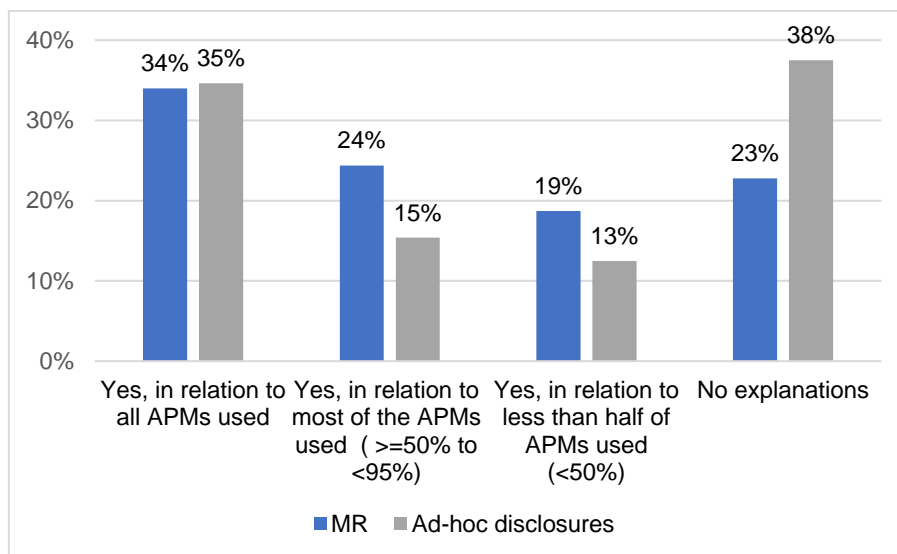
5.2.5 Principle of Explanations

133. The APM Guidelines require that issuers give informative explanations on the usefulness of all APMs disclosed. Out of 123 issuers, only 34% of the issuers included an explanation for the use of *all* APMs disclosed in the management report. Furthermore, 23% of the issuers included no explanations at all. Although this percentage might have been negatively impacted by the fact that ESMA considered all subtotals inside the financial statements as APMs (see paragraph 106), this finding remains concerning.

134. The level of non-compliance with the explanation principle was higher in ad-hoc disclosures. Out of 106 issuers publishing ad-hoc disclosures containing earnings results, 38% did not include any explanations in this document or make reference to another document where this information could be accessed by users.

135. The lack of explanations and / or poor quality of disclosures in this area was also highlighted in other studies carried out by regulators.³⁴ Consistently with the recommendations in these studies, ESMA urges issuers to provide explanations and / or to improve the usefulness of the information contained in the explanations given.

Figure 24: Explanations included, in MR (n=123) and ad-hoc disclosures (n=106)



136. When looking at the quality of the explanations provided, ESMA considers that explanations were informative in only 50% of the cases. Situations where the explanations provided were considered not informative included:

- i. Generic references pointing to the use of APMs to assist the management to assess the performance of the issuer without providing details as to why, how and when certain specific APMs were used;

³⁴ Financial Reporting Council. 2016. Corporate Reporting Thematic Review. Alternative Performance Measures; Financial Reporting Council. 2017. Corporate Reporting Thematic Review. Alternative Performance Measures.

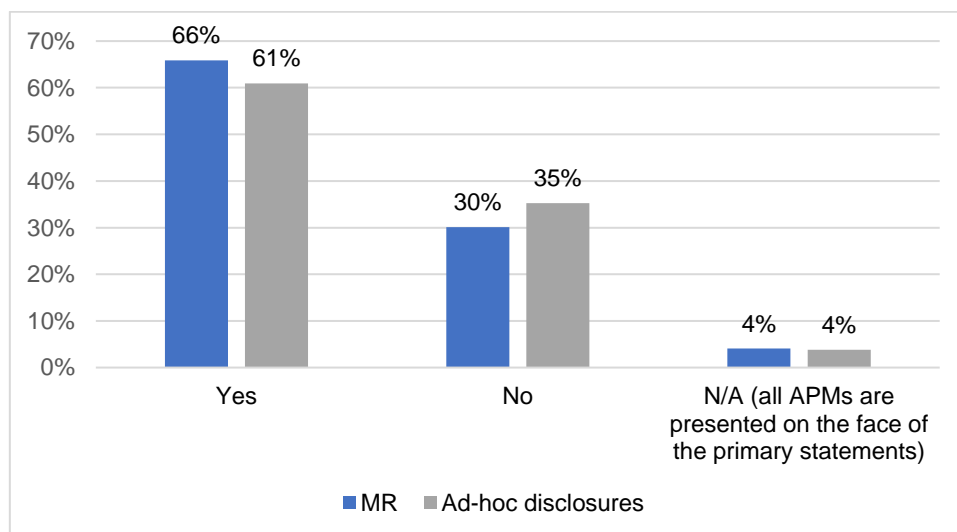
- ii. Generic references to market expectations and the use of certain APMs by peers and / or within a given industry;
- iii. References to using APMs when assessing the performance of management and establishing management remuneration (e.g. the variable component of management remuneration) without giving information to explain why such APMs should be used for this purpose;
- iv. Explanations simply repeated the definitions.

137. Although some of the APMs used are commonly known (e.g. EBITDA, EBIT), it is still relevant for investors to understand why and how a given APM is used by the management in running / operating their business. This is considered to be relevant information for investors, especially in light of the variability in the use of such APMs across different issuers and sectors, as discussed in section 4.5 above. The more the APMs used are entity or sector specific, the more relevant it is for retail investors to understand their usefulness. This is particularly valid when APMs are adjusted to exclude certain items.

5.2.6 Principle of Prominence

138. The Guidelines require that APMs should not be displayed with more prominence, emphasis or authority than measures stemming from financial statements. While the concept of prominence is intrinsically subjective, ESMA has developed Q&A 7 on this matter and compliance with the Guidelines was assessed based on this Q&A. In this respect, whilst noting that very often issuers tend to include a significant number of APMs in the key highlights of ad-hoc disclosures without their corresponding IFRS measure, ESMA’s assessment of issuers’ compliance with this principle took into account the full content of the ad-hoc disclosure or management reports as this was deemed more appropriate for enforcement purposes.

Figure 25: Compliance with prominence principle, in MR (n=123) and ad-hoc disclosures (n=106)



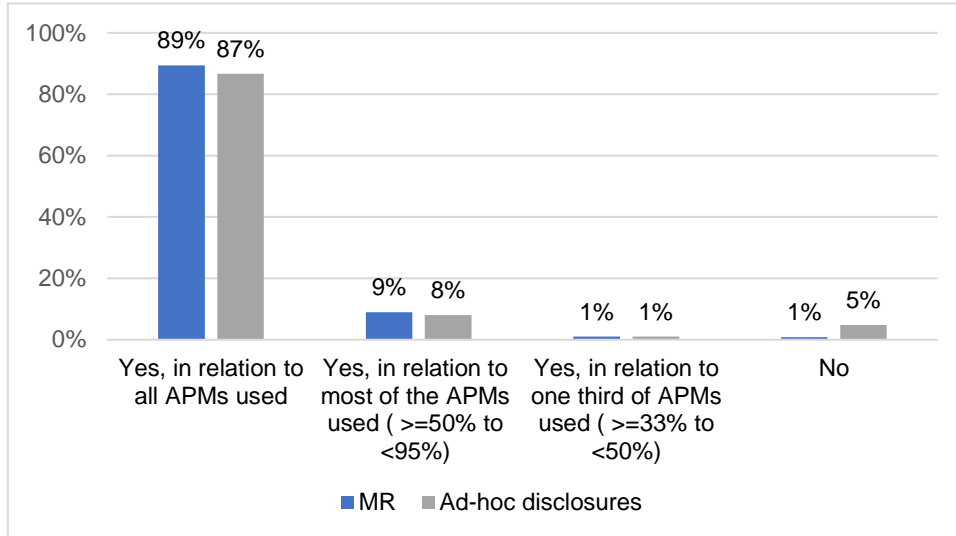
139. As shown in the graph above, in more than 60% of the cases (for both management reports and ad-hoc disclosures), issuers presented APMs with equal or less prominence than measures stemming from financial statements.
140. The prominence principle was slightly less complied with in ad-hoc disclosures than in the management reports. This conclusion is consistent with other studies which also addressed the application of the prominence principle in press releases, management reports and analysts' presentations.³⁵
141. Some examples of non-compliance with the principle of prominence included:
- i. The issuer mainly described its performance based on APMs without including a reference to IFRS figures or figures stemming from the financial statements. For example, the issuer opted for the presentation of profit or loss by function, but the performance was described in the management report based on APMs which are based on the nature of the items rather than on function (such as EBITDA or EBIT);
 - ii. The issuer only or mostly used APMs when commenting on the key aspects of the performance in a given year. For example, the issuer exclusively highlighted APMs in the key figures or in the Chairman / CEO statements in the management report;
 - iii. In ad-hoc disclosures, issuers included or described their performance mainly using APMs without giving equivalent prominence to measures stemming from the financial statements. For instance, in the key highlights or headings of the ad-hoc disclosures, most or all of the financial figures displayed related to APMs.

5.2.7 Principle of Comparatives

142. The Guidelines require that issuers should include comparatives from previous years for all APMs disclosed. The graph below shows that almost 90% of the issuers in the sample did so. These findings are consistent between management reports and ad-hoc disclosures.

³⁵ Mazars. 2017. The use of Alternative Performance Measures in financial information – Current practice of European Listed Issuers (2nd edition).

Figure 26: Compliance with comparatives principle, in MR (n=123) and ad-hoc disclosures (n=106)



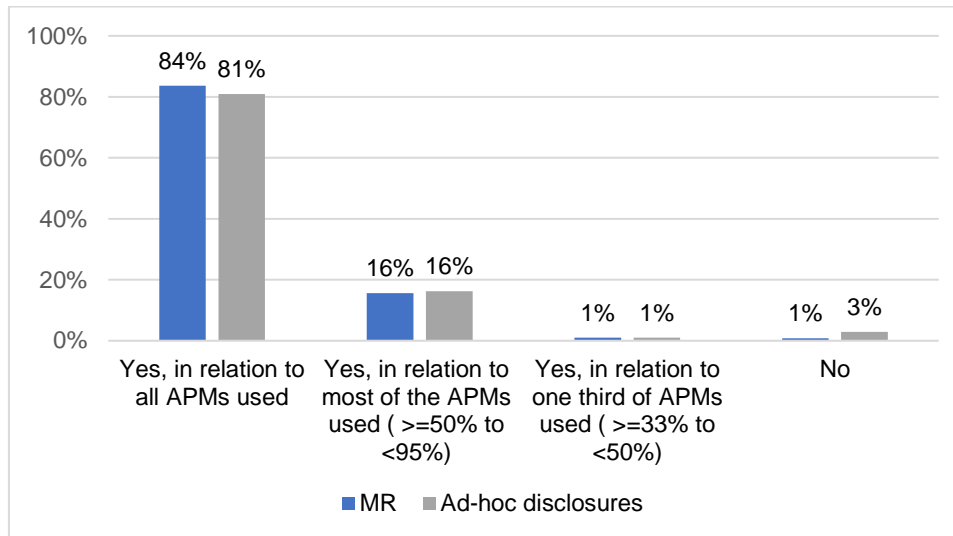
143. In a minority of cases, ESMA encountered situations where the principle of comparatives was not respected. For example, some issuers failed to include comparatives when using APMs to depict Organic Growth.

5.2.8 Principle of Consistency

144. The Guidelines require consistency both on the use of APMs across periods and on the use of APMs within the same period but in different documents (i.e. consistency on the use of APMs between the management report and ad-hoc disclosures containing annual earnings results). In this respect, ESMA checked whether APMs, their definitions and their basis for calculation were used consistently as required by paragraphs 41 and 42 of the Guidelines.

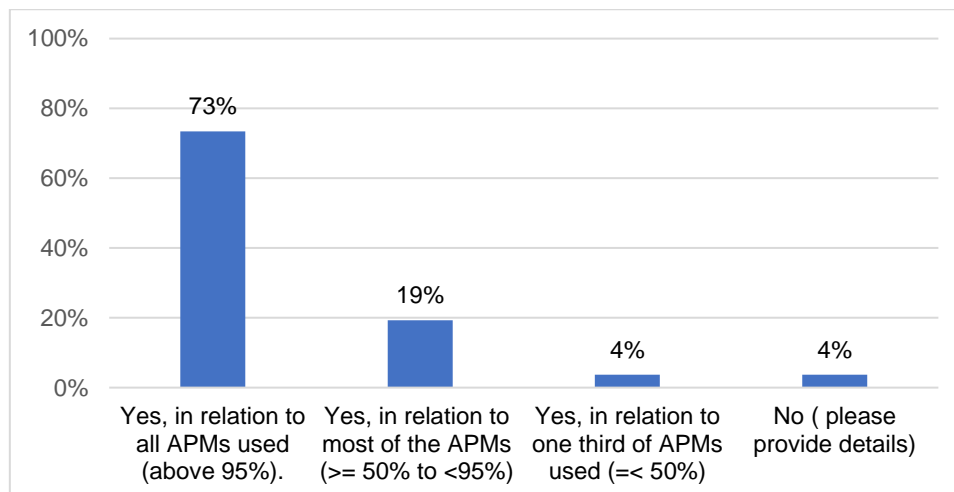
145. The graph below shows that overall issuers in the sample used APMs consistently across periods and documents. However, compliance with the consistency principle was not always guaranteed in situations where issuers underwent mergers, demergers or acquisitions. When this occurred, issuers normally included pro-forma information to illustrate the impacts of these transactions in the APMs used and as such, some APMs were adjusted compared with the previous periods / years.

Figure 27: Consistency of APMs between periods, in MR (n=123) and ad-hoc disclosures (n=106)



146. Furthermore, as shown in the graph below, the level of compliance with the consistency principle was lower between documents (APMs used in management reports vs. APMs used in ad-hoc disclosures). Not only did the number of APMs included in both documents differ (i.e. management reports usually included more APMs when compared with ad-hoc disclosures), there were also differences in the type of APMs used. As mentioned in section 4.2 and 4.3, some issuers included adjusted APMs in the ad-hoc disclosures but not in the management report.

Figure 28: Consistency of APMs disclosed in MR and ad-hoc disclosures in 2018, (n=106)



5.3 Application of the Guidelines to APMs in prospectuses

147. To supplement the above analysis of management reports, primary financial statements and ad-hoc disclosures, this section analyses the application of the guidelines to APMs included in prospectuses.

148. This analysis is based on feedback from NCAs to two questions, as summarised below.

5.3.1 Enforcement of the Guidelines

149. This section summarises NCAs' feedback to the question of whether, when scrutinising prospectuses, they have encountered difficulties enforcing the application of the Guidelines by issuers and, if so, which difficulties.
150. Eleven NCAs had not or had rarely encountered difficulties in enforcing the application of the APM Guidelines. Seven of these NCAs further commented that within their jurisdictions, the persons responsible for the prospectus usually reacted to comments regarding lack of application of the Guidelines by amending their disclosure or by removing APMs from the prospectus.
151. A smaller group of eight NCAs commented that they did encounter difficulties in enforcing the Guidelines. One of these NCAs clarified that this only happened rarely as APMs were used in prospectuses in the same way as in financial reporting in their jurisdiction, while four other NCAs observed that while they encountered difficulties related to enforcement when the Guidelines were first introduced, enforcement had become less challenging as the Guidelines became more well-known to the market.
152. The difficulties highlighted by the NCAs in paragraph 151 centred around the following two themes:
- Lack of familiarity (eight NCAs): Certain issuers are less familiar with the Guidelines, causing them to struggle more with applying them (e.g. small issuers, IPO issuers, infrequent issuers). The lack of familiarity with the Guidelines among IPO issuers is exacerbated by the fact that there is a tendency to include (too) many APMs in IPO prospectuses. Some issuers overlook certain of the requirements in the Guidelines or consider that the Guidelines do not apply to them. Some issuers find it difficult to identify all APMs or mistakenly include non-APMs, especially small issuers.
 - Resistance (four NCAs): Some issuers are reluctant to change their habits, e.g. in relation to labelling recurrent EBITDA / EBIT, or question the need to include additional or more specific explanations. Other issuers question the usefulness of the Guidelines or question the need to apply the principles, especially the reconciliation principle to industry specific operational APMs. These issuers consider that knowledgeable investors would understand the presented APMs. Furthermore, instead of changing their APM presentation to comply with the Guidelines, some issuers have continued the old way of presenting APMs and added a lengthy narrative on top to justify compliance with the Guidelines.

5.3.2 Difficulties with certain principles of the Guidelines

153. This section contains a summary of NCAs' responses to the question related to which of the principles in the Guidelines issuers had more difficulties with. The principles are presented in descending order based on how many NCAs mentioned difficulties in relation to them:

- Explanations: Fifteen NCAs reported that the persons responsible for the prospectus in their jurisdiction had difficulties in relation to explanations for the use of APMs. Problems included:
 - i. the fact that explanations were missing or that they were generic rather than specific to the entity and to the APM;
 - ii. that issuers did not have an internally generated reason for using certain APMs but claimed that they had to use them because their peers used them, or because their stakeholders wanted them to disclose certain APMs; and
 - iii. that the persons responsible for the prospectus considered it unnecessary to explain APMs that were well-known, widely used and / or used by the issuer for several years.

- Reconciliations: Ten NCAs reported difficulties in relation to this principle. It was observed that:
 - i. reconciliations were sometimes missing for all or some of the APMs in the prospectus;
 - ii. it was often challenging for the persons responsible for the prospectus to provide an abstract description of the reconciliation without the use of a mathematical presentation;
 - iii. issuers questioned the need to reconcile industry specific operational APMs as they considered that knowledgeable investors would understand them without explanation;
 - iv. issuers did not disclose concrete figures to show how the different APMs were calculated and from where they were derived;
 - v. reconciliations were not always correctly presented; and
 - vi. material reconciling items were not always explained.

- Prominence: Seven NCAs reported that they had observed difficulties with the prominence principle. Several NCAs mentioned that IPO prospectuses often include large numbers of APMs which challenges the prominence principle, however, the persons responsible for the prospectus explain that as there is demand for having these APMs in the presentations, they must also be included in the prospectus. Furthermore, it is difficult for NCAs to ask for removal of APMs, as the persons responsible for the prospectus insist that they must include all relevant information for investors to assess the investment opportunity. At other times, the *number* of APMs is not the issue, instead the threat to the prominence principle comes from the fact that a few APMs are *used repeatedly* across the prospectus.

- Consistency: Six NCAs highlighted this principle as problematic. NCAs mentioned, inter alia, that APMs used in the prospectus were sometimes inconsistent with

APMs used in the financial report. From the perspective of the NCA, it was highlighted that NCAs sometimes had difficulties compelling issuers to explain changes in the APMs used. It was also noted that it was especially difficult for the NCA to assess the consistency principle in case of IPO prospectuses, since IPO issuers often compiled financial information based on local GAAP and since the NCA had no reference point for assessing whether APMs were used consistently.

154. A smaller number of NCAs mentioned that issuers in their jurisdictions had particular difficulties with the following principles:

- Definitions (four NCAs);
- Comparatives (three NCAs), particularly when the issuer changed its accounting principles during the financial period covered by the prospectus;
- Labels (three NCAs), specifically that some issuers labelled APMs or items as non-recurring which the NCA considered to be of a recurring nature; and that some issuers used the labels from Table 1 and 2 of Annex 1 of Commission Delegated Regulation (EU) 2019/979 in the summary of the prospectus though it used different labels within the body of the prospectus; and
- Biased / unbiased APMs (one NCA).

155. Additionally, five NCAs observed a more fundamental problem relating not to one of the principles of the Guidelines but to paragraphs 17-19, namely that some issuers had difficulties correctly identifying which measures are APMs and should as such comply with the Guidelines. One NCA mentioned that different approaches to certain APMs had been observed even within the same sector.

156. Lastly, four NCAs made remarks related not strictly to the Guidelines but to issues with APMs in prospectuses more generally. As such, it was mentioned that issuers sometimes included APMs only in the summary of the prospectus but not in the body of the prospectus or only in marketing material and not in the prospectus, in breach of the current Article 16(1)(d) of Commission Delegated Regulation (EU) 2019/979. Furthermore, it was highlighted that issuers sometimes included an APM for year-1 and comparatives for years -2 to -5, necessitating the inclusion of more annual accounts than normally required in the prospectus and thus making the prospectus very long.

5.4 Conclusions and recommendations

157. ESMA recognises the efforts made by issuers when applying the APM Guidelines. In order to further increase compliance with the Guidelines, and on the basis of the above assessment, ESMA highlights the following considerations in relation to application of the Guidelines to APMs included in management reports, ad-hoc disclosures and prospectuses.

5.4.1 Definition of an APM

158. ESMA reminds issuers that some subtotals included inside financial statements (such as Operating Results, EBIT or EBITDA) are also within the scope of the Guidelines if those are included simultaneously also outside the financial statements. Therefore, ESMA expects issuers to comply with the Guidelines if they decide to include such subtotals in their management report, ad-hoc disclosures or prospectuses. ESMA highlights that ESMA Q&A 2 provides further information on this matter.
159. ESMA also encourages issuers, in particular in the financial sector, to signpost when the measure used was calculated in accordance with European or national legislation. This is particularly relevant for prudential ratios. Signposting in this way allows investors to distinguish between standardised measures prepared pursuant to European / national legislation (which are not within the scope of the Guidelines) and bespoke measures calculated at the issuer's own initiative (which are within the scope of the Guidelines).

5.4.2 Principle of Definition

160. Definitions are relevant because, when consistent, they allow investors to understand the adjustments made to GAAP figures or to non-adjusted APMs. Even when a particular APM is commonly used, such as EBITDA or EBIT, definitions are important to ensure that there is a clear understanding of the aggregate APM and the way it is calculated.
161. Definitions should describe all components of a specific APM. In this respect, definitions whereby issuers only refer to non-recurring or special items without separately identifying what these items refer to are not compliant with the Guidelines and should not be used.
162. In the same way, definitions related to ratios should detail both the numerator and denominator. This is especially important when either the numerator or the denominator is also an APM.³⁶
163. Issuers are reminded of the need to provide definitions pertaining to APMs such as Organic Growth, irrespective of whether these relate to sales, revenue or EBITDA, as set out in ESMA Q&A 15.
164. Furthermore, when issuers disclose and apply the definitions of APMs, they should ensure that the APM is unbiased, in line with ESMA Q&A 17. For example, APMs should not be adjusted to exclude one-off losses but include one-off gains of the same nature and occurring during the same period.

5.4.3 Principle of Labels

165. Labels of APMs should reflect their content. Therefore, when issuers adjust commonly used APMs (e.g. EBIT), IFRS figures (e.g. Net Profit) or measures derived from European or national legislation (e.g. prudential ratios), the labels used should reflect such adjustments.

³⁶ Please refer to paragraphs 4,17 and 19 of the APM Guidelines and ESMA Q&A 3.

166. Issuers should pay particular attention when labelling components of APMs as non-recurring or when labelling APMs as recurring. In this respect, ESMA notes that, according to paragraph 25 of the APM Guidelines, items that affected past periods and will affect future periods (such as restructuring costs or impairment losses) will rarely be considered non-recurring, infrequent or unusual.
167. In order to avoid conveying misleading messages to investors, labels used should be as neutral as possible. For example, using labels such as “adjusted” or specifying the adjustment made, e.g. “EBIT before IFRS 16”.
168. When an APM is extracted from the primary financial statements and where relevant, issuers may consider either labelling the APM as “reported” (or similar wording) or signposting this fact through, for example, a footnote. This information allows the investor to understand that this APM is also included inside financial statements.

5.4.4 Principle of Reconciliation

169. Reconciliations are key to ensure that investors understand the links between the figures presented inside financial statements and the APMs used. It is important to highlight that annual financial statements are subject to audit and follow the principles concerning presentation, recognition, measurement and disclosure included in the applicable financial reporting framework. Therefore, issuers should include reconciliations for all APMs used, including reconciliations for all APM comparatives. Reconciliations should be numerical.³⁷
170. All material reconciling items should be clearly identified. To the extent possible, where the reconciling items cannot be directly extracted from the financial statements, issuers should provide a reconciliation of those items to the most direct line item included in the financial statements (primary financial statements or the notes to the primary financial statements). In this respect, ESMA notes that, in order to comply with the reconciliation principle, it does not suffice to include a reconciling item referring to non-recurring, infrequent or unusual items without providing a disaggregation of the material components of such reconciling item.
171. In the case of ratios, issuers should indicate both the numerator and the denominator. When either of these items are APMs, the issuer should either include a reconciliation of that APM to the most directly reconcilable line item, subtotal or total presented in the financial statements or refer to the location where the reconciliation of those APMs is included (applying the compliance by reference principle in the Guidelines).
172. ESMA encourages issuers to provide reconciliations in a table. Issuers may consider providing a reconciliation of several APMs in the same table. For example, the issuer may reconcile EBITDA and EBIT to Net Profit using the same reconciliation.

³⁷ Paragraphs 26 and 28 of the APM Guidelines and ESMA Q&A 16.

5.4.5 Principle of Explanations

173. Issuers are reminded that the APM Guidelines require explanations for all APMs used, including those which are generally known or have been used by the issuer for several years.
174. ESMA urges issuers to reconsider the use of APMs when:
- i. APMs are included in the management report but are not used in the narrative to describe the issuer's performance;
 - ii. the number of APMs is extensive and / or issuers use several APMs of a similar nature; or
 - iii. issuers cannot provide entity specific explanations regarding how and why a particular APM is useful for investors or for their decision-making process.
175. Finally, ESMA notes that the use of an APM to determine any component of management remuneration is a relevant explanation to justify the use of this APM.

5.4.6 Principle of Prominence

176. The APM Guidelines require that APMs are not displayed with more prominence, emphasis or authority than measures directly stemming from the financial statements (either IFRS figures or subtotals included inside financial statements).
177. ESMA acknowledges that applying the principle of prominence requires the use of judgement. Therefore, ESMA recommends that issuers take ESMA Q&A 9 into consideration when applying the principle of prominence in management reports, ad-hoc disclosures and prospectuses and exercise their judgement with due caution.

5.4.7 Principle of Consistency

178. ESMA urges issuers to be consistent between the APMs included in management reports and in prospectuses. While the results of the study point to a high level of consistency in the APMs used in ad-hoc disclosures and management reports, NCAs have reported different findings when they scrutinise and approve prospectuses. ESMA notes that taking into account that prospectuses often include financial information derived from financial reports, listed issuers should endeavour to fully comply with the Guidelines already in the financial reports published in accordance with the TD. ESMA believes that the compliance of TD documents with the Guidelines should expedite the approval process of prospectuses.
179. In addition, ESMA asks for caution when APMs are included in prospectuses, in particular IPO prospectuses. ESMA notes that the APMs used should be meaningful for the issuer and / or the investor's decision-making process. ESMA encourages IPO issuers to be consistent between the APMs included in prospectuses and APMs included in the documents subsequently published in accordance with the TD.

5.4.8 Other recommendations

180. ESMA observes that the objective of the APM Guidelines is to increase the transparency of the information given to the market and foster investor protection. Therefore, despite the fact that the scope of the Guidelines covers only management reports, ad-hoc disclosures and prospectuses, ESMA encourages issuers to apply the Guidelines to all other communications which they publish containing APMs (i.e. presentations to analysts, market material and other press releases). This ensures a non-discriminatory treatment amongst investors independently of the addressees of the documents, of where documents are published (i.e. issuer's website or the Official Appointed Mechanism) and of the type of the document where the APMs are placed.
181. Finally, although issuers are not required to provide all the disclosures required by the Guidelines in one specific location of each document, issuers may consider doing so in order to facilitate investors' access to the information required by the Guidelines and to enhance communication effectiveness. ESMA notes that this practice may be more useful when the use of APMs is extensive and spread over a long document. ESMA notes that including all disclosures in a single section or appendix also facilitates the compliance by reference as set out in the Guidelines.



6 Appendices

Appendix I – Composition of Sectors

INDEX METHODOLOGY- Global Fixed Income- Bloomberg

TABLE 3 – BICS CLASSIFICATION HIERARCHY

SECTOR (LEVEL 1)	INDUSTRY GROUP (LEVEL 2)	SECTOR (LEVEL 1)	INDUSTRY GROUP (LEVEL 2)
Communications	Cable & Satellite	Health Care	Health Care Facilities & Services
	Entertainment		Managed Care
	Media Non-Cable		Medical Equipment & Devices
	Wireless Telecom Services		Pharmaceuticals
	Wireline Telecom Services		
Consumer Discretionary	Airlines	Industrials	Aerospace & Defense
	Apparel & Textile Products		Electrical Equipment
	Automotive		Industrial Other
	Casinos & Gaming		Machinery
	Consumer Services		Manufactured Goods
	Distributors		Railroad
	Educational Services		Transportation & Logistics
	Entertainment Resources	Waste & Environment Services	
	Home & Office Products	Equipment & Facilities	
	Home Builders	Materials	Chemicals
	Home Improvements		Construction Materials
	Leisure Products		Construction & Packaging
	Restaurants		Forest & Paper Products
	Travel & Lodging	Metals & Mining	
Consumer Staples	Consumer Products	Technology	Communications Equipment
	Food & Beverage		Hardware
	Retail Staples Supermarkets	Software & Services	
	Tobacco	Utilities	Utilities
Energy	Exploration & Production	Government	Sovereign
	Integrated Oils		Government Agency
	Oil & Gas Services		Government Regional/Local
	Pipeline		Supranational
	Refining & Marketing		Development Bank
	Renewable Energy		Winding Up Agency
Financials	Banking		
	Commercial Finance		
	Consumer Finance		
	Financial Services		
	Life Insurance		
	Property & Casualty		
	Real Estate		



Appendix II – Methodology regarding the compliance with the APM Guidelines

For the purpose of assessing the compliance of issuers with the APM Guidelines, ESMA took the following considerations regarding each one of the principles of the APM Guidelines:

- i. **Definitions:** It was analysed if definitions were provided or not, and if every component was disclosed separately. For instance, it was considered that the definition was displayed in a clear way (i) if a glossary / separate section including all APMs used was included inside the management report, ad-hoc disclosure or primary financial statement or (ii) if a definition was placed together with the APM, e.g. as a footnote. Where neither of these criteria was met, it was considered that there was no definition. Where issuers did not identify each component separately, it was considered that the definition was not clear.
- ii. **Biased / unbiased APMs:** Although the APM Guidelines do not explicitly include this principle, ESMA Q&A 17 clarifies that the biased / unbiased principle should be considered when assessing the application of the fair review principle pursuant to paragraph 6 of the APM Guidelines. Therefore, components of the APMs used were analysed to understand if the adjustments made to GAAP figures were unbiased, i.e. by both eliminating the negative items of the performance and including positive items of the same nature. For example, it was considered biased if a measure such as Adjusted EBIT included the reversals of impairments of intangibles (positive effect) but excluded the impairments of intangibles (negative effect). This approach is in line with ESMA Q&A 17 on the APM Guidelines.
- iii. **Labels:** When assessing whether the label used was meaningful, it was checked (i) whether the label reflected its components in substance (e.g. if a measure labelled as EBITDA was calculated according to this definition), (ii) whether the issuer refrained from using overly optimistic or positive labels, (iii) whether the issuer refrained from mislabelling items as “non-recurring” or labelled APMs as “recurring” but excluding “recurring items” and / or (iv) whether the issuer refrained from using labels which were confusingly similar to GAAP measures. When one or more of these criteria was not met, the label was considered unclear.³⁸
- iv. **Reconciliations:** It was verified if issuers included a reconciliation. Although the APM Guidelines do not define the format that the reconciliation should follow, according to ESMA Q&A 16 on the APM Guidelines, a numerical reconciliation between the most comparable GAAP figure and the APM should be disclosed. Where an APM was presented in a table, both showing the nature and the amount of all its components, it was considered that the reconciliation principle was complied with.³⁹ When an APM is simultaneously included in- and

³⁸ Paragraph 24 to 26 of the APM Guidelines.

³⁹ Paragraph 28 of the APM Guidelines.



outside the primary financial statements, a reconciliation is not required (as per paragraph 29 of the Guidelines and ESMA Q&A 2) and thus it was considered that compliance with this principle was not applicable in relation to those APMs. In the case of ratios, it was considered that an issuer complied with the Guidelines if, together with the APM or in a glossary, both the numerator and the denominator of the ratio was included. If the numerator or denominator was not extracted directly from the financial statements (i.e. directly identified as such), it was verified if these components were also defined and reconciled back to the GAAP figure as per ESMA Q&A 3.

- v. **Explanations:** ESMA considered whether issuers included explanations justifying the use of each APM, including APMs presented inside primary financial statements, and whether these explanations were informative. With regard to the latter, it was verified if the explanation included an indication on how the issuer used the APM when taking its decisions and / or how analysts and investors should consider it.
- vi. **Prominence:** When assessing prominence, ESMA considered the criteria set out in ESMA Q&A 9 on the APM Guidelines. In management reports, it was considered whether the analysis of the performance was accompanied by an analysis to figures directly extracted from the financial statements. In ad-hoc disclosures, it was examined whether more emphasis was given to APMs compared with GAAP figures. The principle of prominence was assessed taking into account the whole document and not only parts or sections.
- vii. **Comparatives:** It was verified if issuers included comparatives for the previous years as per ESMA Q&A 7 for the APMs presented.
- viii. **Consistency:** ESMA assessed whether APMs and / or their definitions were used consistently in the same document from different years (e.g. APMs in the 2018 annual management report were compared with APMs in the 2017 annual management report) and if there was consistency across different documents representing the same reporting period (e.g. APMs in the 2018 ad-hoc disclosures were compared with APMs in the 2018 annual management report). When there was consistency on the APMs used in the situations referred to above, it was considered that this principle was complied with. When this was not the case, information explaining this divergence was sought. If this information was disclosed, it was considered that the principle in the Guidelines was complied with.

Finally, while the APM Guidelines refer to the compliance by reference, this should be considered a practical expedient and not a disclosure principle. As such, it is not considered in the list set out above, and its application was assessed together with the other principles.

Nevertheless, when the compliance by reference expedient was used by issuers, ESMA verified if paragraphs 45 to 48 of the APM Guidelines were complied with and thus a



specific reference to a webpage, section of a document or page was included together with the APM used.



Appendix III – Non-Adjusted Measures according to EFFAS Guide

THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES - EFFAS Definition Guide

Assets Under Management	Off-balance assets managed by the company for third parties. The value of those assets is based on market prices.
Capex (Gross Capex) (Reported)	Total Capital Expenditure = sum of Maintenance Capex and New Investments Capex (or growth Capex).
Cash Flow from Operations (before change in Net Working Capital and before Capex))	CF from Operations before NWC and before Capex = EBITDA (Reported) +/- organic increase in provisions + Dividends from non-consolidated companies - paid Taxes.
Commissions (Reported)	Difference between commissions received and commissions paid on banking fees, dealing fees, fees on assets under management etc.
Cost of Sales and Operating Costs (including Personnel Expenses)	This item includes the company's main operative costs including Personnel Expenses (shown separately below) such as: cost of sales, selling expenses, general and administrative expenses, research and development expenses, service costs and all the other recurrent operating costs.
Cost/Income (Reported)	Cost/Income is total Operating Costs divided by total Banking Revenues.



Customer Deposits

These include only the deposits from customers (excluding banks).

EBIT (Reported) or Operating Result (non-financial sectors)

EBIT = Earnings Before Interest and Tax. EBIT is defined as operating result after Depreciation, Amortisation, Provisions, Write Downs and Impairments, before Interest (also on pension provision for Germany), Associates & Tax. or

EBIT (Reported) = Sales - Cost of Sales and Operating Costs (including Personnel Expenses) +/- Non-Recurrent Expenses (Income) - Depreciation – Amortisation – Provisions, Write Downs and Impairments

EBITDA (Reported)

EBITDA = Earnings Before Interest, Tax, Depreciation & Amortisation. EBITDA is defined as operating result after non-recurring operating items (e.g. restructuring costs, start-up costs, etc.), before Depreciation, Amortisation & Write Downs, before Interest (also on pension provision for Germany), Associates & Tax. EBITDA = Sales - Cost of Sales and Operating Costs (including Personnel Expenses) +/- Non-Recurrent Expenses (Income).

EBITDA Margin or EBIT margin (%)

EBITDA or EBIT divided by Sales.

Free Cash Flow (FCF) or Cash Flow to Equity

FCF = OpFCF – Net Financial Interest – Growth Capex +/- Net Financial Investments/Divestments (+ Divestments – Financial Investments).



Gearing (Reported) (%)	$[D/(D+E)]$ Debt divided by the sum of Equity and Net Debt.
Gross Profit	Sales minus Cost of Goods sold (for manufacturing companies) or Cost of Services provided (for service companies), before Personnel Expenses.
Loans/Deposit Ratio (Reported)	Customer Loans divided by Customer Deposits.
Loans/Deposit Ratio (Reported)	Customer Loans divided by Customer Deposits
Net Capital Employed (CE) or Net Total Assets	CE = Net Fixed Tangible Assets + Net Fixed Intangible Assets (excluding Goodwill) + Goodwill + Net Financial Assets + Net Working Capital.
Net Capital Employed (CE) = Net Capital Invested (CI)	See previous
Net Capital Invested (CI) or Net Total Liabilities	CI = Shareholders' Equity+ Minorities Equity + Provisions + Net Debt + Other Net Liabilities (or - Other Net Assets).
Net Debt (Net Financial Debt) (Reported)	Long-term financial debt + short-term financial debt - cash - cash equivalents.
Net Debt / EBITDA (Reported)	Net Debt divided by EBITDA.
Net financial Interest or Financial results (Reported)	Difference between interest payments received on loans outstanding and interest payments made to customers on their deposits.



Net Working Capital (NWC) – Detailed definition	Inventories + Trade Receivables + Other Receivables and other Current Assets - Current Liabilities - Provisions and Deferred Taxes.
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NPL coverage (Reported)	(LLP/Loans) divided by NPL gross ratio.
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Operating Costs (Reported)	Sum of personnel costs, general & administrative expenses and amortisation and depreciation on tangible and intangible assets. It may also include integration costs. It also includes the IFRS “Non-Operating Provisions” made for risks, not related to the loan book.
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Operating Profit (OP) or Operating Results (financial sector)	Operating Profit = Pre-Provision Profit – Loan Impairment Charges
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Personnel Expenses	Wages and salaries, social security contributions, severance pay costs, costs related to other defined benefit plans, costs related to defined benefit plans, employee disputes, reorganisation costs, other costs
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Pre-Provision Profit (PPP)	Pre-Provision Profit = Total Revenues– Operating Costs – Other Operating Provisions
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Results from Financial Investments	Results from financial investments include disposal gains and gains and losses on available-for-sale securities and other investment securities.
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ROCE (Reported) (%)	$\text{NOPLAT} / (\text{CE} - \text{Net Financial Assets}) = [\text{EBIT} * (1 - \text{Normative Tax Rate})] / (\text{Capital Employed} - \text{Net Financial Assets})$
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ROE (Reported) (%)	Net Profit divided by Shareholders' Equity (end period).
ROTE (Reported) % (Return on Tangible Equity)	Net Profit divided by the two-year (according to fiscal year end) average of Tangible Book Value (Goodwill adj.).
