Applying IFRS

Alternative Performance Measures

October 2018

Building a better working world

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What you need to know

- Alternative performance measures (APMs) may supplement GAAP-reporting, and often represent an effective way of communicating important entity specific developments.
- However, APMs need to be accompanied by the appropriate descriptions and disclosures to avoid the risk of misleading the users of the financial reports.
- Regulators in many jurisdictions have issued guidelines for the use of APMs that are helpful benchmarks when developing communication strategies and preparing financial reports. Entities should be mindful of these guidelines, both for compliance purposes and to facilitate effective communication.

1. Introduction

1.1 Background

Financial statements are the cornerstone of financial reporting for entities. In addition to Generally Accepted Accounting Principles (GAAP) measures, management often uses a variety of other financial measures to communicate information about an entity's financial performance, financial position and cash flows. Against the backdrop of recent calls for enhanced corporate reporting, this publication explores the use of such performance measures in the communication of financial information. Although performance measures may have various names, including non-GAAP (or non-IFRS) measures and Management Performance Measures (MPMs), this publication refers to all such performance measures as Alternative Performance Measures (APMs).

What are Alternative Performance Measures?

Although financial statements are essential to any entity's financial reporting, the financial statements represent only one of several reports used by entities to communicate decision-useful information. Entities often find that key performance measures beyond the ones reported in the financial statements add value to users, in particular, to enhance the users' ability to predict future earnings. User communities generally apply APMs actively in their analysis, and, as such, APMs are an important aspect of entities' communication of financial information.

APMs are financial measures not defined in the applicable reporting framework. What an APM is, therefore, will depend on the applicable reporting framework. This publication takes the perspective of an entity that applies IFRS in its financial statements, disregarding any jurisdictional requirements affecting the reporting framework and, thus, what is to be considered an APM.

APMs include financial measures, such as subtotals, presented in the financial statements, if they are not defined in the relevant reporting framework. Many APMs, however, are derived by adjusting measures presented in the financial statements and/or by combining such measures, for example, in calculating various ratios, margins and return measures. While profit measures are typically the most common, measures based on balance sheet items and cash flows are also used in practice.

The use of APMs in financial communication is pervasive. Various reviews of local regulators and enforcers have indicated that almost all listed entities use APMs in their annual and interim reports. The number of APMs used, however, varies considerably. While some entities only use a few, other entities use more than ten or even more than twenty.

These reviews have also confirmed the use of a wide variety of APMs. The Irish enforcer reported finding no less than 126 different APMs in the 2016 annual reports of 27 issuers[1].

One reason for the large number of different APMs is the diversity in adjustments made to measures in the financial statements. Profit measures may, for example, be adjusted for a large number of items of income or, what is more often the case, expenses. This includes, but is not limited to impairment charges, depreciation and/or amortisation in general, or related to specific assets (e.g., acquired intangible assets), restructuring expenses, other income and expenses (in general or a specific sub-group) and/or fair value changes relating to specific types of assets or liabilities.

[1] Irish Auditing and Accounting Supervisory Authority (IAASA) (September 2017) *Alternative performance measures - thematic survey*.

Another reason for the number of different APMs is diversity in labelling. For example, a profit measure that has been adjusted for various items may simply be labelled "adjusted", or it may be labelled as "adjusted for special items/one-off items/items affecting comparability", or something similar. Alternatively, the label may specifically identify all adjustments that have been made.

Why use APMs in financial communication?

The widespread use of APMs in financial communication is not an indication that GAAP-compliant financial reporting is deficient. Indeed, analysts and investors often use a combination of IFRS measures, reported APMs and their own measures to evaluate an entity's prospects and risks. This suggests that APMs not only complement IFRS measures, but also each other.

The complementary use of APMs in financial communication may offer valuable insights to users of financial statements by highlighting key value drivers and/or the effects of certain events and transactions on the entity's performance, financial position or cash flows. APMs may be used to explain an entity's performance from the management's perspective and/or to provide comparability with peers.

When externally reported APMs are aligned with the measures used internally for management purposes, they may also convey information about how management understands and manages the entity. Similarly, the external reporting of APMs used in the remuneration of management, may communicate information about how management is held accountable.

What are the concerns?

While APMs are generally considered to add value to an entity's financial reporting, there is concern over their increasing use. One reason for this concern is a perception of increasing disparity between APMs and IFRS measures. For example, in 2013 the New Zealand Financial Markets Authority indicated that reported non-GAAP profits for a sample of 23 issuers exceeded GAAP profits by 76%.[2]

The debate has highlighted an area for concern that APM adjustments often have a favourable impact on the IFRS measures and that adjustments are made for the effect of events or transactions that are not unusual. Such observations raise questions of management bias.

Concerns also stem from perceptions of inconsistencies in which APMs are presented over time, and a lack of transparency regarding the calculation of the APMs. Furthermore, there are concerns that APMs are used in ways that may mislead investors, analysts and other stakeholders, a concern that is strengthened because of the lack of external assurance.

Another key concern relates to the lack of comparability across entities, even across entities within the same industry.

Guidelines for APMs outside the financial statements

In recent years, several regulators have published guidelines on the use of APMs outside the financial statements. These guidelines neither encourage the use of APMs in general, nor prescribe particular APMs. Instead, they encourage or require entities to adopt various practices to ensure unbiased and transparent information on financial performance, financial position and cash flows.

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[2] New Zealand Financial Markets Authority, *Monitoring of non-GAAP disclosures* (September 2013).

Enforcers also challenge preparers on their use of APMs and urge reporting entities to improve disclosures around APMs. Some enforcers have also conducted thematic reviews on the reporting of APMs and compliance with relevant guidelines.

Others, such as users' organisations, have also issued recommendations and guidelines about APMs. Considering the fact that the overall objective of APMs is to provide decision useful information to the users of financial statements, such guidelines should be considered by entities when developing performance measure strategies and deciding on specific APMs. Various recommendations and guidelines by user organisations across jurisdictions and markets are not commented on in this publication.

APMs in the financial statements

In light of the concerns that APMs potentially mislead analysts, investors and other users of financial statements, the International Accounting Standards Board (IASB) has decided to address the issue in the context of financial statements reporting.

1.2 About the publication

Section 2 *APMs outside the financial statements* provides an overview of guidelines on the use of APMs outside the financial statements. Some of the findings of reviews on the use of APMs outside financial statements by enforcers are also included. For each topic area that is considered, extracts from financial reports illustrating existing practices are provided.

The extracts from financial reports are reproduced for illustrative purposes. They are not intended to represent "best practice". They have not been subject to any review on compliance with relevant guidelines on the use of APM outside financial statements. Readers are thus advised to carefully consider relevant jurisdictional requirements and restrictions before adopting any of the practices contained in extracts reproduced in this publication. Please note that the extracts should be read in conjunction with the rest of the information provided in the financial reports in order to understand their intended purpose.

Section 3 *APMs in the financial statements* summarises the ongoing discussions regarding presentation and disclosure of APMs within financial statements.

In Section 4 *Project Management*, the more practical aspects of using APMs from an entity's perspective are addressed.

How we see it

- APMs may enhance financial communication.
- The wide range of different APMs underlines the need for transparency in what they represent and the messages they are intended to convey.
- For APMs to be useful, entities need to critically assess the purpose of disclosing them, and clearly articulate the message conveyed by an APM in the communication in which the APM is reported.

2. APMs outside the financial statements

Regulators in various jurisdictions have issued guidelines on the use of APMs in financial communication. The objective of these guidelines is to require, or encourage, entities to adopt good practices in the presentation of APMs. This chapter summarises the guidelines published by the International Organization of Securities Commissions (IOSCO) and other regulators[3]. The chapter also outlines comments made by various enforcers on the compliance with these guidelines. Finally, the chapter also includes examples illustrating current practices of reporting entities.

Guidelines on the use of financial APMs	
International Organization of Securities Commissions (IOSCO)	**Statement On Non-Gaap Financial Measures** (2016) The guidelines apply to any non-GAAP financial measure that an entity discloses outside of the financial statements.
European Securities and Markets Authority (ESMA)	**Guidelines on Alternative Performance Measures** (2015) The guidelines apply to APMs disclosed outside financial statements in regulated information and prospectuses. **Questions and answers - ESMA guidelines on Alternative Performance Measures** (2017/2018) ESMA has provided Q&As to promote common supervisory approaches and practices in the application of the ESMA Guidelines on APMs.
USA	**Regulation S-K, Regulation G, Form 8-K, Compliance and Disclosure Interpretations** The regulations and interpretations provide guidance on the use of non-GAAP financial measures.
Canada	**CSA Staff Notice 52-306 (Revised) Non-GAAP Financial Measures issued** (2016) The primary purpose of this notice is to provide guidance to an issuer that discloses non-GAAP financial measures.
South Africa	**Circular 4 of 2018 issued by the South African Institute of Chartered Accountants (SAICA)** The circular provides guidance on the requirement to disclose headline earnings for companies listed on the JSE Limited.
Australia	**Regulatory Guide 230 – Disclosing non-IFRS financial information** (2011) The guide sets out guidance on the use of financial information in financial reports and other corporate documents, such as transaction documents and market announcements, where that information is presented other than in accordance with accounting standards (non-IFRS financial information).

[3] Other regulators' guidelines considered in this chapter include those listed in the table below. There are other local regulators that have issued similar APM-guidelines, and as such, the list is not intended to represent a complete list of existing APM guidelines.

New Zealand	**Disclosing non-GAAP financial information (updated)** (2017) The guidelines are primarily intended for Financial Markets Conduct Act reporting entities (FMC reporting entities) and their directors.
Singapore	**Practice Note 7C Guide for Operating and Financial Review** (2011) The Practice Note publishes the guide provided by the Council on Corporate Disclosure and Governance on the Operating and Financial Review in an annual report.

The discussion in sections 2.1 to 2.9 consider the guidelines issued by IOSCO as the basis and highlights similarities, differences and any other relevant aspects in guidelines issued by other regulators that might be useful to the preparers.

The table below provides a high-level summary of the requirements in the guidelines issued by different regulators and provides references to more detailed discussions elsewhere in the publication.

Summary of requirements in guidelines	
Overall concept	
Neutrality *(refer section 2.1)*	APM must be unbiased and must not be used to avoid presenting information that could have an adverse impact to the investors.
Prominence *(refer section 2.2)*	APMs must not be presented with greater prominence than the most directly comparable measure calculated and presented in accordance with GAAP.
Comparatives and consistency *(refer section 2.3)*	APMs must be accompanied by comparative information for the prior years presented in the financial reports. Their definition should not change over years and their presentation should be consistent over all periods presented.
Presentation and disclosure	
Labels *(refer section 2.4)*	In the context of APMs, labels refer to headings or the descriptions used to describe the APM. APMs must be labelled in a way that they are distinguished from GAAP measures. Labels must be meaningful and should reflect the composition of the APM.
Definitions *(refer section 2.5)*	APMs must be clearly defined with an explanation of their basis of calculation.
Reconciliations *(refer section 2.6)*	APMs must be reconciled to the most directly comparable GAAP measure presented in the financial statements with explanation of the adjustments made.

Explanations *(refer section 2.7)*	Entities must explain the reason for presenting the APMs, including an explanation of why the information is useful.
Placement	
Location *(refer section 2.8)*	In general, the guidelines do not include any specific guidance with respect to location of APMs and related disclosures.
Other	
Assurance *(refer section 2.9)*	Guidelines issued by regulators addressed in this publication generally do not include any specific requirements with respect to assurance of APM measures.

Some enforcers have conducted thematic reviews on the reporting of APMs and compliance with relevant guidelines. While these reviews generally report that entities have made improvements to their APM practices in recent years, they also suggested that there is room for further improvement.

Reviews on the application of ESMA guidelines	
EU **ESMA**	**Enforcement and Regulatory Activities of Accounting Enforcers in 2017 (March 2018)** Review of 170 annual 2017 financial reports of which around 75% used APMs. While acknowledging an enhancement of disclosures related to APMs in recent years, ESMA noted that there still is "room for further improvement" and that enforcement actions were taken against 35 of the issuers in relation to the use of APMs. In two cases, the decisions required the publication of a corrective note.
Ireland **Irish Auditing and Accounting Supervisory Authority (IAASA)** [4]	**Alternative performance measures - thematic survey (September 2017)** Review of the 2016/17 annual financial reports published by all 28 equity issuers and one debt issuer within IAASA's remit. 27 issuers in the sample used APMs. IAASA reported raising issues relating to APMs with seven of these issuers.
The Norwegian Financial Supervisory Authority	**Alternative performance measures – thematic review**[5] **(September 2017)** Self-administered survey of 228 issuers' compliance with the ESMA guidelines in the 2016 interim financial reports, and a review of the 2016 annual reports of 22 issuers included on the most traded index. Based on the review, the Norwegian FSA concluded that the degree of compliance with the ESMA guidelines was too low, and it also observed that there is an expectation gap between entities' intention to comply and their actual compliance.

[4] Irish Auditing And Accounting Supervisory Authority.
[5] This report is not available in English. Original title in Norwegian: Tematilsyn om Alternative Resultatmål.

UK Financial Reporting Council (UK FRC)	**Corporate reporting thematic review: Alternative performance measures (APMs) (November 2017)** Targeted review of the APM disclosures in the 2016 annual report of 20 UK issuers. APMs were used in all reports. The UK FRC concluded that compliance with the guidelines was generally good and much improved compared with previous years. In an earlier review, the FRC looked at the use of APMs in 2016 interim statements.[6]

How we see it

Enforcers report improved APM practices in several jurisdictions. However, practice is still mixed and entities need to continue exploring ways to achieve more effective use of APMs.

2.1 Neutrality

What the guidelines say

The guidelines issued by IOSCO specifically require that APMs must not be biased, i.e., used to avoid presenting adverse information to the market. In other words, APMs should be neutral. Neutrality is a key concept in other regulators' guidelines as well. For instance, the Canadian Staff Notice states that APMs must not be used to mislead investors. Some regulators make use of more specific requirements to underline the importance of neutrality. For instance, the US Securities and Exchange Commission (SEC) requirements and its Staff guidance prohibit, in certain circumstances, entities from adjusting for charges or liabilities that require, or will require, cash settlement, or would have required cash settlement absent an ability to settle in another manner in their APMs on liquidity.

While it may appear that the ESMA guidelines do not address the concept of neutrality, ESMA has indicated, through a Q&A issued in October 2017[7] that a biased measure may not be compliant with the spirit of the guidelines. This follows from the objective of the guidelines to contribute to transparent and useful information to the market and improve comparability, reliability and/or comprehensibility of APMs used.

[6] Corporate reporting thematic review: Alternative performance measures (APMs) (November 2017).
[7] Question 17 in "Questions and answers - ESMA Guidelines on Alternative Performance Measures (APMs)", 30 October 2017 ESMA32-51-370.

ESMA Q&A 17; Application of the Fair review Principle
Question 17: Application of the Fair review principle to APMs; Paragraphs 6, 8 and 22 of the APM Guidelines. Date last updated: October 2017 **Question:** May APMs representing a biased measure of performance (i.e. a measure that includes one-off gains but disregards one-off related losses) violate the APM Guidelines even if they are correctly labelled? **Answer:** In accordance with paragraph 8, the APM Guidelines are based on the principle stated in Articles 4 and 5 of the Transparency Directive of providing a fair review of the development and performance of the business and the position of the issuer. In addition, the overall objective of the APM Guidelines, as prescribed in paragraph 6 of the Guidelines, is to contribute to transparent and useful information to the market and improve comparability, reliability and/or comprehensibility of APMs used. Depending on facts and circumstances, presenting biased APMs which are adjusted to exclude only one-off losses but including, where applicable, one-off gains of the same nature and occurring during the same period may violate the principles set out in articles 4 and 5 of the Transparency Directive and be contrary to the overall objective of the APM Guidelines. Depending on facts and circumstances, this may be true irrespective of whether these APMs are correctly labelled as the fair labelling may not compensate for the fact that the APMs provided an unfair review of the development and performance of the business and the position of the issuer. Therefore, depending on facts and circumstances, a biased measure of performance may not be compliant with the APM Guidelines.

What the enforcers report

Some enforcers have expressed concerns regarding the nature of adjustments made to statement of profit or loss and other comprehensive income related APMs, and whether these adjustments facilitate neutrality. For example, recent SEC comment letters to Foreign Private Issuers illustrate that the SEC is monitoring practices to ensure unbiased adjustments of performance measures. The SEC has objected to the removal of normal cash operating expenses in APMs, as well as the exclusion of non-recurring losses combined with inclusion of non-recurring gains. For examples of comments relating to the application of the ESMA guidelines, please see the table below:

Reviews on the application of ESMA guidelines: Neutrality	
Ireland IAASA	**Alternative performance measures - thematic survey (September 2017)** The IAASA reported one case where the enforcer questioned an entity's rationale for excluding all amortisation charges on "intangible assets not acquired by acquisition (e.g., software costs)" in the calculation of an earnings measure. The question resulted in the entity undertaking to amend the APM in future financial reports.
UK FRC	**Corporate reporting thematic review: Alternative performance measures (APMs) (November 2017)** In a section focusing on adjusted profit measures, the FRC noted that, typically, entities exclude items from the profit measures and that all but three of the entities excluded at least five items from adjusted profit measures. Nine entities in their sample excluded more than six items. The FRC also reported that in all but three cases, the adjusted measures of profit were higher than the IFRS equivalent and that the range of difference was considerable (from 72% below to more than 300% above).

Noting that three entities adjusted for expenses relating to share-based payments, the FRC states that it is not clear "why share-based payment charges should be excluded as they appear to be a valid cost of the business and relieve companies of an alternative cash expense". The FRC similarly expressed scepticism to adjustments relating to amortisation of intangible assets, observing that there is an apparent lack of symmetry in excluding amortisations when the assets being amortised contribute to the profits generated by the business.

What reporting entities can do

Obviously, the requirement that APMs be unbiased does not preclude entities from making adjustments to measures presented in the financial statements. Quite the contrary, APMs often represent useful additional information beyond what is prescribed by the relevant reporting framework. But entities need to distinguish between adjustments to GAAP-numbers that present a meaningful alternative measure of an entity's performance and other adjustments. It is especially important that entities explain why a measure is useful and for what purpose. For example, adjusting for truly infrequently occurring items may be helpful in assessing recurring income, adjusting for items that do recur, such as impairment losses, may not. In other cases, for other purposes, it may make good sense to focus on an earnings measures adjusted for interest expense and tax. The requirement for unbiased measures also require entities to be mindful not to only adjust for losses, but also take into consideration the corresponding positive amounts. Otherwise the measure may potentially mislead users.

Extract 2.1.1 Holmen publ AB (Q4 2017) ***Sweden***

Use of performance measures

Holmen uses performance measures to supplement measures defined by IFRS or directly in the income statement and balance sheet in order to clarify the company's financial position and performance.

Earnings measures

Operating profit is the principal measure of earnings that is used to monitor financial performance. It includes all income and costs, as well as depreciation/amortisation of non-current assets. EBITDA is used as a supplementary measure to illustrate the cash flow that a business area generates before investments and changes in working capital, excluding items affecting comparability. For the Forest business area, the measure 'profit before changes in value' is used, which summarises operating profit/loss excluding changes in the fair value of biological assets. To clarify how these earnings measures are affected by matters outside normal business operations, such as impairment, disposal, closure and fire, the term 'items affecting comparability' is used. The purpose is also to increase comparability between different periods. The effects of maintenance and rebuilding shutdowns are not treated as an item affecting comparability.

	Quarter			Full year	
SEKm	**4-17**	3-17	4-16	**2017**	2016
EBITDA	**567**	692	756	**2 742**	2 865
Depreciation and amortisation according to plan	**-246**	-249	-249	**-991**	-1 018
Change in value of forests	**100**	150	72	**415**	315
Operating profit excl. items affecting comp.	**421**	593	579	**2 166**	2 162
Items affecting comparability	**-**	-	-	**-**	-232
Operating profit	**421**	593	579	**2 166**	1 930

	Quarter			Full year	
SEKm	**4-17**	3-17	4-16	**2017**	2016
Earnings before change in value of forests	**158**	117	201	**654**	686
Change in value of forests	**100**	150	72	**415**	315
Operating profit of forest	**258**	267	273	**1 069**	1 001

For 2016, earnings were impacted by a net amount of SEK -232 million from the sale of the mill in Spain and insurance compensation for reconstruction following a fire at Hallsta Paper Mill, which were treated as items affecting comparability.

Commentary

In the interim report for the fourth quarter of 2017, Holmen presents various APMs, including operating profit excluding the effect of items affecting comparability. In the APM related disclosures, which are provided at the end of the interim report, Holmen explains that it classifies certain items as "items affecting comparability" in order to reflect how earnings measures are "affected by matters outside normal business operations, such as impairment, disposal, closure and fire". Holmen also explains that the effects of maintenance shutdowns, which are recurring events in Holmen's business, are not treated as an item affecting comparability. Items classified as affecting comparability are separately identified (final sentence in extract).

2.2 Prominence

What the guidelines say

Guidelines issued by IOSCO require entities not to present APMs with more prominence than the most directly comparable measure calculated and presented in accordance with GAAP. They also require that APMs should not, in any way, confuse or obscure the presentation of the GAAP measures.

Similarly, ESMA guidelines require that entities do not present APMs with greater prominence, emphasis or authority than measures presented in the financial statements. The guidelines further require that APMs should not distract from measures directly stemming from financial statements.

While the concept of prominence is not defined in any of the guidelines, ESMA has addressed the meaning of prominence through a Q&A.[8] Emphasising that entities should apply judgement when complying with this principle, ESMA first suggest some factors that entities should consider in doing this. These include the location of the APMs within the document, the frequency of use and the use of different fonts (e.g., bold or a larger size). ESMA also provides a number of examples illustrating when APMs may be perceived as being presented with more prominence.

[8] Question 9 in Questions and answers: ESMA Guidelines on Alternative Performance Measures (APMs), October 2017 | ESMA32-51-370.

ESMA Q&A 9: Concept of prominence – illustrative examples

The following illustrative examples may help understand disclosure of APMs being more prominent than disclosure of measures stemming directly from financial statements:

- Presenting an analysis of the income statement only with APMs;
- Omitting comparable measures stemming directly from financial statements in an earnings result release headline or in their key messages;
- Presenting an APM using a style of presentation (e.g. bold, font size) that overly emphasises the APM used over the comparable measure stemming directly from financial statements;
- Presenting an APM significantly before the most directly comparable measure directly stemming from financial statements (e.g. including the APM in the 1st page of a document and the comparable measure/figure directly stemming from financial statements in the last page);
- Describing an APM as, for example, "record performance" or "exceptional" without at least an equally prominent descriptive characterisation of the comparable measure directly stemming from financial statements;
- Providing tabular disclosure of APMs without (i) preceding/accompanying it with an equally prominent tabular disclosure of the comparable measures stemming from financial statements or (ii) including the comparable measures stemming from financial statements in the same table;
- Providing a discussion and/or analysis of an APM without any reference to the comparable measure/figure stemming directly from financial statements.

The Australian Regulatory Guide provides further guidance in respect of determining whether equal or greater prominence, emphasis or authority is given to IFRS financial information in a document that presents non-IFRS financial information. The guidelines state that it is a matter of judgement, taking into account the overall document. The guidance further states that consideration should be given to factors such as: (a) the order and manner in which the IFRS and non-IFRS figures are presented; and (b) providing a similar level of attention to reconciling items between IFRS and non-IFRS figures as is given to components of non-IFRS figures, based on their relevance and materiality.

What the enforcers report

The reviews by enforcers highlighted the existing diversity in the presentation and disclosure of APMs with regard to the issue prominence. While ESMA reports that prominence was an issue in 10% of the annual reports that were reviewed, the reports from the national enforcers range from no overall concern to issues being identified in every third report. Two of the reports highlighted that prominence often remains an issue in narrative parts of financial reports such as the chairperson's statement.

Reviews on the application of ESMA guidelines: Prominence

ESMA	**Enforcement and Regulatory Activities of Accounting Enforcers in 2017 (March 2018)** ESMA reported that APMs were displayed with more prominence than figures stemming from the financial statements in 10% of the 170 annual financial reports for 2016 that it reviewed.

Ireland IAASA	**Alternative performance measures - thematic survey (September 2017)** IAASA reported that a third of the issuers that used APMs in the reviewed reports discussed APMs in narrative disclosures such as the chairperson's report, with no discussion or reference either to relevant IFRS measures or other measures directly stemming from the financial statements.
The Norwegian FSA	**Alternative performance measures – thematic review[9] (September 2017)** The report from the Norwegian enforcer first presented the findings from a self-administered survey completed by 228 issuers during 2016. The responses to six questions which are reproduced below suggest that 15-28% of the issuers presented APMs with greater prominence than measures presented in the financial statements:
UK FRC	**Corporate reporting thematic review: Alternative performance measures (APMs) (November 2017)** The UK FRC reported that most of the reports in the sample, taken as a whole, gave equal prominence to APMs and IFRS measures. Unbalanced prominence was, however, more of an issue in sections such as the chairperson's statement.

Assessment criteria:	
APMs presented before IFRS measures	27%
APMs used more often than IFRS measures	23%
A more extensive coverage of APMs than IFRS figures	16%
Only mentions APMs in summary	15%
Mentions APMs in headings	28%
Presents APMs in bold	21%

The FRC acknowledged that different views may be taken on when prominence is an issue. Thus, when comparing the findings in different surveys, discrepancies may be related to methodology.

9 This report is not available in English. Original title in Norwegian: Tematilsyn om Alternative Resultatmål.

UK FRC: Operationalisation of prominence

The Guidelines state that APMs should not be displayed with more prominence, emphasis or authority than measures directly stemming from the financial statements. For the purposes of the earlier exercise, we took the view that, if an APM appeared as a line item in the IFRS income statement, then, as the measure directly stemmed from the statements, prominence was not an issue.

For the present exercise, we have taken the opportunity to refine our expectations regarding prominence. We are now taking the position that prominence is not an issue if the APM appears in the IFRS column of a multi-column income statement. If the APM does not fulfil that criterion, then we would expect a corresponding measure which does fulfil the criterion to be presented alongside, with equal prominence. For 13 (65%) of the companies in our sample, either the APM presented appeared in the IFRS column or a corresponding measure that did was shown with at least equal prominence.

Commentary

In the extract above, the UK FRC comments on how it has operationalised the concept of prominence in two consecutive thematic reviews of the use of APMs. The first one, published in November 2016, considered the interim financial statements of 20 listed companies published just after the ESMA guidelines came into force. The second, published in November 2017, focused on APMs in the 2016 annual reports for 20 listed companies.

What reporting entities can do

In order not to present APMs with undue prominence, entities should consider the order and frequency in which APMs and GAAP measures are presented. One way entities deal with the issue of prominence is to consistently present corresponding measures side by side in tables and figures. See, for example, extracts 2.2.1 and 2.2.2. As mentioned, entities also need to consider the issue of prominence in narrative sections such as the chairman's letter. The importance that users often attach to such sections only underpins the requirement to apply the guidelines in such sections as well.

Extract 2.2.1 Berendsen plc (2016) *UK*

Financial review

Maintaining a strong balance sheet to provide a platform for future capital expansion.

"The Group is well placed to take advantage of good market opportunities and is increasing its investment to make the most of these opportunities."

Kevin Quinn
Chief Financial Officer

Key financial measures

Statutory	2016 £m	2015 £m
Revenue	1,110	1,018.1
Revenue growth	9%	
Operating profit	140.7	132.1
Operating margin	12.7%	13.0%
Operating profit growth	6.5%	
Operating profit before tax	120.3	113.4
Basic earnings per share	53.3	51.9
Net debt to EBITDA	1.31	1.23

Alternative Performance Measures	2016 £m	2015 £m
Underlying revenue growth	2%	
Adjusted operating profit	161	153.8
Adjusted operating margin	14.5%	15.1%
Adjusted operating profit growth	5%	
Adjusted profit before tax	140.6	135.1
Adjusted underlying profit growth	(4%)	
Adjusted earnings per share	63.1	60.4
Adjusted net Debt to EBITDA	1.0	1.0

Alternative performance measures

Underlying revenue and underlying revenue growth
This is defined as year on growth in revenue excluding the impact of foreign currency translation and acquisitions or disposals and is a good indicator that we are capturing the opportunities available to us in our existing markets.

Adjusted operating profit, adjusted operating margin and adjusted profit before tax
Adjusted operating profit is the basis that the Group uses for its adjusted earnings per share calculation. The adjusted operating profit is presented to eliminate the impact of exceptional items, amortisation of customer contracts and non-recurring tax items for a transparent comparison of the year-on-year performance of the Group's operations. Amortisation of customer contracts arising from acquisitions is excluded from adjusted profit to avoid potential double counting of these costs within such measures.

Adjusted underlying profit growth
This is defined as year-on-year growth in adjusted operating profit after adjusting for the impact of foreign currency translation and acquisitions and disposals. This measure gives a good indication of the underlying growth in the Group's business activities.

Adjusted EPS
This shows EPS based upon adjusted operating profit. This presentation is shown because, in the opinion of the directors, this represents additional information to the readers of the financial statements, providing information attributable to the underlying activities of the business.

Adjusted net debt to EBITDA
This adjusted ratio is presented in accordance with the terms of the Group's Revolving Credit Facility. We believe that this ratio best captures the sustainability and soundness of our financial position. The ratio divides net debt, borrowings adjusted for cash deposits, by adjusted earnings before interest tax, depreciation and amortisation.

See page 49
for Reconciliation of statutory
and alternative performance measures

Commentary

In the Financial Review section of the 2016 annual report of Berendsen plc key GAAP financial measures and APMs are presented side-by-side, which allows a reader to consider the two in conjunction with each other.

Extract 2.2.2 Balfour Beatty plc (2017) *UK*

Highlights

The Group has presented financial performance measures which are considered most relevant to the Group and used to manage the Group's performance. An explanation of these measures and appropriate reconciliations to statutory measures are provided on pages 38 to 43.

Safe

0.17

2016: 0.22

Lost Time Injury Rate, excluding international JVs

1 Underlying revenue and order book include share of joint ventures and associates.
4 Re-presented to classify the Group's 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC as discontinued operations.
* A reconciliation of the Group's net cash measure to the statutory measure is provided on page 41. Non-recourse net borrowings are cash and debt that are ringfenced within certain infrastructure concession project companies.

See page 13 for our KPIs

Commentary

Financial reports often give prominence to APMs through graphical emphasis. One exception to this is reproduced above. Continuing underlying revenue is presented alongside statutory revenue, continuing underlying loss/profit from operations is matched with statutory loss/profit for the year and continuing underlying loss/profit per share is matched with statutory EPS. Alongside the bar charts, is a clear cross reference to APM related information.

How we see it

Ensuring that APMs are not presented with more prominence than measures from the financial statements can be challenging. A useful technique, however, is to ground discussions in financial statement measures and use APMs to expand/elaborate on the issue at hand.

2.3 Comparatives and consistency

What the guidelines say

Guidelines issued by IOSCO require that APMs be provided for comparative periods and presented consistently over time. ESMA includes requirements similar to IOSCO and clarifies that the requirement to present comparative information also extends to reconciliations.

IOSCO further requires an entity that chooses to change the composition of the APMs to explain such changes and the reason for making them. An entity should further provide comparative figures for the prior period, with APMs adjusted to reflect the change in composition. In case an entity determines it will no longer present a particular APM, the reason should be explained.

In situations where APMs relate to forecasts or estimations, ESMA requires the comparatives to be in relation to the last historical information available. If an entity decides to change an APM, it should explain the nature and the reason for making this change, including why the revised APM is more relevant. If the change relates to the definition or the method of calculating an APM, an entity also needs to restate comparative numbers. In doing this, the guidelines require entities to use information available at the end of the financial period for which the APM was presented without incorporating effects of events occurring after that moment, i.e., not to use hindsight in restating of comparatives.

Where it is impracticable to provide comparatives, ESMA requires an entity to disclose its impracticability and explain the reasons it is unable to provide comparatives. ESMA has also clarified that entities cannot avoid presentation of comparatives by including them by cross-reference, i.e., by referring to another document where they are available, similar to what may be done for, for example, definitions and explanations.

The regulations in some jurisdictions or certain aspects of those regulations might be different from those issued by IOSCO. For example, in South Africa, the listing requirement requires an entity to present Headline Earning Per Share (HEPS). The requirements prescribe the methodology to compute the HEPS in order to achieve consistency by all listed entities. Consequently, in such cases, there is no scope to change the composition of the APM or discontinue presenting the APM.

What the enforcers report

ESMA does not comment on comparatives and consistency on an overall European level. On the one hand, two national enforcers report that all entities in their sample provided comparatives. On the other hand, another national enforcer reports that 78% of its sample did not. Most of these entities, however, provided comparatives in the section containing APM related disclosures.

Only one national enforcer comments on the issue of consistency, noting no changes in APMs used by the surveyed entities. This enforcer notes, however, that some entities have made changes to the labels used, suggesting that it would be consistent with the spirit of the ESMA guidelines, and helpful for users, if entities also clearly identified and explained such changes.

Reviews on the application of ESMA guidelines: Comparatives and Consistency	
Ireland IAASA	**Alternative performance measures - thematic survey (September 2017)** The IAASA reported that 21 of the 27 issuers who used APMs did not provide a comparative for all APMs presented as required by the ESMA guidelines. IAASA noted that some of these issuers presented comparatives in some parts of the report, but not in others. IAASA also noted that most of 21 issuers provided a footnote reference to where APM related disclosures, including comparatives, could be found, but reminded issuers that comparatives cannot be included by reference.
Norwegian FSA	**Alternative performance measures – thematic review[10] (September 2017)** The Norwegian FSA reported that all entities in their sample provided comparatives for APMs.
UK FRC	**Corporate reporting thematic review: Alternative performance measures (APMs) (November 2017)** The UK FRC reported that all entities in the sample provided comparatives for each APM and provided reconciliations for those comparatives as required by the guidelines, at least where reconciliations were provided for the current year amounts. The UK FRC also reported that while no entity in the sample had changed any definitions, they had noted some changes in labelling.

How we see it

In certain jurisdictions, such as Canada and the US, although the regulations do not specifically require comparative information to be presented for APMs, substantially all entities present comparative measures.

What reporting entities can do

This section includes two examples of disclosures provided in relation to changes in APMs. Extract 2.3.1 highlights and explains changes in the definition of APMs due to external events. Extract 2.3.2 highlights and explains changes in the definition of APMs due to a new management programme.

[10] This report is not available in English. Original titel in Norwegian: Tematilsyn om Alternative Resultatmål.

Extract 2.3.1 Danone (2017) ***France***

Financial indicators not defined in IFRS

Financial indicators not defined in IFRS used by Danone are calculated as follows:

Like-for-like changes in sales and recurring operating margin reflect Danone's organic performance and essentially exclude the impact of:

- Changes in scope of consolidation, with indicators related to a given fiscal year calculated on the basis of the scope of the previous year;
- Changes in applicable accounting principles;
- Changes in exchange rates (i) calculating both current-year and previous-year indicators using the same exchange rates (the exchange rate used is a projected annual rate determined by Danone for the current year and applied to both the previous and current year); and (ii) correcting differences caused by the exceptional volatility of inflation in countries that are structurally subject to hyperinflation, which would otherwise distort any interpretation of Danone's organic performance.

Since inflation in Argentina — already structurally high — accelerated further in 2014, in particular following the sharp, steep devaluation of the peso in January, using an identical exchange rate to compare 2014 figures with those for the prior year did not accurately reflect Danone's organic performance in that country. As a result, the Company fine-tuned the definition of like-for-like changes to include in its exchange-rate impact the differences caused by the exceptional volatility in structurally hyperinflationary countries. Danone has been applying this methodology, which was applicable

Commentary

In the 2017 Registration Document, Danone provided APM related information in Section 3 on Business Highlights for 2017 and Outlook for 2018. Like-for-like changes in sales, Recurring operating income, Recurring operating margin, Recurring net income and Recurring earnings per share are identified as key financial indicators not defined by IFRS. Following an explanation of the items excluded to reflect the organic performance, it is explained that the measure was amended in 2014 because of inflation in Argentina.

Extract 2.3.2 Pearson plc (2017) — *UK*

Return on invested capital (ROIC)

ROIC is a non-GAAP measure and has been disclosed as it is part of Pearson's key business performance measures. ROIC is used to track investment returns and to help inform capital allocation decisions within the business. Average values for total invested capital are calculated as the average monthly balance for the year.

For the first time in 2017, we have presented ROIC on a net basis after removing impaired goodwill from the invested capital balance. The net approach assumes that goodwill that has been impaired is treated in a similar fashion to goodwill disposed as it is no longer being used to generate returns.

	2017	2016	2017	2016
£ millions	Gross basis		Net basis	
Adjusted operating profit	**576**	635	**576**	635
Operating cash tax paid	**(75)**	(63)	**(75)**	(63)
Return	**501**	572	**501**	572
Average invested capital	**11,568**	11,464	**8,126**	7,906
ROIC	**4.3%**	5.0%	**6.2%**	7.2%

Commentary

In the "Financial Review" section of its 2017 financial statements, Pearson presented "Return on invested capital (ROIC)" as a key financial business performance measure used by management to track investment returns and to make capital allocation decisions. Pearson also highlighted that, in 2017, it amended the composition of this measure by removing impaired goodwill from the invested capital balance, as it is no longer used to generate returns. Pearson also provided comparative information for both approaches.

2.4 Labels

What the guidelines say

Guidelines issued by IOSCO require an entity presenting APMs to clearly label them in such a way that they are distinguished from GAAP measures. Further, the requirements state that labels should be meaningful and should reflect the composition of the APM.

ESMA also requires entities to provide meaningful labels reflecting their content and basis of calculations in order to avoid conveying misleading messages and it prohibits entities from using labels that are same or confusingly similar to IFRS. In addition, ESMA specifically clarifies that entities should not mislabel items as non-recurring, infrequent or unusual and notes that items that affected past periods, and will affect future periods, will rarely be considered as non-recurring, infrequent or unusual (such as restructuring costs or impairment losses).

Similarly, SEC guidelines specifically prohibit adjustments to be identified as non-recurring, infrequent, or unusual, when the nature of the charge is such that it is reasonably likely to recur within two years, or has occurred within the prior two years. Presenting non-GAAP financial measures using titles or descriptions of non-GAAP measures that are the same or confusingly similar to GAAP titles is also prohibited by the SEC.

The IOSCO guidelines further note that entities sometimes seek to adjust for items that are reasonably likely to recur in the foreseeable future, or are activities that affected the entity in the recent past. Such adjusting items are described as non-recurring, infrequent or unusual items. IOSCO believes that, in their experience, there are rarely circumstances where a sufficient explanation could be provided that would result in, for example, restructuring costs or impairment losses being described as non-recurring. Therefore, IOSCO requires such items not to be described as non-recurring, infrequent or unusual without sufficient explanation.

What the enforcers report

While European enforcers report that most issuers generally label APMs appropriately, they also note that they continue to identify instances where this is not the case. Examples include instances where the labels failed to clearly identify whether a measure was an APM rather than an IFRS measure. The UK FRC also argues that it may be perceived as misleading to refer to an APM as "reported" unless it is reported in the IFRS financial statements.

Reviews on the application of ESMA guidelines: Labels	
ESMA	**Enforcement and Regulatory Activities of Accounting Enforcers in 2017 (March 2018)** ESMA reports that 6% of the reports did not use appropriate labels.
Ireland IAASA	**Alternative performance measures - thematic survey (September 2017)** IAASA reports that three of the 27 issuers that used APMs were not consistent in the use of labels, mixing, for example, the use of "like-for -like revenue growth" and "like-for-like sales growth".
Norwegian FSA	**Alternative performance measures – thematic review[11] (September 2017)** The report from the Norwegian enforcer raises the concern that large variations in labelling in itself creates additional challenges for comparability.
UK FRC	**Corporate reporting thematic review: Alternative performance measures (APMs) (November 2017)** On the one hand, the UK FRC reports that labels used generally reflect their contents and calculation. On the other hand, the UK FRC also states that its main concern following the review is the indiscriminate use of terms such as "non-recurring", "unusual", "infrequent" and "one-off" in connection with adjustments for items such as restructuring costs and impairment charges. The enforcer notes that, for larger entities, in particular, "there will be few occasions when there is only one event in a period of years which drives such charges".

[11] This report is not available in English. Original title in Norwegian: Tematilsyn om Alternative Resultatmål.

Some European enforcers also report that they continue to find APMs where entities refer to adjusting items as “non-recurring”, “one-offs” “non-operating”, or similar, despite these items having occurred in the past and/or seeming likely to occur in future periods. Such comments are often related to, but not limited to, restructuring costs. The UK FRC recommends entities to use instead labels that reflect the nature of the adjustment and do not imply that they are unlikely to recur in future periods. The ESMA report also addresses this issue; 29 of the reviewed issuers – corresponding to 22% of the sample – labelled subtotals as non-recurring, exceptional, unusual or infrequent. In view of this, ESMA reminds issuers that “items that affected past periods and/or are expected to affect future periods can rarely be labelled or presented as non-recurring items such as most of the restructurings costs or impairment losses”, noting that European enforcers have taken nine actions in this respect.

What reporting entities can do

Extract 2.4.1 below illustrates how Airbus choose to communicate the decision to no longer label certain items as “one-offs”, noting that, instead, the concept of “adjustments” / “adjusted” measure will be used.

Another alternative that is used by some entities is to refer specifically to the type of items for which they are adjusted. See extract 2.4.2 below for an example of when measures are adjusted for restructuring charges and this is reflected in the label of the APM.

Extract 2.4.1 Airbus SE (2016) ***Netherlands***


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Registration Document

Financial Statements

For its full-year 2016 financial reporting, Airbus has implemented the European Securities and Markets Authority's guidelines on Alternative Performance Measures. As a result, certain items will no longer be labelled as "one-offs". Such items will instead be labelled as "Adjustments". Airbus will no longer measure and communicate its performance on the basis of "EBIT*" (i.e. EBIT pre-goodwill impairment and exceptionals) but on the basis of "EBIT" (reported). Terminology will change such that "EBIT* before one-offs" will be replaced by "EBIT Adjusted" and "EPS* before one-offs" will be replaced by "EPS Adjusted".

Commentary

The text in the box at the bottom of the contents page in the extract reads:

For its full-year 2016 financial reporting, Airbus has implemented ESMA's guidelines on APMs. As a result, certain items will no longer be labelled as "one-offs". Such items will instead be labelled as "Adjustments". Airbus will no longer measure and communicate its performance on the basis of "EBIT" (i.e., EBIT pre-goodwill impairment and exceptional items) but on the basis of "EBIT" (reported). Terminology will change such that "EBIT* before one-offs" will be replaced by "EBIT Adjusted" and "EPS* before one-offs" will be replaced by "EPS Adjusted".*

Extract 2.4.2 Telefonaktiebolaget LM Ericsson (Publ) (2017) — Sweden

Alternative performance measures

This section includes a reconciliation of certain Alternative Performance Measures (APMs) to the most directly reconcilable line items in the financial statements. The presentation of APMs has limitations as analytical tools and should not be considered in isolation or as a substitute for related financial measures prepared in accordance with IFRS.

APMs are presented to enhance an investor's evaluation of ongoing operating results, to aid in forecasting future periods and to facilitate meaningful comparison of results between periods. Management uses these APMs to, among other things, evaluate ongoing operations in relation to historical results, for internal planning and forecasting purposes and in the calculation of certain performance-based compensation.

The APMs presented in this report may differ from similarly titled measures used by other companies.

Free cash flow was added in 2017 as an APM.

Earnings (loss)per share (non-IFRS)

SEK	2017	2016	2015	2014	2013	2012
Earnings (loss) per share, diluted	–10.74	0.52	4.13	3.54	3.69	1.78
Restructuring charges	1.93	1.59	1.07	0.31	0.93	0.81
Amortization and write-downs of acquired intangibles	4.77	0.55	0.86	0.95	1.00	0.96
Earnings (loss) per share (non-IFRS)	–4.04	2.66	6.06	4.80	5.62	3.55

Definition

Earnings (loss) per share (EPS), diluted, excluding amortizations and write-down of acquired intangible assets and excluding restructuring charges.

Reason to use

Restructuring charges vary between years. This measurement gives an indication of the performance without restructuring and without the impact of amortizations and write-down of acquired intangible assets from acquired companies.

Operating expenses, excluding restructuring charges

SEK million	2017	2016	2015	2014	2013	2012
Operating expenses	–70,563	–60,501	–64,129	–63,408	–58,509	–58,856
Restructuring charges included in R&D expenses	2,307	2,739	2,021	304	872	852
Restructuring charges included in selling and administrative expenses	952	1,353	745	123	924	370
Operating expenses, excluding restructuring charges	–67,304	–56,409	–61,363	–62,981	–56,713	–57,634

Definition

Reported operating expenses, excluding restructuring charges.

Reason to use

Restructuring charges vary between years and in order to analyse trends in reported expenses overtime, restructuring charges are excluded.

Commentary

Ericsson's 2017 annual report highlights efficiency improvements and restructuring charges. Adjustments for restructuring charges are made to two APMs: non-IFRS EPS and operating income excluding restructuring charges. Instead of labelling restructuring charges as "one-off" or "non-recurring" charges, the label itself clearly identifies what the adjustment is.

How we see it

The use of an incorrect label can be misleading. Even if the APM is appropriately defined, there is a risk that the APM will be misinterpreted and incorrectly compared to APMs reported by other entities with the same label. Therefore, to enhance the usefulness of APMs, representative labels are important.

2.5 Definitions

What the guidelines say

The IOSCO guidelines require entities to define each APM presented and to provide a clear explanation of the basis of calculation. ESMA guidelines include similar requirements, but also require a definition of components of APM including details of any material hypothesis or assumptions used in the calculation of APMs.

ESMA also requires definitions to be disclosed for all APMs used in a clear and readable way. The ESMA guidelines also set out that the definition should indicate whether the APM relates to past or future reporting periods.

The IOSCO guidelines further require the definitions to clarify that the APMs are not defined in the applicable accounting framework and, therefore, may not be comparable with similar measures presented by other entities.

Most guidelines requires an entity to disclose a definition of all APMs presented. The Regulatory Guide 230 issued in Australia explicitly defines the *Non-IFRS Financial Information*[12] as financial information presented other than in accordance with all relevant accounting standards. The guidelines also define *Non-IFRS profit information*[13] as profit information calculated on a basis other than IFRS, or calculated in accordance with IFRS but adjusted in some manner.

What the enforcers report

ESMA reported that the sample reviewed by European enforcers suggests that most issuers provide definitions of all APMs used. However, European enforcers also reported that entities did not provide definitions for all of the APMs used in the report.

Missing definitions relate to various measures, suggesting no apparent reason why some APMs are not defined. In some cases, however, inconsistent use of labels may be an explanation, a definition only being provided for one of the labels used. One enforcer noted that the lack of definitions may, in some cases, stem from entities not considering a measure to be an APM, i.e., the scope of the guidelines might not be clear to all.

Reviews on the application of ESMA guidelines: Definitions	
ESMA	**Enforcement and Regulatory Activities of Accounting Enforcers in 2017 (March 2018)** ESMA reported that European enforcers observed that 15% of issuers did not provide definitions for all APMs used.

[12] Australian Securities & Investments Commission (ASIC), Regulatory Guide RG 230.14.
[13] Australian Securities & Investments Commission (ASIC), Regulatory Guide RG 230.17.

Ireland IAASA	**Alternative performance measures - thematic survey (September 2017)** The Irish enforcer noted that it is difficult to ascertain if definitions are provided for all APMs when APM-related disclosures are not collated in a separate section within the financial report. This was the case in three of the 27 reports that included APMs. For a further seven cases, the IAASA identified APMs that were not defined in the sections with APM disclosures. These measures were common key ratios, such as return on capital employed, operating margin, total shareholder return, gearing, underlying revenue growth, EBITA margin or net debt.
Norwegian FSA	**Alternative performance measures – thematic review[14] (September 2017)** The Norwegian enforcer concluded that five of the 20 reports lacked one or more definitions.
UK FRC	**Corporate reporting thematic review: Alternative performance measures (APMs) (November 2017)** The UK FRC reported that all entities in their sample provided definitions for APMs used, but that three entities did not provide definitions for all APMs. Identified cases of missing definitions included APMs such as cash conversion, return on invested capital, and organic revenue growth.

Enforcers also reported that definitions are not always sufficiently clear. One concern is that the definition of an APM may include components that are not defined in their own right. In a Q&A pertaining to organic growth, ESMA has explained that, "to the extent that any components presented are not defined or specified in the applicable financial reporting framework, the issuer shall also explain their nature and provide the definition of each item".[15] In the context of organic growth, one common component in need of a definition is currency effects. See section 2.6 on reconciliations for a further discussion and illustration. Another concern is that definitions rely on undefined concepts, such as, "underlying performance", "core performance" and "items affecting comparability".

What reporting entities can do

Many reporting entities provide clarifying and easily accessible definitions of the APMs used. Extract 2.5.1 below presents an example of a definition for net debt. Extract 2.5.2 provides an example of a definition for underlying performance.

[14] This report is not available in English. Original title in Norwegian: Tematilsyn om Alternative Resultatmål.

[15] Question 15 in Questions and answers: ESMA Guidelines on Alternative Performance Measures (APMs), January/October 2017 | ESMA32-51-370.

Extract 2.5.1 Aker Solutions ASA (2017) ***Norway***

Financing Measures

Alternative financing and equity measures are presented as they are indicators of the company's ability to obtain financing and service its debts.

Gross Debt and Net interest-bearing debt are measures that shows the overall debt situtation. Net debt is calculated by netting the value of a company's liabilities and debts with its cash and other similar short-term financial assets.

Amounts in NOK million	**2017**	**2016**
Current borrowings	**539**	2,110
Non-current borrowings	**2,576**	1,844
Gross debt	**3,114**	**3,954**
Current interest-bearing receivables	**-128**	-437
Non-current interest-bearing receivables[1]	**-39**	-34
Cash and cash equivalents	**-1,978**	-2,480
Net debt	**970**	**1,002**

1) Non-current interest-bearing receivables are included in Other non-current assets in consolidated balance sheet.

Commentary

The 2017 annual report for Aker Solutions presents a separate section on APMs directly following the financial statements and the audit report. The section differentiates between three categories of APMs: (i) Profit Measures, (ii) Financing Measures and (iii) Order Intake Measures, providing brief explanations of their use, definitions and reconciliations. In the extract above, a reconciliation is included to support the definition. All but one of the items listed in the reconciliation are line items presented in the statement of financial position. The remaining item is separately explained in a footnote. The corresponding disclosures for equity ratio can be found in extract 2.6.1.

Extract 2.5.2 Balfour Beatty plc (2017) *UK*

b) Underlying performance

The Group adjusts for certain non-underlying items which the Board believes assists in understanding the performance achieved by the Group. These items include:

- gains and losses on the disposal of businesses and investments, unless this is part of a programme of releasing value from the disposal of similar businesses or investments such as infrastructure concessions
- costs of major restructuring and reorganisation of existing businesses
- acquisition and similar costs related to business combinations such as transaction costs
- impairment and amortisation charges on intangible assets arising on business combinations (amortisation of acquired intangible assets). These are non-underlying costs as they do not relate to the underlying performance of the Group.

From time to time, it may be appropriate to disclose further items as non-underlying items in order to reflect the underlying performance of the Group.

The results of Rail Germany have been treated as non-underlying items as the Group is committed to exiting this part of the business.

Further details of these non-underlying items are provided in Note 10.

Commentary

As noted in section 2.2, Balfour Beatty presents profit measures adjusted for non-underlying items. In defining underlying performance, the entity lists the types of adjustments made. The actual adjusting items are separately identified in the accompanying reconciliation (see extract 2.6.6 below).

How we see it

Entities should ensure that all APMs are identified and defined. Without a clear definition, including the identification of adjusting elements, APMs may mislead the users of the financial statements. The risk of misleading users escalates if no definition, or misleading definitions, are combined with vague or misleading labelling, as discussed above.

2.6 Reconciliations

What the guidelines say

The IOSCO guidelines require entities to provide a clear and concise quantitative reconciliation from the APM to the most directly comparable GAAP measure presented in the financial statements explaining the adjustments.

The guidelines further state that, if the reconciling items are derived from items reported in the IFRS financial statements, they should be reconcilable to those financial statements. When a reconciling item cannot be extracted directly from the financial statements, the reconciliation should show how the figure is calculated.

The US SEC requires quantitative reconciliation to the most directly comparable GAAP measure. ESMA in Q&A 16[16] reproduced below has clarified that a numerical reconciliation is required, showing how the APM is calculated, separately identifying and explaining material reconciling items.

ESMA Q&A 16: Reconciliations

Question 16: Reconciliation; Paragraph 26 and 28 of the APM Guidelines.

Date last updated: October 2017

Question: Do the APM Guidelines require a numeric reconciliation of the APM to "the most reconcilable line item, total or subtotal" presented in the financial statements or is it sufficient to include a qualitative explanation of the items which adjust the financial statement's figures?

Answer: Paragraph 28 of the APM Guidelines foresees that "the reconciliation should show how the figure is calculated". Therefore, issuers should provide a reconciliation in the form of a numeric reconciliation between "the most directly reconcilable line item, total or subtotal" presented in financial statements and the APM used. As it is required in paragraph 26 of the APM Guidelines, the reconciliation should separately identify and explain the material reconciling items.

The UK FRC has suggested that in the case of ratios, it expects the numerator and the denominator to be stated and, if necessary, reconciled to items in the financial statements.[17] Similarly, the Swedish enforcer dismissed arguments that readers can easily reconcile APMs through provided definitions on the basis that the ESMA guidelines require a reconciliation.[18]

ESMA clarified that, in certain instances, an APM, or an adjustment, may not be reconcilable to a measure in the financial statements. This may, for example, be the case for profit estimates, future projections or profit forecasts. In such cases, entities are required to explain the consistency with the accounting policies in the financial statements.

Although the SEC guidelines do not have specific requirements regarding determination of reconciling items, SEC staff have issued guidance requiring registrants to clarify how figures are calculated.

What the enforcers report

European enforcers report that all or most entities provide reconciliations, but not always for all APMs. While ESMA reports that 20% of the European sample entities did not provide reconciliations for all APMs, corresponding percentages observed in other reports appears to be higher.

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[16] Questions 16 in Questions and answers: ESMA Guidelines on Alternative Performance Measures (APMs), October 2017 | ESMA32-51-370.

[17] Page 14, UK FRC (November 2017) ALTERNATIVE PERFORMANCE MEASURES (APMs).

[18] Page 11, NASDAQ STOCKHOLM, MONITORING OF PERIODIC FINANCIAL INFORMATION 2017 www.nasdaqomx.com/nordicsurveillance (click to: Redovisningstillsyn).

Reviews on the application of ESMA guidelines: Reconciliations	
ESMA	**Enforcement and Regulatory Activities of Accounting Enforcers in 2017 (March 2018)** ESMA reported that 20% of the 170 European issuers in the sample did not provide reconciliations for all APMs used as required by the guidelines.
Ireland IAASA	**Alternative performance measures - thematic survey (September 2017)** Three of the 27 issuers in the sample that used APMs appeared not to provide reconciliations. Another 14 issuers did not provide reconciliations for all of the identified APMs including, for example, APMs such as constant currency measures, return on average capital employed and operating profit measures.
Norwegian FSA	**Alternative performance measures – thematic review[19] (September 2017)** The enforcer reported that 8 of the sample entities (40%) did not provide reconciliations for all identified APMs.
UK FRC	**Corporate reporting thematic review: Alternative performance measures (APMs) (November 2017)** The UK FRC reported that at least one reconciliation was missing in 12 (60%) of the sampled reports and that the most common omissions were for APMs such as return on capital and similar ratios, free cash flow and cash conversion.

What reporting entities can do

The first extract below illustrates a reconciliation of a simple ratio based on two measures from the financial statements. The following two extracts reproduce reconciliations of adjusted profit measures and the fourth extract illustrates a reconciliation of a return measure based on an adjusted profit measure.

Extract 2.6.1 Aker Solutions ASA (2017) ***Norway***

Net current operating assets (NCOA) or working capital is a measure of the current capital necessary to maintain operations. Working capital includes trade receivables, trade payables, accruals, provisions and current tax assets and liabilities.

Amounts in NOK million	2017	2016
Inventory	428	575
Trade and other receivables	6,843	7,398
Current tax assets	174	242
Trade and other payables	-7,304	-8,002
Provisions	-942	-1,087
Current tax liabilities	-43	-30
Net current operating assets (NCOA)	**-844**	**-904**

[19] This report is not available in English. Original title in Norwegian: Tematilsyn om Alternative Resultatmål.

Commentary

As seen in extract 2.5.1, Aker Solutions presented APM-related disclosures in a separate section of the 2017 annual report. APMs are grouped in different categories and reconciliations are presented alongside explanations and definitions, e.g., for Net current operating assets (NCOA). The individual balance sheet line items are directly identifiable in the financial statements.

Extract 2.6.2 Gränges publ AB (2017) ***Sweden***

ALTERNATIVE PERFORMANCE MEASURES

Gränges makes use of the alternative performance measures Return on capital employed, Net debt and Equity to assets ratio. Gränges believes that these performance measures are useful for readers of the financial reports as a complement to other performance measures when assessing the possibility of dividends, the implementation of strategic investments, and the Group's ability to meet financial commitments. Further, Gränges uses the alternative performance measures Adjusted operating profit and Adjusted EBITDA, which are measures that Gränges considers to be relevant for investors who want to understand the profit generation excluding items affecting comparability. For definitions of the measures see page 105.

SEK million	2017	2016
Adjusted operating profit		
Operating profit	917	559
Items affecting comparability	16	128
Adjusted operating profit	**933**	**687**
Adjusted EBITDA		
Adjusted operating profit	933	687
Depreciation and amortisation	370	265
Adjusted EBITDA	**1,303**	**952**

Commentary

In a separate section of its 2017 annual report, Gränges identifies five APMs including "Adjusted operating profit" and "Adjusted EBITDA".

In the extract above, Gränges reconciles "Adjusted operating profit" to operating profit, which is a subtotal in the statement of profit or loss and other comprehensive income. The reconciling item is identified as "Items affecting comparability". Since this corresponds to a separate line item in the statement of profit or loss and other comprehensive income, with a specification in a note to the financial statements no further explanation of the reconciling item is provided.

Gränges similarly reconciles "Adjusted EBITDA" to "operating profit" by adding to the previous specification a second reconciling item: depreciation and amortisations. Again, this corresponds to a separate line item in the consolidated statement of profit or loss and other comprehensive income.

Extract 2.6.3 Serco plc (2017) UK

Alternative profit measures

For the year ended 31 December	2017 £m	2016 £m
Underlying Trading Profit	69.8	82.1
Non-underlying items:		
Include OCP charges and releases	(19.0)	9.6
Include other Contract & Balance Sheet Review adjustments	3.2	4.6
Include benefit from non-depreciation and amortisation of assets held for sale	–	0.5
Include other one-time items	–	3.5
	(15.8)	18.2
Trading Profit	54.0	100.3
Include operating exceptional items (continuing operations only)	(19.6)	(56.3)
Include amortisation and impairment of intangibles arising on acquisition from continuing and discontinued operations	(4.4)	(5.1)
Exclude operating loss from discontinued operations	–	3.3
Operating profit (continuing activities only)	30.0	42.2

Underlying Trading Profit (UTP)

The Group uses an alternative measure, Underlying Trading Profit, to make adjustments for unusual items that occur within Trading Profit and remove the impact of historical issues. UTP therefore provides a measure of the underlying performance of the business in the current year. For 2016 there were four items excluded from UTP, only two of which required adjustment in 2017.

Charges and releases on all Onerous Contract Provisions (OCPs) are excluded in the current and prior years. OCPs reflect the future multiple year cost of delivering onerous contracts and do not reflect only the current cost of operating the contract in the latest individual year. It should be noted that, as for operating profit, UTP benefits from OCP utilisation of £69.3m in 2017 (2016: £84.2m) which neutralises the in-year losses on previously identified onerous contracts, therefore it is only charges or releases of OCPs that are adjusted for.

Revisions to accounting estimates and judgements which arose during the 2014 Contract & Balance Sheet Review are separately reported where the impact of an individual item is material. Only one such item was noted in 2017, relating to a release of a provision made during the Contract & Balance Sheet Review which has been released following a change in the Group's obligations.

Both OCP adjustments and other Contract & Balance Sheet Review adjustments are identified and separated from the APM in order to give clarity of the underlying performance of the Group and to separately disclose the progress made on these items.

Underlying Trading Profit (UTP) continued

The benefit of depreciation and amortisation charges not being taken in the Group accounts in relation to assets held for sale were excluded in the prior year. Such charges were being taken in the subsidiary accounts to reflect the reduction in value of the underlying assets, and we consider it relevant to show the effect this would have on the Group performance measure. No assets are included as held for sale in 2017 and therefore no adjustment is required in 2017.

Finally, any other significant items that have a one-time financial impact are excluded, which for 2016 related to the one-time pension settlement associated with the early exit of a UK local authority contract in 2015. This item was distinct from exceptional items in that it arose from normal contract exit conditions. No such material one-time items occurred in 2017.

Underlying trading margin is calculated as UTP divided by revenue from continuing and discontinued operations.

The non-underlying column in the summary income statement on page 50 includes the tax impact of the above items and tax items that, in themselves, are considered to be non-underlying. Further detail of such items is provided in the tax section below.

Commentary

In the "Finance Review" section in its 2017 annual report, Serco identified seven Key Performance Indicators. One of these is "Underlying Trading Profit" (UTP). The APM is defined, its relevance to the entity's strategy is explained and the entity's performance in terms of the APM is discussed in the Strategic Report. Further information is provided in a separate section on APMs. The extract above is from this section. The reconciliation starts with the APM and identifies the various items that reconcile the APM to operating profit, a subtotal in the reported statement of profit or loss and other comprehensive income.

Extract 2.6.4 Pearson plc (2017) UK

Return on invested capital

Return on invested capital (ROIC) is included as a non-GAAP measure as it is used by management and investors to track investment returns and by management to help inform capital allocation decisions within the business. ROIC is calculated as adjusted operating profit less operating cash tax paid expressed as a percentage of average invested capital. Invested capital includes the original unamortised goodwill and intangibles. Average values for total invested capital are calculated as the average monthly balance for the year. ROIC is also presented on a net basis after removing impaired goodwill from the invested capital balance. The net approach assumes that goodwill which has been impaired is treated consistently to goodwill disposed as it is no longer being used to generate returns.

All figures in £ millions	2017 Gross	2016 Gross	2017 Net	2016 Net
Adjusted operating profit	**576**	635	**576**	635
Operating tax paid	**(75)**	(63)	**(75)**	(63)
Return	**501**	572	**501**	572
Average goodwill	**7,236**	6,987	**3,794**	3,429
Average other non-current intangibles	**2,606**	2,481	**2,606**	2,481
Average intangible assets – pre-publication	**995**	926	**995**	926
Average tangible fixed assets and working capital	**731**	1,070	**731**	1,070
Average invested capital	**11,568**	11,464	**8,126**	7,906
Return on invested capital	**4.3%**	5.0%	**6.2%**	7.2%

Commentary

Pearson's 2017 annual report includes a separate section on corporate and operating measures after the financial statements. This section details, reconciles and explains a number of APMs including "return on invested capital". In the extract above, Pearson reconciled the numerator, the "return", to "adjusted operating profit", which is directly identifiable in Note 2 on segments. In the said note, this measure is also reconciled to "operating profit", a line item in the statement of profit or loss and other comprehensive income.

This extract, as well as others, illustrates that a reader is required to visit different sections of the reports to fully comprehend the APMs. In some cases, because the required disclosures are spread out in different locations, users may overlook essential information. Therefore, placing all APM disclosures in one location may enhance the communication effectiveness.

As noted in section 2.5 on Definitions above, ESMA highlighted that organic growth is an APM and requires the same disclosures as all other APMs including reconciliations. When providing such a reconciliation, ESMA states that the entity must present not only the total change in revenues that can be derived from the financial statements, but also the disaggregation of the other components attributable to organic growth. For an example of a reconciliation of organic growth, see extract 2.6.5 below.

Extract 2.6.5 Modern Times Group MTG AB (publ) (2017) *Sweden*

Reconciliation of sales growth

Since the Group generates the majority of its sales in currencies other than in the reporting currency (i.e. SEK, Swedish Krona) and currency rates have proven to be rather volatile, and due to the fact that the Group has historically made several acquisitions and divestments, the company's sales trends and performance are analysed as changes in organic sales growth. This presents the increase or decrease in the overall SEK net sales on a comparable basis, allowing separate discussions of the impact of acquisitions/divestments and exchange rates. The following tables present changes in organic sales growth as reconciled to the change in the total reported net sales.

Sales growth

Group (SEK million)	2017	%	2016	%
Nordic Entertainment				
Organic growth	733	6.6	654	6.2
Acquisitions/divestments	–	–	–	–
Changes in FX rates	90	0.8	-2	0.0
Reported growth	**822**	**7.4**	**651**	**6.2**
International Entertainment				
Organic growth	75	6.9	143	15.4
Acquisitions/divestments	-10	-1.0	-650	-47.2
Changes in FX rates	21	1.9	12	0.7
Reported growth	**86**	**7.8**	**-496**	**-31.0**
MTG Studios				
Organic growth	48	2.7	39	2.2
Acquisitions/divestments	6	0.3	–	–
Changes in FX rates	2	0.1	-42	-2.4
Reported growth	**56**	**3.1**	**-3**	**-0.1**
MTGx				
Organic growth	455	37.0	–	–
Acquisitions/divestments	1,249	101.7	–	–
Changes in FX rates	32	2.6	–	–
Change in presentation of prize money	-98	-17.8	–	–
Reported growth	**1,638**	**123.5**	**876**	**194.3**
Total				
Organic growth	1,151	7.7	768	5.8
Acquisitions/divestments	1,244	8.3	230	1.4
Changes in FX rates	143	1.0	-20	-0.2
Reported growth	**2,538**	**16.9**	**979**	**7.0**

Commentary

In its 2017 annual report, MTG listed all APMs in the table of contents with a clear cross-reference to APM-related disclosures. Definitions and reconciliations are provided separately. The extract above details the reconciliation of organic growth specifying the effect of acquisitions/disposals and foreign exchange rate movements for each of the reported segments and the group as a whole.

Some preparers have expressed concerns about providing reconciliations for all APMs on a recurring basis, as it may "overload" the financial reports. By providing the disclosures in one location, this concern is less relevant. Extract 2.6.6 below reproduces an example of how reconciliation disclosures on different APMs can be provided in the same table.

Extract 2.6.6 Balfour Beatty plc (2017) — UK

b) Underlying performance continued

A reconciliation has been provided below to show how the Group's statutory results are adjusted to exclude non-underlying items and their impact on its statutory financial information, both as a whole and in respect of specific line items.

Reconciliation of 2017 statutory results to performance measures

	2017 statutory results £m	Non-underlying items: Build to Last restructuring costs £m	Intangible amortisation £m	Gains on disposals £m	Results of Rail Germany £m	Additional loss on AWPR contract £m	US Federal tax rate change £m	UK deferred tax asset £m	2017 performance measures £m
Continuing operations									
Revenue including share of joint ventures and associates (performance)	8,264	–	–	–	(30)	–	–	–	8,234
Share of revenue of joint ventures and associates	(1,348)	–	–	–	8	–	–	–	(1,340)
Group revenue (statutory)	6,916	–	–	–	(22)	–	–	–	6,894
Cost of sales	(6,605)	–	–	–	20	44	–	–	(6,541)
Gross profit	311	–	–	–	(2)	44	–	–	353
Gain on disposals of interests in investments	86	–	–	–	–	–	–	–	86
Amortisation of acquired intangible assets	(9)	–	9	–	–	–	–	–	–
Other net operating expenses	(299)	12	–	(17)	2	–	–	–	(302)
Group operating profit	89	12	9	(17)	–	44	–	–	137
Share of results of joint ventures and associates	59	–	–	–	–	–	–	–	59
Profit from operations	148	12	9	(17)	–	44	–	–	196
Investment income	42	–	–	–	–	–	–	–	42
Finance costs	(73)	–	–	–	–	–	–	–	(73)
Profit before taxation	117	12	9	(17)	–	44	–	–	165
Taxation	45	–	(3)	1	–	–	(32)	(34)	(23)
Profit for the year from continuing operations	162	12	6	(16)	–	44	(32)	(34)	142
Profit for the year from discontinued operations	6	–	–	(5)	–	–	–	–	1
Profit for the year	168	12	6	(21)	–	44	(32)	(34)	143

Reconciliation of 2017 statutory results to performance measures by segment

Profit/(loss) from operations	2017 statutory results £m	Non-underlying items: Build to Last restructuring costs £m	Intangible amortisation £m	Gains on disposals £m	Results of Rail Germany £m	Additional loss on AWPR contract £m	US Federal tax rate change £m	UK deferred tax asset £m	2017 performance measures £m
Segment									
Construction Services	36	6	4	(18)	–	44	–	–	72
Support Services	39	2	–	–	–	–	–	–	41
Infrastructure Investments	110	–	5	1	–	–	–	–	116
Corporate activities	(37)	4	–	–	–	–	–	–	(33)
Total	148	12	9	(17)	–	44	–	–	196

Commentary

As noted in extracts 2.2.2 and 2.5.2, Balfour Beatty provided APM-related disclosures as part of its Strategic Report for 2017. All reconciliations of various statement of profit or loss and other comprehensive income related APMs were presented in one table.

One practice observed in some jurisdictions is to provide a reconciliation by presenting, alongside the definition, the numerical calculation (see extract 2.6.8 for an example).

Extract 2.6.8 HiQ AB (publ) (2017) — Sweden

HiQ uses a number of alternative performance measures in order to convey a fair picture of HiQ's results and financial position. Below are definitions of the alternative performance measures used. The numbers written within brackets are a calculation of the performance measures for the financial year 2017.

Gross margin
Operating profit/loss before depreciation for the period, in relation to net sales for the period (227,258 / 1,787,894 = 12.7 per cent)

Operating margin
Operating profit/loss for the period, in relation to net sales for the period (214,364 / 1,787,894 = 12.0 per cent)

Profit margin
Pre-tax profit for the period, in relation to net sales for the period (213,505 / 1,787,784 = 11.9 per cent)

Net interest income
Financial income, less financial costs (216 – 1,075 = -859)

Interest bearing net funds
Liquid assets, less interest bearing debts
(at the end of the period) (205,124 – 25,322 – 6,304 = 173,498)

Equity/assets ratio
Shareholders' equity as a percentage of total assets
(at the end of the period) (816,156 / 1,194,003 = 68.4 per cent)

Capital employed
Equity and interest bearing debt (at the end of the period)
(816,156 + 25,322 + 6,304 = 847,782)

Operating capital
Capital employed, less liquid assets
(847,782 – 205,124 = 642,658)

Return on operating capital
Operating profit/loss in relation to average operating capital
(214,364 / ((642,658 + 604,699)/2) = 34.4 per cent)

Net sales per employee
Net sales in relation to average number of employees (1,787,894 / 1,449 = 1,234)

Added value per employee
Operating profit/loss plus salaries and salary related expenses, in relation to average number of employees ((214,364 + 1,142,512) / 1,449 = 936)

Operating profit per employee
Operating profit/loss in relation to average number of employees (214,364 / 1,449 = 148)

Equity/share
Shareholders' equity in relation to total number of outstanding shares (at the end of the period) (816,156 / 55,453 = 14.72)

Yield
Distribution to the shareholders for the period (or proposed) in releation to share price at end of period (3.30 / 62.25 = 5.3 per cent)

Adjusted equity (Parent company)
Equity with euqity proportion of untaxed reserves
(543,044 + 0 = 543,044).

Commentary

In its annual report for 2017, HiQ showed the calculations of each APM alongside the corresponding definitions. Many of the components specified in the various definitions are line items, totals or subtotals presented in the financial statements. A separate reconciliation is thus not needed.

How we see it

- Reconciliations should enable users of financial reports to understand both how the APM has been calculated and how it differs from GAAP measures. Entities should thus make sure to include a reconciliation, and not only show how an APM has been calculated.
- For ratios to enhance the usefulness of the APMs, both the numerator and the denominator should be stated, and, if necessary, reconciled to items presented in the financial statements.
- If the entity uses many and/or complex APMs, reconciliations may be lengthy. Entities are encouraged to carefully consider how best to communicate such information to users. Entities should, for example, avoid requiring readers to visit different sections of the reports to fully comprehend an APM as this may lead to users overlooking essential information. Therefore, in some cases, placing all APM disclosures in one location, may enhance the communication effectiveness.

2.7 Explanations

What the guidelines say

IOSCO guidelines require entities to explain the reason for presenting the APMs, including an explanation of why the information is useful to investors, and for what additional purposes, if any, management uses the measure.

ESMA and the SEC have similar requirements. Entities should explain why they believe that an APM provides useful information regarding the financial position, cash flows or financial performance as well as the purposes for which the specific APM is used. The US SEC requires a statement, to the extent material, disclosing additional purposes, if any, for which the management uses APMs.

Guidelines issued in Australia also require a statement disclosing the reasons why directors believe that presentation of the non-IFRS financial information is useful for investors to understand the entity's financial condition and results of operation. The guidelines further state that this statement should not be boilerplate, but clear, understandable and specific to the non-IFRS financial information used, the entity, the nature of the business and industry, and the manner in which the non-IFRS financial information is assessed and applied to decisions.

What the enforcers report

The report from ESMA did not separately comment on the existence of explanations for the use of APMs. The Norwegian enforcer noted that explanations were missing in 45% of the sample, while the UK FRC identified explanations in all but one of the reviewed reports. In its review of the 2016 annual reports, the Swedish enforcer noted "an increased use of boiler plate language, where issuers use an introductory paragraph to the list of definitions" intended to cover all APMs. The explanations are often phrased in terms of providing enhanced or additional insights into the financial development of the reporting entity and/or providing comparability between reporting periods and segments. Therefore, in the Swedish enforcer's view, it is questionable whether the requirements of the ESMA guidelines are met in many cases.[20]

Reviews on the application of ESMA guidelines: Explanations	
Norwegian FSA	**Alternative performance measures – thematic review[21] (September 2017)** The enforcer noted that only 11 of the 20 entities in their sample (55%) provided explanations of all the APMs used.

[20] Page 11, NASDAQ STOCKHOLM, MONITORING OF PERIODIC FINANCIAL INFORMATION 2017 www.nasdaqomx.com/nordicsurveillance (click to: Redovisningstillsyn).

[21] This report is not available in English. Original title in Norwegian: Tematilsyn om Alternative Resultatmål.

UK FRC	**Corporate reporting thematic review: Alternative performance measures (APMs) (November 2017)** The UK FRC reported that all but one of the sample entities explained their use of APMs, noting also that two entities only asserted the usefulness of their APMs without explaining why. While the UK FRC has previously expressed concerns over cursory or boilerplate explanations, stating, for example, that the figures "better reflect the performance of the business", the enforcer reported that this was only a concern in a few of the sample cases.

Along-side high-level explanations of the use of APMs, many entities also present a "health warning", alerting users to the fact that the APMs are non-GAAP measures and/or unlikely to be comparable to APMs used by other entities. Noting that 45% of the UK sample included a "health warning" of some kind, the UK FRC argued that while "helpful in alerting readers to the limitations of APMs" they should be kept concise "as they will inevitably tend to be boilerplate".[22]

Furthermore, recent SEC comment letters to Foreign Private Issuers suggest that the lack of disclosures describing the usefulness of APMs as compared to IFRS measures is a major concern of the SEC.

What reporting entities can do

The first two extracts below (2.7.1 and 2.7.2) illustrate how high-level explanations and health-warnings may be used as means of introducing the use of APMs. This is followed by extracts of explanations for sales-related APMs (2.7.3), underlying profit measures (2.7.4), EBITDA (2.7.5 and 2.7.6), adjusting items to profit measures (2.7.7 and 2.7.8) and net-debt measures (2.7.9 and 2.7.10).

[22] Page 13, UK FRC (November 2017) ALTERNATIVE PERFORMANCE MEASURES (APMs).

Extract 2.7.1 Anglo-American plc (2017)	UK

Throughout the Strategic Report we use a range of financial and non-financial measures to assess our performance. A number of the financial measures, including underlying earnings, underlying EBIT, underlying EBITDA, underlying earnings per share, net debt, attributable return on capital employed (ROCE) and attributable free cash flow are not defined under IFRS, so they are termed 'Alternative Performance Measures' (APMs).

Management uses these measures to monitor the Group's financial performance alongside IFRS measures because they help illustrate the underlying financial performance and position of the Group. We have defined and explained the purpose of each of these measures on pages 194 to 197, where we provide more detail, including reconciliations to the closest equivalent measure under IFRS.

These APMs should be considered in addition to, and not as a substitute for, or as superior to, measures of financial performance, financial position or cash flows reported in accordance with IFRS. APMs are not uniformly defined by all companies, including those in the Group's industry. Accordingly, APMs may not be comparable with similarly titled measures and disclosures by other companies.

Commentary

Already in the introduction to its 2017 annual report, Anglo-American provided a high-level explanation for the use of APMs and a clear cross-reference to explanation and reconciliations of each APM to the closest equivalent measure under IFRS. It also included a health-warning, alerting users to the limits of APMs.

Extract 2.7.2 Balfour Beatty plc (2017) *UK*

Following the issuance of the Guidelines on Alternative Performance Measures (APMs) by the European Securities and Markets Authorities (ESMA) in June 2015, the Group has included this section in its Annual Report and Accounts with the aim of providing transparency and clarity on the measures adopted internally to assess performance.

Throughout this report, the Group has presented financial performance measures which are considered most relevant to Balfour Beatty and are used to manage the Group's performance.

These measures are chosen to provide a balanced view of the Group's operations and are considered useful to investors as these measures provide relevant information on the Group's past or future performance, position or cash flows.

The APMs adopted by the Group are also commonly used in the sectors it operates in and therefore serve as a useful aid for investors to compare Balfour Beatty's performance to its peers.

The Board believes that disclosing these performance measures enhances investors' ability to evaluate and assess the underlying financial performance of the Group's continuing operations and the related key business drivers.

These financial performance measures are also aligned to measures used internally to assess business performance in the Group's budgeting process and when determining compensation.

Equivalent information cannot be presented by using financial measures defined in the financial reporting framework alone.

Readers of the Annual Report and Accounts are encouraged to review the financial statements in their entirety.

Commentary

Following the issuance of the ESMA guidelines, Balfour Beatty added a section in its annual report with the aim of providing transparency on the APMs adopted to assess performance. The section, which is presented as part of the Strategic Report prior to the financial statements, starts with a general explanation for the use of APMs and advises users not to rely exclusively on these measures. This is followed by further information in relation to each individual APM.

Extract 2.7.3 presents two examples of explanations for two sales-related APMs used by Tesco. Extract 2.7.4 illustrates how Balfour Beatty highlighted the relevance of two performance related APMs for different segments, also addressing the difference between the two measures.

Extract 2.7.3 Tesco plc 2016/2017 *UK*

Key performance indicators

Our Big 6 KPIs.

We have six simple key performance measures for the whole business.

Sales

£49.9bn[Δ]

Group sales (exc. VAT, exc. fuel)[a]

(2015/16: £47.9bn)

Increasing volume is key to the success of our business model and both volumes and transactions are increasing as customers are buying more products, more often at Tesco.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition and purpose
Income statement				
Revenue measures				
Group sales	Revenue	· Exclude sales made at petrol filling stations	Note 2	· Excludes the impact of sales made at petrol filling stations to demonstrate the Group's underlying performance in the core retail and financial services businesses by removing the volatilities associated with the movement in fuel prices. This is a key management incentive metric.
Growth in sales	No direct equivalent	· Consistent with accounting policy	Not applicable	· Growth in sales is a ratio that measures year-on-year movement in Group sales for continuing operations for 52 weeks. It shows the annual rate of increase in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.
Like-for-like	No direct equivalent	· Consistent with accounting policy	Not applicable	· Like-for-like is a measure of growth in Group online sales and sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year) at constant foreign exchange rates. It is a widely used indicator of a retailer's current trading performance and is important when comparing growth between retailers that have different profiles of expansion, disposals and closures.

Commentary

In its strategic report for 2016/2017, Tesco identifies Group sales as one of "Big 6 KPIs". While Tesco provides a short explanation in this section, the measure is identified as an APM with a cross-reference to the section in the annual report where more information is provided. Here it is explained that this is "the headline measure of revenue for the Group" and that "it excludes the impact of sales made at petrol filling stations due to the significant volatility of fuel prices", a volatility that is "outside the control of management and can mask underlying changes in performance". The APM section of Tesco's strategic report also provides a summary table with information on APMs indicating that users can find a reconciliation of this measure in Note 2 to the financial statements and that the measure is a key management incentive metric.

While like-for-like sales are not identified as a KPI, they are an APM that is used extensively in the report at a segment level. They are also defined and their use is explained in the section on APMs.

Extract 2.7.4 Balfour Beatty plc (2017) *UK*

Performance measures used to assess the Group's operations in the year

Underlying profit from operations (PFO)

Underlying PFO is presented before finance cost and interest income and is the key measure used to assess the Group's performance in the Construction Services and Support Services segments. This is also a common measure used by the Group's peers operating in these sectors.

This measure reflects the returns to the Group from services provided in these operations that are generated from activities that are not financing in nature and therefore an underlying pre-finance cost measure is more suited to assessing underlying performance.

Underlying profit before tax (PBT)

The Group assesses performance in its Infrastructure Investments segment using an underlying PBT measure. This differs from the underlying PFO measure used to measure the Group's Construction Services and Support Services segments because in addition to margins generated from operations, there are returns to the Investments business which are generated from the financing element of its projects.

These returns take the form of subordinated debt interest receivable and interest receivable on PPP financial assets which are included in the Group's income statement in investment income. These are then offset by the finance cost incurred on the non-recourse debt associated with the underlying projects, which is included in the Group's income statement in finance costs.

Commentary

In a section on "Performance measures used to assess the Group's operations in the year", Balfour Beatty presents two APMs: Underlying profit from operations (PFO) and Underlying profit before tax (PBT). It explains that it used PFO to assess the Group's performance in two segments and that PBT is used for another segment. Note that the section on PBT explains how and why this measure differs from PFO.

As noted in the introduction to this publication, most APMs are performance measures. Also, in an IFRS context, even seemingly straightforward operating profit/earnings before interests and taxes (EBIT) measure represents an APM. Another common performance measure is earnings before interest, taxes, depreciation and amortisation (EBITDA). Explanations provided for excluding the effect of depreciation and amortisation charges when measuring operational financial performance include that it is a common measure (comparability) and that it approximates the underlying operating cash flows. When entities are providing the latter explanation, they are in effect comparing a performance measure with a liquidity measure. The US SEC's guidelines explicitly distinguish performance measures from liquidity measures.

The real focus of attention for the APM debate, however, is on the adjusted performance measures, such as adjusted EBIT and EBITDA and the explanations for, and consistency in, the various additional adjustments made by management in arriving at these measures. See extract 2.7.5 for an example of such an explanation. Also, refer to the preceding discussions of definition of adjusting items in section 2.3 and reconciliations of adjusted measures in section 2.5.

Extract 2.7.5 Petroleum Geo Service ASA (2017) ***Norway***

Key Financial Figures

In USD million except per share data	2017	2016	2015	2014
Revenues	838.8	764.3	961.9	1 453.8
EBITDA (as defined)	374.1	313.3	484.4	702.6
EBIT ex. impairment charges	(147.1)	(137.5)	15.8	177.3
EBIT as reported	(383.6)	(180.3)	(430.4)	104.2
Net income	(523.4)	(293.9)	(527.9)	(50.9)
EPS	(1.55)	(1.21)	(2.43)	(0.24)
Net cash provided by operating activities	281.8	320.9	487.9	584.3
Capital expenditures	154.5	208.6	165.7	371.3
Cash investment in MultiClient library	213.4	201.0	303.3	344.2
Total assets	2 482.8	2 817.0	2 914.1	3 563.0
MultiClient library	512.3	647.7	695.0	695.2
Cash and cash equivalents	47.3	61.7	81.6	54.7
Shareholders equity	879.5	1 359.4	1 463.7	1 901.6
Net interest bearing debt	1 139.4	1 029.7	994.2	1 048.0

EBITDA

EBITDA, when used by the Company, means EBIT excluding other charges, impairment and loss on sale of long-term assets and depreciation and amortization. EBITDA may not be comparable to other similarly titled measures from other companies. The Company has included EBITDA as a supplemental disclosure because management believes that the measure provides useful information regarding the Company's ability to service debt and to fund capital expenditures and provides a helpful measure for comparing its operating performance with that of other companies.

EBIT excluding impairments and other charges

Management believes that EBIT excluding impairments and other charges is a useful measure because it provides an indication of the profitability of the Company's operating activities for the period without regard to significant events and/or decisions in the period that are expected to occur less frequently.

Commentary

Key financial figures for Petroleum Geo-Services (PGS) in the 2017 annual report included EBITDA and EBIT "excluding impairment and other charges". "EBIT as reported" corresponded to operating profit (loss) in the statement of profit or loss and other comprehensive income. Management of PGS explained the use of EBITDA in terms of providing information on the entity's ability to service debt and fund capital expenditures, as well as comparability with peers. Similarly, PGS explained "EBIT excluding impairment and other charges" in terms of providing a measure for the performance of the group disregarding the effects of certain events and decisions.

Often APMs are derived by removing from measures in the financial statements, the effect of various types of events or transactions. When the same adjustments are made in deriving more than one APM, entities sometimes provide explanations for such adjustments collectively. See previous examples relating to items affecting comparability and reconciliations of adjusted APMs, and extracts 2.7.6 and 2.7.7 for two more examples.

Extract 2.7.6a Marks & Spencer plc (2017) — *UK*

ABOUT OUR REPORTING

NAVIGATING THE REPORT

Throughout this document a series of icons demonstrate how we've integrated information about our business model with details of our strategy and risk.

- A PLAN A
- R RISK
- STRATEGY – REMUNERATION LINK
- READ MORE

REPORTING PERIOD

This year we are reporting on the 52-weeks to 1st April 2017 compared to last year when we reported on a 53-week basis, as every six years an additional week is included to ensure that the year-end date stays in line with the end of March. To provide a meaningful comparison with this year, all financial movements are reported on a 52-week basis, and excluding the 53rd week last year, unless otherwise noted.

Details of the 53-week comparisons can be found in the Financial Review p26.

ALTERNATIVE PERFORMANCE MEASURES

This report provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. New for this year, we have included a glossary on page 133 which provides a comprehensive list of the APMs that we use, including an explanation of how they are calculated, why we use them and how they can be reconciled to a statutory measure where relevant.

PLAN A

Plan A is integrated throughout this report, demonstrating how it is embedded in every part of our business. This makes it easier for shareholders to see how our sustainability programme is creating value in our different divisions. More detailed information is available in our online 2017 Plan A Report at **marksandspencer.com/plana2017**

ONLINE INFORMATION

We have comprehensive financial and company information on our website. To register for notifications, go to **marksandspencer.com/investors** and follow the **Electronic Shareholder Communication link.**

GLOSSARY

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Adjusted items	None	Not applicable	Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items (costs or incomes) is considered to be significant in nature and/or value. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is reported to the Board and the Operating Committee.

Commentary

In Marks & Spencer's 2017 annual report and financial statements, the reader is made aware of the use of APMs on page one, with a cross-reference to APM-related information. In the section with APM-related information, it is explained that adjustments are made for items (costs or income) considered being significant in nature and/or value in order to provide readers with additional information on the year-on-year performance and that the measures are consistent with how performance is reported to the Board and the Operating Committee.

Extract 2.7.6b Marks & Spencer plc (2017) ***UK***

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum and where treatment as an adjusted item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group. On this basis, the following items were included within adjusted items for the 52-week period ended 1 April 2017:

→ Significant pension charges arising as a result of changes to the defined benefit scheme's rules and practices

→ Significant restructuring costs and other associated costs arising from significant strategy changes that are not considered by the Group to be part of the normal operating costs of the business.

→ Net gains and losses on the disposal of properties or impairments of properties where a commitment to close has been demonstrated.

→ Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.

→ Adjustments to income from M&S Bank due to a provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products.

→ Various legal settlements that are significant in value to the results of the Group or to a segment.

Refer to note 5 for a summary of the adjusted items.

Extract 2.7.7a Norsk Hydro ASA (2017) *Norway*

Key figures

Amounts in NOK million unless other unit indicated	2017	2016	2015
Revenue	109 220	81 953	87 694
Underlying EBIT: (a)			
Bauxite & Alumina	3 704	1 227	2 421
Primary Metal	5 061	2 258	4 628
Metal Markets	544	510	379
Rolled Products	380	708	1 142
Extruded Solutions	284		
Energy	1 531	1 343	1 105
Other and eliminations	(289)	380	(19)
Total	11 215	6 425	9 656
Net Income	9 184	6 586	2 333
Underlying return on average capital employed (RoaCE), percent	9.6 %	5.1 %	9.2 %
Investments (b)	28 848	9 137	5 865
Total assets	163 327	130 793	122 544
Share price year-end, NOK	62.35	41.30	33.13
Dividend per share, NOK	1.75	1.25	1.00
Number of employees, year-end (c)	34 625	12 911	13 263
Recordable injuries, per million hours worked	2.9	2.6	3.0
Greenhouse gas emissions, million tonnes CO2e (d)	8.2	8.2	7.9

(a)

Underlying EBIT

Extruded Solutions' financial results are fully consolidated from the closing date October 2, 2017. Sapa's financial results prior to the transaction are reported as a 50 percent owned joint venture included in Other and eliminations.

(b)

Investments

Mainly relates to Hydro's investment in the new Business area Extruded Solutions. Also includes the expansion and modernization of the red mud deposit area at Alunorte and new tailing dams at Paragominas, investments in the Karmøy technology pilot and a new production line in Grevenbroich for automotive body sheet.

Commentary

Underlying EBIT was a key figure in Norsk Hydro's 2017 annual report. APM-related information was provided as part of the Board of directors' report. An introductory text reproduced below first explained that APMs supplement financial statement information and are intended to enhance comparability from period to period and that the APMs are used by management for long-term target setting and as basis for performance related pay. It further explained that APMs were derived by excluding items that, in the view of management, do not give an indication of the periodic operating results or cash flows. In a separate section, also reproduced below, two categories of adjusting items are then identified. A detailed specification is also provided in a table after which each adjusting item is explained. The latter explanations are not reproduced below, but can be found in the appendix to the Board of directors' report in the annual report.

Extract 2.7.7b Norsk Hydro ASA (2017) — *Norway*

Alternative Performance Measures (APMs)

Alternative performance measures, i.e. financial performance measures not within the applicable financial reporting framework, are used by Hydro to provide supplemental information, by excluding items that, in Hydro's view, does not give an indication of the periodic operating results or cash flows of Hydro. Financial APMs are intended to enhance comparability of the results and cash flows from period to period, and it is Hydro's experience that these are frequently used by analysts, investors and other parties. Management also uses these measures internally to drive performance in terms of long-term target setting and as basis for performance related pay. These measures are adjusted IFRS measures defined, calculated and used in a consistent and transparent manner over the years and across the company where relevant. Operational measures such as, but not limited to, volumes, prices per mt, production costs and improvement programs are not defined as financial APMs. To provide a better understanding of the company's underlying financial performance for the relevant period, Hydro focuses on underlying EBIT in the discussions on periodic underlying financial and operating results and liquidity from the business areas and the group, while effects excluded from underlying EBIT and net income (loss) are discussed separately in the section on reported EBIT and net income. Financial APMs should not be considered as a substitute for measures of performance in accordance with the IFRS. Disclosures of APMs are subject to established internal control procedures.

Items excluded from underlying EBIT, EBITDA, net income (loss) and earnings per share

Hydro has defined two categories of items which are excluded from underlying results in all business areas, equity accounted investments and at group level. One category is the timing effects, which are unrealized changes to the market value of certain derivatives and the metal effect in Rolled Products. When realized, effects of changes in the market values since the inception are included in underlying EBIT. Changes in the market value of the trading portfolio are included in underlying results. The other category includes material items which are not regarded as part of underlying business performance for the period, such as major rationalization charges and closure costs, major impairments of property, plant and equipment, effects of disposals of businesses and operating assets, as well as other major effects of a special nature. Materiality is defined as items with a value above NOK 20 million. All items excluded from underlying results are reflecting a reversal of transactions recognized in the financial statements for the current period, except for the metal effect. Part-owned entities have implemented similar adjustments.

Items excluded from underlying net income[1)]

NOK million	Year 2017	Year 2016
Unrealized derivative effects on LME related contracts	220	(401)
Unrealized derivative effects on power and raw material contracts	246	(61)
Metal effect, Rolled Products	(419)	(91)
Significant rationalization charges and closure costs	210	192
Impairment charges (PP&E and equity accounted investments)	-	426
(Gains)/losses on divestment	-	(314)
Other effects	212	(223)
Transaction related effects (Sapa)	(1 463)	
Items excluded in equity accounted investments (Sapa)	19	(113)
Items excluded from underlying EBIT	(974)	(586)
Net foreign exchange (gain)/loss	875	(2 266)
Calculated income tax effect	(564)	841
Other adjustments to net income[2)]	(125)	(700)
Items excluded from underlying net income	(788)	(2 712)
Income (loss) tax rate	17 %	28 %
Underlying income (loss) tax rate	24 %	38 %

1) Negative figures indicate reversal of a gain and positive figures indicate reversal of a loss.
2) In 2017 underlying net income included a reduction in tax expense and related interest income of in total NOK 125 million in relation to a tax dispute that was ruled in favor of Hydro in September. In 2016 a reduction in tax expense and related interest income of NOK 700 million in total was included following settlement of a tax case in April 2016.

Although most APMs are related to the statement of profit or loss and other comprehensive income measures, other APMs require explanations. See extracts 2.7.8 and 2.7.9 for two explanations of net-debt.

Extract 2.7.8 BT Group plc (2017) *UK*

Net debt

Net debt consists of loans and other borrowings (both current and non-current), less current asset investments and cash and cash equivalents. Loans and other borrowings are measured as the net proceeds raised, adjusted to amortise any discount over the term of the debt. For the purpose of this measure, current asset investments and cash and cash equivalents are measured at the lower of cost and net realisable value.

Our net debt calculation starts from the expected future undiscounted cash flows that should arise when our financial instruments mature. We adjust these cash flows to reflect hedged risks that are re-measured under fair value hedges, as well as for the impact of the effective interest method. Currency-denominated balances within net debt are translated to Sterling at swap rates where hedged.

Net debt is a measure of the group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess both the group's cash position and its indebtedness. The use of the term 'net debt' does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure.

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. A reconciliation from loans and other borrowings, cash and cash equivalents, and current asset investments, the most directly comparable IFRS measures to net debt, is set out below.

At 31 March	2017 £m	2016 £m	2015 £m
Loans and other borrowings[a]	12,713	14,761	10,176
Cash and cash equivalents	(528)	(996)	(848)
Current investments	(1,520)	(2,918)	(3,523)
	10,665	**10,847**	**5,805**
Adjustments:			
To retranslate currency denominated balances at swapped rates where hedged[b]	(1,419)	(652)	(357)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method[c]	(314)	(357)	(335)
Net debt	**8,932**	**9,838**	**5,113**

[a] Includes overdrafts of £17m at 31 March 2017 (31 March 2016: £537m, 31 March 2015: £441m).
[b] The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency.
[c] Includes remaining fair value adjustments made on certain loans and other borrowings and accrued interest at the balance sheet date.

Commentary

Net debt is frequently used in discussing the group's performance in the 2017 Annual Report and Form 20-F for BT Group. For example, a waterfall table, showing key movements in net-debt, and a table specifying key components of net debt, are presented in the strategic report. In the section for APM-related disclosures, net debt is explained as a measure of net indebtedness, providing an indicator of the overall balance sheet strength. Net debt is also presented as a measure that can be used to assess the group's cash position, noting, however, that the cash included in the net debt calculation is not necessarily available to settle the liabilities included in the measure.

Extract 2.7.9 Petroleum Geo-Services ASA (2017) *Norway*

Net Interest Bearing Debt

Net interest bearing debt is defined as the sum of long-term and short-term interest bearing debt, less cash and cash equivalents and restricted cash. Management believes that Net Interest Bearing Debt (NIBD) is a useful measure because it provides indication of the hypothetic minimum necessary debt financing to which the Company is subject at balance sheet date.

Note 20 – Financial Instruments

Financial risk management policies

In addition, the Company monitors leverage based on net debt. Net debt is calculated as total debt (including short-term and long-term debt as reported in the consolidated statement of financial position) less cash and cash equivalents, including restricted cash. The Company generally seeks to keep net debt below two times annual EBITDA in the weak part of a business cycle and below one times annual EBITDA in a strong market, dependent on several factors including capital spending commitments, the state of the seismic market and macro risks. In a situation where the net debt is above these levels, actions to come back inside may be gradual and take place over a period of time. As of December 31, 2017 and 2016, the ratio of net debt to EBITDA was 3.00 and 3.21, respectively.

Commentary

Key financial figures for PGS in the 2017 annual report include "Net Interest Bearing Debt". In the section with APM-related disclosures, management explains that the measure provides an indication of the hypothetical minimum necessary debt financing.

The notes to the financial statements explain that management monitors leverage based on net debt and "generally seeks to keep net debt below two times annual EBITDA in the weak part of a business cycle and below one times annual EBITDA in a strong market".

How we see it

- Some entities use a number of APMs, sometimes more than twenty. In such cases, management should carefully consider the reason for the use of the APMs. It may be that one or more APMs are perceived as redundant. This may sometimes become evident when management is drafting the explanatory disclosures.
- Presenting multiple measures that are similar in nature requires an explanation for the different measures used, and also requires management to consider whether the same could be achieved even if one or more of the APMs were removed.
- If issuers cannot explain how an APM is useful for investors, or other users of the financial report, then management needs to reconsider its use.

2.8. Location

What the guidelines say

The guidelines generally require APM-related disclosures to be provided in the same document as the APMs themselves.

The ESMA guidelines state that the required disclosures (definitions, reconciliations and explanations, but not comparatives) may be incorporated by reference to another previously published document that is readily accessible to users. The ESMA guidelines specify that such references should direct users to the information, suggesting the use of hyperlinks to the relevant documents or precise reference identifying the relevant page, section or chapter of the documents.

Guidelines issued in Australia include explicit guidance on the placement of non-GAAP financial information. The guidelines state that non-GAAP financial information must not be included as additional columns of financial statements or presented in a separate section below a financial statement. The guidelines further state that, in the rare circumstances where non-GAAP financial information is necessary to give a true and fair view of the financial position and performance of an entity, the directors' report must set out the directors' reasons for forming the opinion that the inclusion of the information was necessary to give a true and fair view, as required by the relevant regulations. In addition to the above, the guidelines require the auditor to form an opinion on whether the additional information was necessary to give a true and fair view as required by the relevant regulations.

See section 3 for a further discussion on APMs and APM related information provided within IFRS financial statements.

What the enforcers report

Some enforcers have reported on the topic of the location of APM-related disclosures. Practices appear to be mixed, with some entities providing the information before and some after the financial statements. A large minority also provide APM-related disclosures in the financial statements.

Reviews on the application of ESMA guidelines: Definitions

Ireland IAASA	**Alternative performance measures - thematic survey (September 2017)**	
	26%	Separate section before the financial statements
	44%	Separate section at the back of the annual report
	11%	Split between front and back of the annual report
	7%	Within notes to the financial statements
	11%	No separate section for APM information
UK FRC	**Corporate reporting thematic review: Alternative performance measures (APMs) (November 2017)**	
	60%	Separate section before the financial statements
	30%	Separate section at the back of the annual report
	10%	Within notes to the financial statements

What reporting entities can do

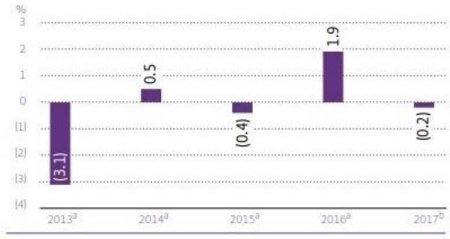
Providing transparent and clear definitions, reconciliations and explanations of APMs entails significant additional disclosures. The amount of information increases both with the number and complexity of the APMs. Providing the information in an efficient and useful manner can be challenging.

On the one hand, users of financial reports may find it helpful to find definitions, explanations and reconciliations presented in the context where the APM is used. For example, many UK entities present the definition of key performance measures (which tend to be APMs) in the strategic report. See extracts 2.8.1 and 2.8.2 for two examples. Full APM-disclosures, on the other hand, may disrupt the flow of the overall narrative. While this would suggest deferring some disclosures, users may also find it useful if all APM-related disclosures are collated in one place.

Extract 2.8.1 BT Group plc (2017) ***UK***

Our key measure of the group's revenue trend, underlying revenue excluding transit adjusted for the acquisition of EE, was down 0.2% (2015/16: up 1.9%[c]) which is broadly consistent with our revised outlook.

Trend in underlying revenue excluding transit
Year ended 31 March



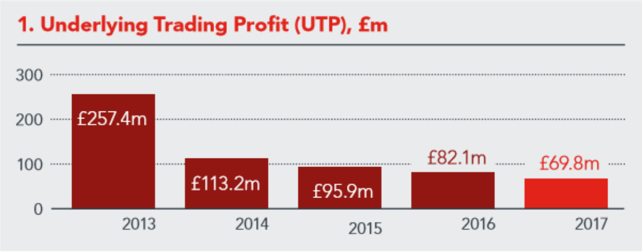
Performance
Our revenue performance has been heavily impacted by the challenging conditions we've seen in the UK public sector and international corporate markets. This was offset by strong performance in our customer-facing lines of business driven by EE and Consumer. We explain more about the performance of our lines of business from page 56.

Definition
Underlying revenue reflects the overall performance of the group that will contribute to sustainable profitable revenue growth. We exclude the impact of specific items, foreign exchange movements and disposals and from 2016/17 this measure is calculated as though EE had been part of the group from 1 April 2015. This differs from how we usually adjust for acquisitions as explained on page 252. We focus on the trend in underlying revenue excluding transit because transit traffic is low margin and is affected by reductions in mobile termination rates, which are outside our control.

Commentary

The Strategic Report in the 2017 annual report for BT Group contained a separate section detailing the entities financial KPIs. In the extract above, the section discussed the entity's performance against each of these KPIs, also providing an explanation of how each measure was defined. The introduction to the section referred to reconciliations being available in a separate section on financial measures after the financial statements.

Extract 2.8.2 Serco Group plc (2017) *UK*



Definition

Trading Profit is defined as IFRS Operating Profit adjusted for (i) amortisation and impairment of intangibles arising on acquisition and (ii) exceptional items; it includes the impact of discontinued operations for consistency with previous disclosures. Consistent with IFRS, it includes Serco's share of profit after interest and tax of its joint ventures and associates. Underlying Trading Profit additionally excludes Contract & Balance Sheet Review adjustments (principally Onerous Contract Provision (OCP) releases or charges), as well as the beneficial treatment of depreciation and amortisation of assets held for sale in prior years, and other material one-time items as set out in the Finance Review.

Relevance to strategy

The level of absolute UTP and the relationship of UTP with revenue – i.e. the margin we earn on what our customers pay us – is at the heart of our 'profitable and sustainable' business objective, as well as being an output of 'winning good business' and 'executing brilliantly'. We describe on page 16 that the delivery of strategic success, after the completion of further transformation, has potential to deliver revenue growth of 5–7% and trading margins of 5–6%.

Performance

The outcome was at the top end of our guidance of £65–70m given at the start of the year. The reduction on 2016 was driven by the first half of that year benefiting from £11m of non-recurring trading items. The underlying margin reduced from 2.7% to 2.4%.

Commentary

The Strategic Report in the 2017 annual report for Serco contains a separate section detailing the entities key performance indicators. As can be seen from the extract above, the section detailed the definition of the measure, explained its relevance to the strategy and discussed the performance in terms of the measure.

Although many variations may be observed, most financial reports include a separate section with all, or most of the APM-related disclosures. This section typically includes at a minimum, definitions and explanations. Sometimes reconciliations are also provided, sometimes the section instead cross-refers to other parts of the report where reconciliations are presented separately. Reconciliations may be found in management commentary sections and in the notes to the financial statements, often the note with segment-related information. Some entities provide reconciliations in a separate document published on the website. See extract 2.8.3 below for an example.

Extract 2.8.3 Mekonomen AB publ (2017) — *Sweden*

Alternative performance measures

As of the January-June 2016 interim report, Mekonomen applies the guidelines for alternative performance figures issued by ESMA[1]. An alternative performance measure is a financial measure over historical or future earnings trends, financial position or cash flow that are not defined or specified in IFRS. Mekonomen believes that these measures provide valuable supplemental information to the company's management, investors and other stakeholders to evaluate the company's performance. The alternative performance measures are not always comparable with measures used by other companies since not all companies calculate these measures in the same way. They shall thereby be seen as a complement to measures defined according to IFRS. For relevant reconciliations of the alternative performance measures that cannot be directly read or derived from the financial statements, refer to the complement to the 2017 Annual Report on our website http://www.mekonomen.com/sv/alternativa-nyckeltal/.

[1] The European Securities and Markets Authority.

Commentary

Mekonomen presented definitions for APMs in a separate section of its 2017 annual report following the financial statements together with a general glossary. On the same page, there was also high-level explanation for the use of APMs and a cross-reference to reconciliations available in a separate document available at the entity's homepage.

Extract 2.8.4 IMI plc (2017) — *UK*

2.1.1
Segmental information

Segmental information is presented in the consolidated financial statements for each of the Group's operating segments. The operating segment reporting format reflects the Group's management and internal reporting structures and represents the information that was presented to the chief operating decision-maker, being the Executive Committee. As described on page 09, each of the Group's three divisions has a number of key brands across its main markets and operational locations. For the purposes of reportable segmental information, operating segments are aggregated into the Group's three divisions, as the nature of the products, production processes and types of customer are similar within each division. Inter-segment revenue is insignificant.

Alternative Performance Measures

To facilitate a more meaningful review of performance, certain alternative performance measures have been included within this Annual Report. These APMs are used by the Executive Committee to monitor and manage the performance of the Group, in order to ensure that decisions taken align with its long-term interests. Movements in adjusted revenue and segmental operating profit are given on an organic basis (see definition opposite) so that performance is not distorted by acquisitions, disposals and movements in exchange rates. The table below details the definition of each APM and a reference to where it can be reconciled to the equivalent statutory measure.

APM	Definition	Reconciliation to statutory measure
Adjusted revenue Adjusted profit before tax Adjusted earnings per share	These measures are as reported to management and do not reflect the impact of the items such as in Section 2.2.	See income statement on page 90.
Adjusted segmental operating profit and margin	These measures are as reported to management and do not reflect the impact of the items such as in Section 2.2 and gains and losses on disposal of subsidiaries.	See income statement on page 90 and segmental reporting note in Section 2.1.1.
Organic growth	This measure removes the impact of adjusting items, disposals and movements in exchange rates.	See segmental reporting note in Section 2.1.1.
Adjusted operating cash flow	This measure reflects cash generated from operations as shown in the statement of cash flows less cash spent acquiring property, plant and equipment, non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments, excluding the cash impact of adjusting items.	See cash flow commentary on page 97.

Commentary

In the 2017 annual report for IMI plc, APMs are first mentioned on page 1 following a table with 2017 highlights. A footnote explains that many of the identified measures are "non statutory alternative performance measures" and refers readers to two specific pages for explanations and rationales for using these measures, as well as the associated definitions and reconciliations to statutory measures. The interested reader can follow this reference to note 2.1.1 to the financial statements, with segmental information. The extract above reproduces parts of this note, including the introduction and an introductory table setting out the definitions and where required reconciliations can be found.

How we see it

- When entities determine where to locate APM-related disclosures, the overall objective should be to facilitate effective communication with the users of the financial reports.
- In some cases, including the disclosures adjacent to the communication of the APMs themselves might be best, while, in other cases, locating all APM related disclosures in one place might be more effective.
- Entities should consider the options current technology provides when deciding on how to best facilitate users' access to APM related disclosures.

2.9 Assurance

What the guidelines say

Guidelines issued in Australia require an entity to make a clear statement as to whether the non-IFRS financial information has been audited or reviewed in accordance with the relevant accounting standards.

Other than as stated above, guidelines issued by the regulators included in the sample collected for this publication do not include any specific requirements with respect to assurance of APM measures.

What the enforcers report

APM guidelines issued by regulators generally do not address assurance. However, there are enforcement decisions in certain jurisdictions regarding the scoping of audits of financial statements including non-GAAP information.

What reporting entities can do

Some entities clearly identify APMs and APM-related disclosures as "unaudited". See extracts 2.9.1 and 2.9.2 for two examples.

Extract 2.9.1 Amcor Limited (2017) ***Australia***

Note regarding non-IFRS financial information

Within this report, Amcor has included certain non-IFRS financial information. This information is presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business. Amcor uses these measures to assess the performance of the business and believes that the information is useful to investors.

The following non-IFRS measures have not been audited but have been extracted from Amcor's audited financial statements:

- Profit before interest and tax before significant items (PBIT)
- Profit before interest, tax, depreciation and amortisation before significant items (PBITDA)
- Significant items
- Profit after tax before significant items (PAT)
- Average funds employed

Performance measures such as Earnings Per Share, Operating Margins and Return on Average Funds Employed have been calculated using the non-IFRS measures listed above.

Commentary

The contents page for Amcor's 2017 annual report identifies the use of certain APMs in the report, noting specifically that they were not audited.

Extract 2.9.2 Vodafone Group plc (2017) *UK*

Alternative performance measures

Unaudited information

In the discussion of the Group's reported operating results, alternative performance measures are presented to provide readers with additional financial information that is regularly reviewed by management. However, this additional information presented is not uniformly defined by all companies including those in the Group's industry. Accordingly, it may not be comparable with similarly titled measures and disclosures by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself an expressly permitted GAAP measure. Such alternative performance measures should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

Commentary

Vodafone Group provided APM-related information in a separate section after the financial statements in its 2017 annual report. As can be seen in the extract above, the heading for this section is clearly tagged "unaudited". This information was repeated on each page of this section.

How we see it

Guidelines issued by regulators generally do not include any requirements regarding assurance. However, there may be local audit regulations or similar that address inclusion of unaudited information in audited financial statements. Entities must therefore carefully consider the applicable requirements in the relevant jurisdiction.

3. APMs in financial statements

As noted at the outset, this publication takes the view that an APM is a financial measure that is not defined or specified in IFRS. This means that a line item or subtotal presented in the financial statements that is not specified or defined by IFRS, is considered to be an APM.

For the purposes of presentation and disclosure of financial statements, this distinction is generally unimportant. The guidelines presented in section two generally only apply to APMs when presented outside the financial statements and IFRS generally does not consider whether the measures are used outside the financial statements. IFRS also provides reporting entities with some flexibility in presenting and disclosing APMs within the financial statements.

While some IFRS reporters use this flexibility to tailor their financial statements to communicate their APMs, other entities do not. However, some regulators have noted that an overwhelming majority of IFRS reporters include line items and subtotals in their financial statements that are not required by IFRS, resulting in a high level of diversity that may reduce comparability. Regulators, therefore, appear generally supportive of the IASB's ongoing project to consider how IFRS can be amended to provide clearer guidance in respect of presentation and disclosure of APMs within the financial statements.

Some are of the view that the inclusion of APMs and APM related information (e.g., definitions) in the financial statements ensures greater transparency and confidence, as the financial statements are subject to assurance by way of external audits (however, see section 2.9 above). Presenting the APMs in the primary financial statements may also make it easier for users to reconcile APMs used in management commentary with the financial statements.

Others are concerned that the presentation of APMs in the financial statements may lead to APMs being presented with the same prominence as IFRS measures. The inclusion of APMs in the financial statements may also potentially increase clutter and reduce comparability across entities, thus, potentially confusing users of financial statements.

This section first outlines current IFRS requirements with regard to the presentation of APMs and APM-related information within the financial statements. Section 3.2 summarises different enforcement actions on the topic, while section 3.3 presents some examples of current practices. Assurance, the IASB discussion paper on principles of disclosure, and future developments are discussed in sections 3.4 – 3.6.

3.1 What IFRS say

In outlining relevant IFRS requirements with regard to the presentation of APMs and APM related information within the financial statements, this section addresses four topics:

1. Presentation of non-IFRS measures alongside the IFRS financial statements
2. Presentation of additional line items and subtotals in the primary financial statements
3. Presenting items of income or expense as extraordinary or similar
4. Requirements to disclose management performance measures

Presentation of non-IFRS measures alongside IFRS financial statements

IAS 1 *Presentation of Financial Statements* requires entities to clearly identify and distinguish IFRS financial statements from other information in the same published document. In some jurisdictions, this requirement is understood to prohibit the presentation of non-IFRS measures alongside the financial statements, e.g., in additional columns alongside the IFRS primary financial statements, through additional lines beneath the IFRS primary financial statements or in the notes to the financial statements. In other jurisdictions, such presentation has been accepted as long as the IFRS financial statement information is clearly identified.

Extract from IAS 1

49 An entity shall clearly identify the financial statements and distinguish them from other information in the same published document.

As noted in section 2.8, the guidelines issued in Australia set out that non-GAAP financial information must not be included as additional columns of financial statements or presented in a separate section below a financial statement.

How we see it

- While some may find it useful to present APMs alongside the primary financial statements – providing users with a clear reconciliation to the IFRS financial statements – such presentation is not accepted by all regulators. Entities, therefore, need to check with local guidelines.

Presentation of additional line items and subtotals

IFRS format requirements are primarily set out in IAS 1 and IAS 7 *Statement of Cash flows*. Generally, only some line items are required, but only if these are material. There are, for example, no specific requirements for any subtotals in neither the statement of financial position nor the statement of profit or loss and other comprehensive income.[23]

Extract from IAS 1

81A The statement of profit or loss and other comprehensive income (statement of comprehensive income) shall present, in addition to the profit or loss and other comprehensive income sections:

a) profit or loss;

b) total other comprehensive income;

c) comprehensive income for the period, being the total of profit or loss and other comprehensive income.

If an entity presents a separate statement of profit or loss it does not present the profit or loss section in the statement presenting comprehensive income.

However, entities are required to present additional line items and subtotals in the statement of financial position and the statement(s) presenting profit or loss and other comprehensive income, when such presentation is relevant to the understanding of the entity's financial position or financial performance.

[23] See IAS 1.54 for the statement of financial position, IAS 1.81A for totals in the statement of profit or loss and other comprehensive income (reproduced above) and IAS 1.82 and IAS 1.82A for line items in the same statements, IAS 1.106 for the statement of changes in equity. See IAS 7 for the statement of cash flows.

Extract from IAS 1

55 An entity shall present additional line items (including by disaggregating the line items listed in paragraph 54), headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity’s financial position.

85 An entity shall present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity’s financial performance.

When an entity presents additional subtotals, IAS 1 sets out certain requirements, including that they are labelled in a manner that makes the line items that constitute the subtotal clear and understandable and that they are not displayed with more prominence than the subtotals and totals required in IFRS.

Extract from IAS 1

55A When an entity presents subtotals in accordance with paragraph 55, those subtotals shall:

a) be comprised of line items made up of amounts recognised and measured in accordance with IFRS;
b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;
c) be consistent from period to period, in accordance with paragraph 45; and
d) not be displayed with more prominence than the subtotals and totals required in IFRS for the statement of financial position.

85A When an entity presents subtotals in accordance with paragraph 85, those subtotals shall:

a) be comprised of line items made up of amounts recognised and measured in accordance with IFRS;
b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;
c) be consistent from period to period, in accordance with paragraph 45; and
d) not be displayed with more prominence than the subtotals and totals required in IFRS for the statement(s) presenting profit or loss and other comprehensive income.

85B An entity shall present the line items in the statement(s) presenting profit or loss and other comprehensive income that reconcile any subtotals presented in accordance with paragraph 85 with the subtotals or totals required in IFRS for such statement(s).

Current IAS 1 has omitted a previous requirement to present the results of operating activities as a line item on the face of the statement of profit or loss and other comprehensive income. The Basis for Conclusions on IAS 1 explains that the reasons for this is that "operating activities" is not a defined term.[24] Recognising that entities may present, or disclose, the results of operating activities, the basis for conclusion of IAS 1 states that entities should ensure that the amounts disclosed are "representative of activities that would normally be regarded as 'operating'".[25] The basis also explains that, in the IASB's view, "it would be misleading and would impair the comparability of financial statements if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice".[26] The two sets of inappropriate exclusions are specifically identified: (1) inventory write-downs, restructuring and relocation expenses and (2) depreciation and amortisation expenses.

How we see it

- In the past, many understood IAS 1 to *allow* entities to present additional line items and subtotals when relevant to the understanding of an entity's financial position or performance. More recently, some emphasise that the standard *requires* entities to present additional line items and subtotals when relevant to the understanding of the entities financial position or performance.
- Use of financial measures outside the financial statements, e.g., in management commentary, may suggest that these measures are relevant to the understanding of the entities financial performance and position.
- The presentation of APMs may be impacted by local regulations. There may, for example, be local restrictions on the presentation of non-GAAP measures in the financial statements.

Presenting items of income or expense as extraordinary or similar

IAS 1 requires separate disclosure of the nature and amount of items of income or expense that are material. In line with the permissive approach taken to the format of the statement of profit or loss and other comprehensive income discussed above, this information may be given on the face of the statement of profit or loss and other comprehensive income or in the notes. However, entities must observe that IAS 1 specifically prohibits entities to present items of income or expense as "extraordinary items" in the statements of profit or loss and other comprehensive income or in the notes to these financial statements.

[24] IAS 1.BC55.
[25] IAS 1.BC56.
[26] IAS 1.BC56.

Extract from IAS 1

87 An entity shall not present any items of income or expense as extraordinary items, in the statement(s) presenting profit or loss and other comprehensive income or in the notes.

97 When items of income or expense are material, an entity shall disclose their nature and amount separately.

98 Circumstances that would give rise to the separate disclosure of items of income and expense include:

a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
c) disposals of items of property, plant and equipment;
d) disposals of investments;
e) discontinued operations;
f) litigation settlements; and
g) other reversals of provisions

The statement on the use of the term "extraordinary items" derives from the fact that earlier versions of the standard required a distinction to be made between ordinary activities (and the results of them) and extraordinary items. The basis for conclusions to IAS 1 explains that the removal of this distinction, and the prohibition on the presentation of extraordinary items, was made to avoid arbitrary segregation of an entity's performance.

How we see it

- While IAS 1 prohibits the use of the label "extraordinary" in the context of items of income and expenses, the standard is silent on the use of similar terms such as "exceptional" and "unusual". While such terms are frequently used in some jurisdictions, there may be local restrictions on the separate presentation of infrequently occurring items in the financial statements, especially if the objective is to differentiate between ordinary (recurring) and non-ordinary (non-recurring) performance.

Requirements to disclose APMs in financial statements

Although there are no explicit requirements to disclose APMs or APM-related information in IFRS financial statements, there are various requirements in IFRS that may potentially require such disclosures.

One example is the requirement to disclose in the notes to IFRS financial statements, information that is not presented elsewhere in the financial statements which is relevant to an understanding of the financial statements.[27] If line items or subtotals have been included on grounds of being relevant to the understanding of the financial performance or position, then definitions and explanations of these may be relevant to the understanding of the financial statements. As with the requirement to include additional line items or subtotals, entities must apply judgement in considering which information in relation to APMs is relevant to an understanding of the financial statements.

[27] IAS 1.112.

Extract from IAS 1

112 The notes shall:

[...]

c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

Another example is the requirement to disclose information that enables the users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.[28] The standard specifically requires entities to base these disclosures on the information provided internally to key management personnel. Such information may include various APMs and APM related information.

Extract from IAS 1

134 An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

135 To comply with paragraph 134, the entity discloses the following:

a) qualitative information about its objectives, policies and processes for managing capital, including:
   i. a description of what it manages as capital;
   ii. when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
   iii. how it is meeting its objectives for managing capital.
b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges);
c) any changes in (a) and (b) from the previous period.
d) whether during the period it complied with any externally imposed capital requirements to which it is subject.
e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The entity bases these disclosures on the information provided internally to key management personnel.

In developing the disclosure requirements in IAS 1.134 and IAS 1.135, the IASB decided against requiring the disclosure of the capital targets set by management. The reasons given include that capital targets are not more important than other financial targets and that requiring disclosure of only capital targets would provide users with incomplete, and perhaps misleading, information. However, the IASB confirmed its view that when an entity has policies and processes for managing capital, qualitative disclosures about these policies and processes are useful.[29]

[28] IAS 1.134.
[29] IAS 1.BC98-IAS 1.BC101.

The third and perhaps most obvious and practically significant example where IFRS may require entities to disclose APMs and APM-related information in the financial statements, is the requirement in IFRS 8 *Operating Segments* to disclose segment profit or loss, assets and liabilities. Because the amounts reported must be the measure reported to the chief operating decision maker for making decisions about the allocation of resources and in assessing performance, the standard may require entities to report management performance measures.

Extract from IFRS 8

25 The amount of each segment item reported shall be the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing an entity's financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment profit or loss, assets or liabilities, those amounts shall be allocated on a reasonable basis.

How we see it

- Entities with reportable operating segments under IFRS 8 need to consider the interaction between information disclosed in the financial statements under IFRS 8 and APM-related information provided in line with applicable guidelines for information provided outside the financial statements.
- In the interest of enhancing communication effectiveness, entities should avoid unnecessary duplication and consider whether cross-referencing may help users to link together information that is provided in different places, but ensuring compliance with the restrictions on cross-referencing under IFRS.

3.2 What the enforcers say

ESMA identified the presentation of financial performance as one of three enforcement priorities for European enforcers in the review of financial statements for 2016.[30] Reporting on the findings from these reviews, ESMA noted that over 70% of the issuers reviewed presented additional line items and headings "over and above" the requirements in IAS 1 and that more than 90% of the issuers in the sample presented subtotals.[31] ESMA also reported that, overall, European enforcers identified a high level of compliance with the requirements of IAS 1 when it comes to line items, headings and subtotals. In the extracts that ESMA published as examples of enforcement decisions taken by European enforcers, we found two examples of cases where European enforcers took action against misleading labelling/exclusion of operating items

[30] ESMA/2016/1528 PUBLIC STATEMENT European common enforcement priorities for 2016 financial statements.
[31] ESMA32-63-424 Report Enforcement and Regulatory Activities of Accounting Enforcers in 2017.

from subtotal relating to operating activities. In one of the cases, “EBIT before non-recurring items” excluded impairment charges and restructuring costs. In the other case, the enforcer concluded that the entity should have reported a revaluation loss on equipment within its operating activities (and not after “net result“).[32]

ESMA also reports that 22% of the issuers reviewed labelled line items/subtotals as “non-recurring”, “exceptional”, “unusual” or “infrequent”. In view of this finding, ESMA “reminds issuers that it is not acceptable to label subtotals or line items as “exceptional“ (IAS 1.87)”. This suggests that ESMA has adopted a broad, rather than narrow, interpretation of the prohibition against the label of “extraordinary” in IAS 1. ESMA also argues that items that affected past periods, and are expected to affect future periods, “can rarely be labelled or presented as non-recurring items such as most of the restructurings costs or impairment losses”.

ESMA also noted that only half of the issuers who used the above labels for additional line items/subtotals disclosed the judgements made in making these classifications. In view of this finding, ESMA strongly encouraged issuers “to disclose where significant judgement is required in the presentation of material items whenever IFRS is not clear in the classification or the presentation of items and subtotals in the statement of profit or loss and other comprehensive income”.

Finally, ESMA observed that the lack of defined subtotals in IAS 1 results in a number of different subtotals and/or labels used in practice to encapsulate variations of similar accounting concepts. In light of this, ESMA argues that further guidance from the IASB on the definition and labelling of some subtotals would be desirable to reduce diversity in practice and to improve comparability of financial statements.

3.3 What reporting entities can do

As noted in the previous section, IFRS provides some flexibility for entities to incorporate additional line items and/or subtotals in the primary financial statements. This section presents some real-life examples of how financial statements may be tailored to increase communication effectiveness by facilitating the reconciliation of APMs to audited financial statement information.

Presentation of non-IFRS measures alongside IFRS financial statements

As noted earlier, in some jurisdictions, but not all, it is accepted to present APMs as additional columns alongside the financial statements (See example 3.3.1).

[32] See Decision 7 in the 22nd Extract from the EECS’s Database of Enforcement (EECS/0118-07 – Presentation of revaluation losses of assets used in operating activities).

Extract 3.3.1 BT (2017) *UK*

Group income statement
Year ended 31 March 2017

	Notes	Before specific items £m	Specific items[a] £m	Total £m
Revenue	4	**24,082**	**(20)**	**24,062**
Operating costs	5	(19,947)	(948)	(20,895)
Operating profit (loss)	4	**4,135**	**(968)**	**3,167**
Finance expense	26	(607)	(210)	(817)
Finance income		13	–	13
Net finance expense		**(594)**	**(210)**	**(804)**
Share of post tax loss of associates and joint ventures		(9)	–	(9)
Profit (loss) before taxation		**3,532**	**(1,178)**	**2,354**
Taxation	9	(663)	217	(446)
Profit (loss) for the year		**2,869**	**(961)**	**1,908**
Earnings per share	10			
Basic				19.2p
Diluted				19.1p

[a] For a definition of specific items, see page 252. An analysis of specific items is provided in note 8.

Commentary

In its 2017 annual report, BT presented specific items in a separate column to the income statement. Specific items are defined and identified elsewhere in the annual report.

How we see it

- The presentation of APMs in separate columns may have the advantage of facilitating comparison with IFRS financial statement data, especially if adjustments are explicitly detailed in a separate column.
- A columnar format may be seen to introduce clutter to the primary financial statements, in particular when adding the same information for the comparative periods.
- Before adopting a columnar format, entities must consider local regulators' guidelines on acceptable primary financial statements formats.

Subtotals in the statement of profit or loss and other comprehensive income

As noted above, it is common practice in Europe to present additional subtotals in the statement of profit or loss and other comprehensive income. When entities present operating expenses by nature of expense, subtotals such as EBITDA and EBIT can be incorporated into the structure of the statement of profit or loss and other comprehensive income without violating the fundamental structure of the statement. See extract 3.3.1 below for one example.

Extract 3.3.1 Flughafen München Gmbh (2016) ***Germany***

Consolidated income statement

T€	2016	2015 [1]
Revenue	1,364,122	1,249,306
Changes in inventories and working progress	0	-225
Own work capitalized	19,930	21,722
Other income	46,643	38,764
Total income	**1,430,695**	**1,309,567**
Cost of materials	-352,085	-326,599
Personnel expenses	-452,515	-400,342
Other expenses	-97,092	-88,393
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**529,003**	**494,233**
Depreciation and amortization	-239,071	-214,278
Operating result (EBIT)	**289,932**	**279,955**

Commentary

Flughafen München presents EBITDA and EBIT in its income statement for 2016.

Special, unusual and non-recurring items in the statement of profit or loss and other comprehensive income

To assess trends, both investors and management are often interested in an entity's underlying performance, i.e., the performance excluding the effect of period-specific "special", "unusual" and/or "non-recurring" items. Many statements of profit or loss and other comprehensive income related APMs are therefore adjusted for the effect of such items.

As noted above, the separate presentation or disclosure in financial statements of what management views as special, unusual and/or non-recurring items is controversial in some jurisdictions. Discussions generally revolve around definitions and classifications, in particular, concerning arbitrariness in classifications and whether certain types of items, e.g., restructuring expenses and impairment expenses, can truly be characterised as unusual/non-recurring.

Various practices exist across different jurisdictions. Observations suggest that these variations may be affected by local regulations and guidance issued by regulators. In considering the practices illustrated in the following extracts, it is important to carefully consider specific facts and circumstances, including jurisdictional requirements.

APM-related information in the notes to the financial statements

As noted previously, IFRS requires certain entities to disclose financial information about operating segments. The amounts to be disclosed are as measured internally for allocating resources and assessing performance. Under the assumption that there is normally a high level of correspondence between internal and externally communicated measures of performance, entities may thus be required to disclose certain APM-related information as part of their segment disclosures.

While many entities provide APM-related disclosures in line with APM guidance outside the financial statements, some have opted to provide all or some of that information in the notes to the financial statements. Sometimes these disclosures are provided in the note on accounting policies. Sometimes they are provided in a separate note and, sometimes, the information is provided in the context of segment disclosures. See extract 3.3.3 below for an example.

Extract 3.3.3 IMI plc (2017) *UK*

2.1
Segmental information and alternative performance measures

Organic revenue growth and operating profit are the two short-term key performance indicators or measures that reflect the way the performance of the Group is managed and monitored by the Executive Committee. In this section the key constituents of these two KPI's, being the Group's adjusted revenues and segmental operating profits, are analysed by reference to the performance and activities of the Group's segments and their operating costs.

2.1.1
Segmental information

Segmental information is presented in the consolidated financial statements for each of the Group's operating segments. The operating segment reporting format reflects the Group's management and internal reporting structures and represents the information that was presented to the chief operating decision-maker, being the Executive Committee. As described on page 09, each of the Group's three divisions has a number of key brands across its main markets and operational locations. For the purposes of reportable segmental information, operating segments are aggregated into the Group's three divisions, as the nature of the products, production processes and types of customer are similar within each division. Inter-segment revenue is insignificant.

Alternative Performance Measures

To facilitate a more meaningful review of performance, certain alternative performance measures have been included within this Annual Report. These APMs are used by the Executive Committee to monitor and manage the performance of the Group, in order to ensure that decisions taken align with its long-term interests. Movements in adjusted revenue and segmental operating profit are given on an organic basis (see definition opposite) so that performance is not distorted by acquisitions, disposals and movements in exchange rates. The table below details the definition of each APM and a reference to where it can be reconciled to the equivalent statutory measure.

APM	Definition	Reconciliation to statutory measure
Adjusted revenue Adjusted profit before tax Adjusted earnings per share	These measures are as reported to management and do not reflect the impact of the items such as in Section 2.2.	See income statement on page 90.
Adjusted segmental operating profit and margin	These measures are as reported to management and do not reflect the impact of the items such as in Section 2.2 and gains and losses on disposal of subsidiaries.	See income statement on page 90 and segmental reporting note in Section 2.1.1.
Organic growth	This measure removes the impact of adjusting items, disposals and movements in exchange rates.	See segmental reporting note in Section 2.1.1.
Adjusted operating cash flow	This measure reflects cash generated from operations as shown in the statement of cash flows less cash spent acquiring property, plant and equipment, non-acquired intangible assets and investments; plus cash received from the sale of property, plant and equipment and the sale of investments, excluding the cash impact of adjusting items.	See cash flow commentary on page 97.

Commentary

In IMI plc's 2017 annual report, APMs are mentioned on page 1 following a table that sets out the 2017 highlights. A footnote explains that many of the measures in the table are "non-statutory alternative performance measures" and refers readers to two specific pages for explanations and rationales for these measures, as well as the associated definitions and reconciliations to statutory measures. The interested reader can follow this reference to note 2.1 *Segmental information and alternative performance measures* in the financial statements. The extract above reproduces parts of this note, including an introduction explaining that "organic revenue growth" and "operating profit" are two key performance measures (KPIs) that reflect the way the performance of the Group is managed and monitored. The introduction also explains that the note contains an analysis of the key parts of these two KPIs – the group's "adjusted revenues" and "segmental operating profits". An introductory table sets out the definitions of relevant APMs and, where required, reconciliations can be found.

Under the sub-heading, "Alternative Performance Measures" it is explained that the identified APMs are used by the Executive Committee to monitor and manage the performance of the Group, and that movements in adjusted revenue and segmental operating profit are given on an organic basis "so that performance is not distorted by acquisitions, disposals and movements in exchange rates".

Reporting net debt in the financial statements

As noted previously, IFRS requires entities to disclose information that enables users to evaluate its objectives, policies and processes for managing capital,[33] If such objectives and policies are expressed in terms of key ratios, such as equity to assets or debt to equity, disclosure of these measures and related information (e.g., definition, explanations and reconciliation) may be appropriate. An APM pertaining to the management of capital that has gained prominence in some jurisdictions is "net debt". Net debt reconciliations are also often found in the notes to the financial statements.

[33] IAS 1.134

Extract 3.3.4 BT Group plc (2017) UK

Notes to the consolidated financial statements continued

25. Loans and other borrowings

What's our capital management policy?

The objective of our capital management policy is to target an overall level of debt consistent with our credit rating target while investing in the business, supporting the pension scheme and paying progressive dividends. In order to meet this objective, we may issue or repay debt, issue new shares, repurchase shares, or adjust the amount of dividends paid to shareholders. We manage the capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of the group. The Board regularly reviews the capital structure. No changes were made to these objectives and processes during 2016/17, 2015/16 or 2014/15. For details of share issues and repurchases in the year see note 21.

Our capital structure consists of net debt and shareholders' equity. The analysis below summarises the components which we manage as capital.

At 31 March	2017 £m	2016 £m	2015 £m
Net debt	8,932	9,838	5,113
Total parent shareholders' equity[a]	8,305	10,090	669
	17,237	**19,928**	**5,782**

Net debt

Net debt consists of loans and other borrowings (both current and non-current), less current asset investments and cash and cash equivalents. Loans and other borrowings are measured at the net proceeds raised, adjusted to amortise any discount over the term of the debt. For the purpose of this measure, current asset investments and cash and cash equivalents are measured at the lower of cost and net realisable value. Currency denominated balances within net debt are translated to Sterling at swapped rates where hedged.

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings (current and non-current), current asset investments and cash and cash equivalents. A reconciliation from the most directly comparable IFRS measure to net debt is given below.

At 31 March	2017 £m	2016 £m	2015 £m
Loans and other borrowings	12,713	14,761	10,176
Less:			
Cash and cash equivalents	(528)	(996)	(848)
Current asset investments	(1,520)	(2,918)	(3,523)
	10,665	10,847	5,805
Adjustments:			
To retranslate debt balances at swap rates where hedged by currency swaps	(1,419)	(652)	(357)
To remove accrued interest applied to reflect the effective interest method and fair value adjustments	(314)	(357)	(335)
Net debt	**8,932**	**9,838**	**5,113**

Commentary

The BT Group generally presents APM-related information in a separate section following the financial statements. Information on the definition of net debt and a reconciliation is, however, also provided in note 25 to the financial statements.

3.4 Assurance

The International Standards on Auditing (ISA) require auditors to evaluate whether additional information that is not required by the applicable financial reporting framework (e.g., IFRS) is clearly differentiated from the audited financial statements. If the additional information is not capable of being clearly differentiated, it is an integral part of the financial statements and, hence, it needs to be covered by the auditor's opinion.[34]

If the additional information is not considered an integral part of the audited financial statements, the auditor needs to evaluate whether such information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, the auditor asks management to change how the unaudited additional information is presented.[35]

[34] Refer to ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 53

[35] Refer to ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 54

We expect unaudited additional information to be clearly differentiated from the audited financial statements. This is typically accomplished by labelling it as "unaudited".

However, before including unaudited information in audited financial statements, entities should consider requirements issued by local regulators and enforcers. The inclusion of unaudited information in audited financial statements is by some enforcers considered inappropriate.

3.5 Discussion Paper on Principles of Disclosure

In 2017, the IASB issued a Discussion Paper *Disclosure Initiative - The Principles of Disclosure* (the DP). Amongst a number of topics, the DP discussed whether the standard setter should develop guidance relating to the presentation of some performance measures that are commonly presented as line items or subtotals in the statement of profit or loss and other comprehensive income, such as EBIT and EBITDA, infrequently occurring items and performance measures.

With regard to the first topic, the DP explains that the Board's preliminary view is that it should clarify that the presentation of EBITDA will only comply with IAS 1 if an entity presents an analysis of expenses based on their nature. The presentation of EBIT, on the other hand, is likely to comply with IAS 1.

With regard to infrequently occurring items, the DP explains that the Board's preliminary view is that IFRS should allow entities to present unusual or infrequently occurring items separately. However, in response to concerns that entities are presenting unusual or infrequently occurring items inappropriately and/or inconsistently, the Board should develop definitions of, and requirements for, the presentation of such items in the statement of profit or loss and other comprehensive income. The Board discussed, but did not form any preliminary views on, whether to prohibit the use of particular terms such as "non-recurring", "special" or "one-off". Arguments for prohibiting their use include that since they lack explanations, these terms are not helpful for users of financial statements and that they may be interpreted in a similar way to the term "extraordinary items", the use of which is prohibited by IAS 1.

With regard to the issue of including performance measures in financial statements, the Board's preliminary view was that it should develop guidance on how such performance measures can be fairly presented in financial statements. In this context, the Board noted that IAS 1 states that a "fair presentation requires the faithful representation of the effects of transactions, other events and conditions" and that the Conceptual Framework proposes that, in order to be a faithful representation, a depiction needs to be complete, neutral and free from error.[36] In light of these considerations, the DP recommends introducing a number of requirements for performance measures in financial statements.

[36] The Conceptual Framework for Financial Reporting QC12

DP/2017/1 Disclosure Initiative – Principles of Disclosure

The DP sets out that it was the Board's preliminary view that IFRS should require a performance measure to be:

(a) displayed with equal or less prominence than the line items, subtotals and totals in the primary financial statements required by IFRS;

(b) reconciled to the most directly comparable measure specified in IFRS to enable users of financial statements to see how the performance measure has been calculated;

(c) accompanied by an explanation in the notes to the financial statements of:

   i. how the performance measure provides relevant information about an entity's financial position, financial performance or cash flows;

   ii. why the adjustments to the most directly comparable measure specified in IFRS in (b) have been made;

   iii. if the reconciliation in (b) is not possible, why not; and

   iv. any other information necessary to aid understanding of the measure (i.e., the information should provide a complete depiction).

(d) neutral, free from error and clearly labelled so it is not misleading;

(e) accompanied by comparative information for all prior periods presented in the financial statements;

(f) classified, measured and presented consistently to enable comparisons to be made over time, except when IFRS require a change in presentation, as stated in IAS 1.45; and

(g) presented in a way that makes it clear whether the performance measure forms part of the financial statements and whether it has been audited.

While some have taken these discussions to indicate an openness, even encouragement, to report APMs within financial statements, others look to the extensive list of requirements as suggesting a more restrictive approach.

3.6 IFRS - Future developments

The IASB is considering the feedback received on the DP with respect to the issues raised about its Primary Financial Statements project. This project explores targeted improvements to the structure and content of the primary financial statements, especially the statement of profit or loss and other comprehensive income. At the time of writing, the IASB is expected to continue its discussions through 2018 and publish either a Discussion Paper or an Exposure Draft in 2019.

While the IASB's proposals are expected to evolve as the project unfolds, this section presents a high-level outline of the discussions with a cut-off date end of June 2018. Two topic areas are addressed: subtotals in the financial statements; and management performance measures. The Boards have not yet addressed the topic of infrequently occurring items of Income/expense.

Required subtotals in the statements of profit or loss and other comprehensive income

During 2017 and 2018, the Board discussed introducing new subtotals in the statement of profit or loss and other comprehensive income. In September 2017, the Board decided to prioritise comparability by introducing new standardised subtotals, such as EBIT, that facilitate comparisons between entities, over introducing a management-performance measure subtotals. The Board has also agreed to explore the introduction of an investing category in the statement of profit or loss and other comprehensive income. In November 2017, the Board decided to rename this category "income/expenses from investments".

Consequently, the Board is currently expected to propose to add one or more new subtotals to the list of required subtotals in the statement of profit or loss and other comprehensive income in IAS 1.81A, for example: Profit before investing, financing and tax and Profit before financing and tax.

If the IASB decides to require new subtotals to be presented in the financial statements, this will impact which financial measures are considered to be APMs. More specifically, some measures that are currently classified as APMs may become GAAP measures.

Management Performance Measures

The Board has discussed requiring entities to present or disclose Management Performance Measures (MPMs) in the financial statements during several meetings in 2017 and 2018.

Introducing such requirements is motivated in terms of users finding information about how management views the entity's financial performance, and insights into how the business is managed, to be useful. Another key argument is that requiring presentation of MPMs inside the financial statements may make these measures more transparent and provide greater assurance over the measures. A third motivation is a perception that, lacking guidance in the standards, preparers may be reluctant to present their view of financial performance in their financial statements, because doing so may be challenged by auditors and regulators.

In April 2018 the IASB tentatively decided that entities shall be required to identify a measure (or measures) of profit or comprehensive income that, in the view of management, communicates to users the financial performance of the entity. This measure may be a subtotal or total required by IAS 1. If it is not, it is considered to be a MPM. If the measure is a subtotal or total required by IAS 1.81A, the IASB is considering requiring entities to disclose an explanation of why it best communicates management's view of the entity's financial performance. If the measure is not a subtotal or total listed IAS 1, it is a MPM.[37] In such cases, the IASB is considering requiring the separate presentation of this measure as a subtotal in the statement of profit and loss and other comprehensive income if it "fits" in the proposed structure for the statement and satisfies the requirements for subtotals in IAS 1.85A. With regard to MPMs, the Board is also considering requiring the measure to be labelled in a clear and understandable way to avoid the risk of misleading users and a number of related disclosures (See below for details).

Proposed disclosure requirements when (a) profit measure(s) identified as "best communicates the financial performance of the entity" is an MPM[38]

1. If not separately presented in the statement(s) of profit and loss and other comprehensive income, a reconciliation to the most directly comparable subtotal or total required by IAS 1;
2. An explanation of how the management performance measure has been calculated.
3. An explanation of how the measure provides relevant information about an entity's financial performance; and
4. A statement that the measure provides management's view of the entity's financial performance and is not necessarily comparable with other entities.

The proposed requirement that an MPM must fit in the proposed structure for the statement of profit and loss and other comprehensive income, in combination with proposals to incorporate new standardised subtotals in the statement of profit or loss and other comprehensive income, would significantly restrict which MPMs can be presented on the face of the statement. Nevertheless, concerns have been expressed that requiring the separate presentation of MPMs in the financial statement, may "elevate" MPMs, giving them the same prominence as IFRS measures. As an alternative, the IASB has considered not to specifically require the presentation of the identified MPM in the statement of profit or loss and other comprehensive income, arguing that a specific requirement in not necessary given the existing requirements to present additional subtotals in IAS 1.85-85A.

If the IASB decides to require one or more MPMs, and MPM-related information to be presented and/or disclosed in the financial statements, this may impact entities' decisions with regard to the placement of such information.[39]

[37] This definition is motivated in terms of IAS 1.85-85A de facto requiring entities to present certain additional subtotals.
[38] IASB Agenda paper 21A (April 2018): Primary Financial Statements - Clarifying requirements for management performance measures (MPMs) paragraph 3(b).
[39] IASB Agenda paper 21A (April 2018)): Primary Financial Statements - Clarifying requirements for management performance measures (MPMs) paragraph 23.

4. Project management

4.1 How to work with APMs

APMs have a twofold use; directors monitor the financial and economic performance through APMs, and issuers heavily rely on APMs to communicate results to their financial statement users. APMs should normally be consistent with the performance indicators used by directors. However, regulatory restrictions, as discussed in previous chapters in this publication, or confidentiality issues may prevent directors from disclosing all of the types of performance indicators used. Furthermore, complexity in calculation or use of non-financial information could also prevent directors from publicly disclosing certain types of APMs.

A structured way to organise an entity's APM process may involve the following four steps:

1. Identify the relevant APMs for users that are also eligible for external communication
2. Design and implement a process to monitor that the applicable regulatory guidelines are applied for the APMs selected
3. Monitoring that APMs are based on reliable and traceable information
4. Ensure that their placement is capable of meeting their communication objectives

Because the steps above are entirely part of the internal procedures, an entity should also set up monitoring activities within its internal control system in order to ensure the absence of weaknesses throughout the process and the compliance with applicable enforcement decisions and regulations. In the following section, some relevant considerations regarding the first three steps are summarised. The placing of APMs has been thoroughly addressed in the previous chapters, and will therefore not be elaborated on below.

4.2 Identification of the APMs

Identifying APMs is a complex exercise where directors have to consider a myriad of facts and circumstances.

At first glance, directors need to identify what their communication needs are. A suggested method could be to use a twofold approach:

- **Bottom up approach**: APMs should normally be consistent with internal performance measures used by management, which are based on the specific circumstances of an entity (e.g., its value chain, success factors, served market, type of clients). If a performance measure provides relevant information, it should be selected as a possible candidate for inclusion in the financial communication as an APM where GAAP measures do not convey the same information. The bottom-up approach is normally not sufficient on its own to identify a performance measure as an APM for external communication.

- **Top down approach**: in assessing whether all candidates for APMs identified are sufficient and useful to users, an entity should interact with its analysts and investors and should be aware of any industry specific practices. This could be achieved by review (perhaps via a survey) of what competitors are doing in the market, or benchmarking of peers or competitors.

This twofold approach has the merit of identifying what is useful internally and externally. However, it still does not answer the question as to the appropriateness of using an APM in financial communication.

APMs still need to be assessed in terms of consistency and compliance with the guidelines issued by the regulators.

Entities may prepare a fit-gap analysis in terms of consistency with the regulated framework and best practices. In particular, the gap analysis should consider the applicable guidelines in order to ensure that the identified APMs:

- May be disclosed
- Comply with existing requirements
- Would not be better placed in other areas of the financial report (e.g., segment note in the financial statements)

Finally, the issuer should define an action plan to allign all identified gaps.

Only after having passed these "gates" should directors use a performance measure as an APM.

4.3 Design and implement process for APM disclosure

As part of its action plan, an issuer should design and implement the process to produce, on a timely basis, its identified APMs. Such a process is usually included in the financial statement closing process, which should be updated to include the following:

- *Policies and procedures*: internal policies must clearly identify the definition of APMs and the methodology to be used to calculate them. Also, policies should define the items to which selected APMs should be reconciled. The issuer should clearly identify those individuals in charge of the process and define specific tasks in the closing process, along with a timetable for their preparation.

- *Reporting system*: APM calculation and reconciliation must be supported by a proper reporting system, e.g., the system implemented for GAAP financial reporting purposes. An extensive use of spreadsheets and unstructured reporting systems typically prevent straightforward reconciliation, more frequently lead to mistakes, and make auditing the APMs, if applicable, more difficult, delaying the entire disclosure process. Data should be stored in a reporting system that allows the calculation to be reperformed and/or backtraced from the APM indicators to source data.

- *Internal control over financial reporting*: since the APMs are part of the financial information, the internal control system must be updated; regulators are already suggesting that entities evaluate whether their disclosure controls and procedures are robust enough to ensure the APMs are prepared consistently over periods, the measures are accurately calculated and transparent, and that the measures are adequately reviewed and monitored.

4.4 Monitoring APMs communication process

Due to the significance of APMs in financial reporting and financial communications, issuers usually understand the importance of a reliable process; improper selection, presentation or computation of APMs can trigger comments from regulators and/or unclear communication with stakeholders.

To achieve a proper process, issuers need to design robust controls to ensure:

i. The completeness and accuracy of data sourced from the Issuer's databases
ii. The appropriateness of the extractions used
iii. The appropriateness of categorisation and computations made during the production of the APMs
iv. The accuracy and the presentation of the output

In addition, a preliminary assessment of APMs based on data embedded in their calculation (audited or reviewed financial data, or other information) can facilitate the identification of necessary new controls over flows or data not otherwise required for the preparation of financial statements (but required for the use of APMs).

A regular and timely testing of these controls can confirm their operating effectiveness and, therefore, their sufficiency to address the assessed risks of misstatement. Deficiency or exceptions identified during this monitoring should be carefully considered before the communication of the APMs and they should be investigated in order to improve the reliability of the processes. Lastly, due to changes in industries and markets, entities should implement a regular review, with due tone at the top, to confirm the compliance of their APMs with existing guidelines and their ability to meet the needs of users.

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