THE USE OF ALTERNATIVE PERFORMANCE MEASURES IN FINANCIAL INFORMATION
CURRENT PRACTICE OF EUROPEAN LISTED COMPANIES

AS OF 30 JUNE 2016 AND 31 DECEMBER 2015
1 BENCHMARKING ANALYSIS: METHODOLOGY AND KEY FINDINGS
1.1 Introduction and methodology

Recent developments at ESMA

On 3 July 2016 ESMA’s Alternative Performance Measures Guidelines came into force, promoting the usefulness and transparency of APMs included in prospectuses or regulated information such as financial reports and market disclosures. The Guidelines set out the principles that issuers should follow when presenting APMs in documents, other than financial statements, in terms of their labelling, calculation, presentation and of the comparability of the information. ESMA published the Guidelines in October 2015 to allow sufficient time for their implementation.

The Guidelines set out a common approach towards the use of APMs and are expected to benefit users and promote market confidence. As such, national regulators and other bodies with responsibilities under the Transparency Directive, Prospectus Directive or Market Abuse Regulation will monitor compliance with these Guidelines. In addition, presentation of financial performance within the financial statements is one of ESMA’s enforcement priorities for 2016.

Alternative Performance Measures (APMs) are financial measures of historical or future financial performance, financial position, or cash flows. APMs are derived from the financial statements prepared in accordance with the applicable financial reporting framework, by adding or subtracting amounts from the figure presented therein. What distinguishes them from GAAP measures is that they are not defined nor specified in the applicable financial reporting framework (e.g. EBIT, EBITDA, Free Cash Flow, etc.). Their use is widespread and their role is to convey a view of the entity’s performance which is closer to the management’s view than what would result from the use of sole GAAP measures.

The following are ESMA’s key recommendations:

- **Disclosures**: management should define the APMs used and their components as well as the basis of calculation adopted, including details of any material hypotheses or assumptions used;

- **Presentation**: the definitions of all APMs used should be disclosed, in a clear and readable way. APMs disclosed should be given meaningful labels reflecting their content and basis of calculation in order to avoid conveying misleading messages to users;

- **Reconciliations**: A reconciliation of the APM to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period should be disclosed, separately identifying and explaining the material reconciling items. Issuers or persons responsible for the prospectus should also present the most directly reconcilable line item, subtotal or total presented in the financial statements relevant for that specific APM;

- **Explanation of the use**: financial information should be accompanied by an explanation of the use of APMs in order to allow users to understand their relevance and reliability;
Prominence and presentation: APMs should not be displayed with more prominence, emphasis or authority than measures directly stemming from financial statements;

Comparatives: APMs should be accompanied by comparatives for the corresponding previous periods;

Consistency: definitions and calculations of APMs should be consistent over time. In exceptional circumstances where APMs are changed or redefined, financial information should be accompanied by an explanation of the rationale for the change, detailing why the change results in reliable and more relevant information on the financial performance; comparative figures should be restated.

Following the entry into force of ESMA’s Guidelines, the presentation of financial performance is also one of ESMA’s enforcement priorities in the document “European common enforcement priorities for 2016 financial statements” issued in October 2016, thus representing an area of special focus for the competent authorities. ESMA again stresses in this document the importance of providing investors with clear and high quality information on financial performance. ESMA urges issuers to ensure transparency and consistency when presenting their performance in the primary financial statements, notes and in the documents accompanying financial statements.

More specifically, the following areas of attention are mentioned by ESMA and apply when preparing financial statements:

When they include in the financial statements measures of performance not defined in IFRS Standards, issuers should ensure that those measures are calculated and presented in an unbiased fashion (e.g. issuers should not eliminate, remove or omit only negative aspects or items of their performance);

In accordance with paragraphs 55 and 85 of IAS 1, issuers shall present additional line items, headings and subtotals in the statement of financial position and in the statement(s) of profit or loss and other comprehensive income when these line items, headings or subtotals are relevant to an understanding of the entity’s financial position or the entity’s financial performance. While doing so, issuers should, in accordance with paragraphs 55A and 85A of IAS 1, ensure that any subtotals;

- are comprised of line items made up of amounts recognised and measured in accordance with IFRS Standards;
- are presented and labelled in a clear and understandable way;
- are consistently presented from period to period; and
- are not displayed with more prominence than subtotals and totals required by IFRS Standards;

Some issuers include measures such as ‘operating profit’ in the statement of profit or loss or other comprehensive income. While there is no definition of the term “operating profit” in IFRS Standards, ESMA highlights the principles included in paragraph 85A and in paragraph 17 of IAS 1 regarding the relevance and fair presentation of the information.
disclosed. Therefore, measures such as operating profit, should be clear, understandable and reflect their content. Like the IASB, ESMA is of the view that it is misleading if items of an operating nature (e.g. business combination impacts, depreciation of assets or inventory write-downs) are excluded from the results of operating activities even if that has been industry practice;

- Where significant judgement is required in the presentation of material items (e.g. service costs and net interest on the net defined benefit liability/asset, impairment of equity-accounted investments), issuers are encouraged to disclose these judgements;

- Issuers shall not present any items of income or expense as extraordinary items (paragraph 87 of IAS 1) and labels used should be meaningful. For example, 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.

Recent developments at the IASB

The IASB is investigating the same topic in the context of its research project on “Primary Financial Statements”, starting from the inconsistencies observed in the current practice for the statements of profit or loss and other comprehensive income (OCI).

The Primary Financial Statements project is an early-stage research project examining possible changes to the structure and content of the primary financial statements. It is an important part of the International Accounting Standards Board’s (the Board’s) “Better Communication” theme, one of its main areas of work over the next five years.

To date, the IASB and staff have conducted initial research, including outreach with investors, to help define the scope of the project. This research has focused on:

- the structure and content of the statement(s) of financial performance, including assessing whether to require a defined subtotal for operating profit and examining the use of alternative performance measures (i.e. financial measures that are not defined or specified in IFRS Standards);

- the potential demand for changes to the statement of cash flows and the statement of financial position; and

- the implications of digital reporting for the structure and content of the primary financial statements.

Papers summarising this research were presented to the Board in November 2016. To read those papers click here. It is expected that the Board will decide on the scope of the project in December 2016 (ref. http://www.ifrs.org/Alerts/ProjectUpdate/Pages/Developments-in-the-IASB-research-project-Primary-Financial-Statements.aspx).
The benchmarking analysis: methodology and composition of the sample

This report presents the results of a benchmarking analysis of the current use of APMs in financial reporting. The analysis covered the listed entities belonging to the EUROSTOXX 50 index (composition at the beginning of August 2016 – timing of issuance of half-year 2016 financial information, see Appendix I). The analysis was conducted dividing the population of entities into four segments respectively:

- Industrial (37 entities);
- Banking (8 entities);
- Insurance (4 entities);
- Real Estate (1 entity).

The analysis covered the following financial information available on each company’s website:

- Interim report for 1H16 and Annual report for YE15, with particular focus on primary financial statements and other indicators presented in the Management Commentary;
- Press releases announcing the half-year results for 2016 and the annual results for 2015;
- Presentation to the analysts illustrating the half-year results for 2016 and the annual results for 2015.

The identification of APMs was mainly focused on 1H16 documents, with YE15 documents used as a reference for assessing consistency across periods.

For the entities belonging to the banking segment the analysis did not cover Pillar III reports.

The analysis consisted in (i) the identification of the indicators frequently used by the entities in the sample in illustrating their financial performance and (ii) in the assessment of their content and the level of disclosure provided about their definition and reconciliation, in the case of non-GAAP indicators, with the most reconcilable item. The purpose of the analysis was:

- The identification of commonalities at segment level, as indicators of common knowledge require a lower level of disclosures in order to be understood by users of the financial information. For the purposes of identifying the indicators of common use in each sector, we referred to the “AIAF/EFFAS Definition Guide”\(^1\). In addition, for the banking and insurance segments we referred to the relevant regulatory framework (Capital, Liquidity, Solvency), as several indicators of common knowledge are defined therein. Finally, for the Real Estate Segment, we referred to “EPRA Best Practices Recommendations”\(^2\);


The classification of indicators according to their degree of reconcilability with GAAP measures, differentiating between indicators presented directly on the face of the primary statements and indicators presented in the rest of the financial information analysed (i.e. management commentary, press release, presentation to the analysts). Primary statements used as a reference for the exercise are those used by the management in the illustration of their performance, which are often condensed/managerial statements derived from their IFRS primary statements. The category of indicators not presented on the face of the primary statements was further divided in two types: direct and indirect indicators:

- We have defined “direct indicators” as the APMs that are directly derived by aggregating or disaggregating figures that are presented in the primary financial statements, such as sub-totals of the Income Statement or simple ratios of items presented in the primary financial statements;
- We have defined “indirect indicators” as all other APMs, including adjusted measures, i.e. those measures that result from an aggregation or disaggregation of financial statements figures and non-GAAP items.

Such differentiation helps in order to classify APMs according to their degree of understandability for the users of the financial information: direct indicators are normally easier to understand and require little or no illustrative notes in order to be understandable and reconcilable with financial statement figures. On the contrary, indirect indicators require more efforts in terms of disclosure in order to achieve the same level of understandability, clarity and reconciliation with financial statement figures;

- The detection of key divergences across entities belonging to the same segment in the labelling and calculation of the same indicators;
- The illustration of the adjustments made to GAAP measures and the assessment of the disclosure provided;
- An overall assessment (in aggregated terms) of the quality of the information provided using APMs for each entity in the sample, having as point of reference the qualitative characteristics recommended by ESMA in its Guidelines.

1.2 Key findings

Industrial segment

- **Divergences were observed in the presentation of the most-frequently used** (presented by more than 50% of the companies in the sample) **direct indicators** (i.e. same indicator presented on the face of primary financial statements or elsewhere in the financial report/press release/presentation to analysts). Similarly, the classification of direct vs. indirect indicators has shown that the same indicators may be classified in one of the two classes according to the type of aggregation and disaggregation that is used by the entity preparing the financial information. **EBIT, Net Debt and Free Cash Flow**, for example, **were presented directly on the face of the primary financial statements, as direct or indirect indicators.**
In particular the following APMs were presented on the face:

- **EBIT** is generally presented on the face of the Income Statement (92% of the companies);
- **EBITDA** is presented directly on the face of the Income Statement only in 2 of the 37 companies;
- In 12 cases out of the 32, an adjusted performance indicator is presented directly on the face of the Income Statement, labelled as “recurring operating income”;
- **Net Debt** and **Free Cash Flow** are presented on the face of the Cash Flow Statement by 2 entities;
- **Cash flow from operations** before changes in working capital is used by 8 entities out of the 37 in the industrial segment: 3 different labels are used. It is presented on the face of Cash Flow Statements by 4 entities.

**EBITDA is an indirect indicator when companies use the “by function method”** in the presentation of expenses on the face of their Income Statements as specified in IAS 1. This presentation of operating expenses is used by 70% of the 37 industrial companies in their Income Statements;

**Divergences in labelling and/or calculation**

- **EBIT** is an indicator used by all the entities of the industrial segment. As regards its calculation, the divergences relate to the presentation of the share in the result of the entities accounted for using the equity method (included by 35% of the entities). As regards its labelling, 7 different labels are used, “EBIT”, “Operating profit” and “Operating income” being the most frequent;
- **Net Debt** is an indicator used by 24 of the 37 entities of the industrial segment. As regards its calculation, 7 different combinations of items composing this indicator are used. As regard its labelling, 4 different labels are used;
- **Free Cash Flow** is an indicator used by 22 entities. 7 different combinations of items composing this indicator are used;
- **ROE** is a profitability indicator used by 11 out of the 37 entities in the industrial segment: 3 different labels and 7 different formulas are used, with the main differences in the formula relating to average vs. year-end equity as the denominator and the use of 3 different performance indicators as the numerator; in one case “share attributable to minority interests” is excluded in both the numerator and the denominator;
- **Profit margin** is used by 9 entities out of the 37 in the industrial segment. 4 different labels are used and in two more cases the indicator does not have a specified label; 2 different formulas are used (including and excluding the “share of minority interests” from the numerator);
- **Gearing** is used by 9 entities out of the 37 in the industrial segment. 2 different calculations (including and excluding “Net Debt” from the denominator) and 3 different labels are used;
- **Capital expenditure ratio** is used by 9 entities out of the 37 in the industrial segment; 3 of these 9 entities use a Net Capex (acquisitions less disposals) instead of Capex as numerator;
- **ROCE** is used by 14 entities and **several divergences are observed** in the nominator (6 different performance indicators used) and denominator (4 different indicators used,
plus two possible approaches, i.e. final volume or average volume). 5 different labels are used for this indicator. In 5 cases the numerator is an adjusted indicator but only in one case this is specified in the label;

- **Value added** is used by 16% of the entities. 4 different labels are observed, in addition to divergences in calculation, which largely reflect the divergences commented above for ROCE;

- **Adjusted EBIT, adjusted Net income, adjusted EBITDA**: As per ESMA's “Public Statement” dated 28 October 2016 (ESMA/2016/1528), issuers shall not present any items of income expense as extraordinary items in their Primary Statements or in the notes (as stated in paragraph 87 of IAS 1). Additionally, items should be labelled meaningfully and 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 restructuring costs or impairment losses.

  - Adjusted performance indicators **are used by 32 out of the 37 entities in the industrial segment**. Out of the 32, 5 define the excluded items as “extraordinary” and 19 define them as “non-recurring” (or “one-off” in one case). Items excluded are: restructuring, impairment of intangibles or goodwill, acquisition related costs, Impairment or disposal of PP&E, litigation costs, disposal of businesses;

  - 88% of the entities that present adjusted performance indicators show a frequency higher than 50% of **positive adjustments to their IFRS most reconcilable measures**; 66% of the entities used only positive adjustments (i.e. no negative adjustments). In aggregated terms 83% of all the adjustments used by the 32 entities were positive; **in 6 cases the overall performance changes from net loss to net profit**;

  - As regards prominence, in financial reports the **adjusted indicator and its GAAP most reconcilable measure are presented together by 94% of the 32 entities that use adjusted performance indicators**;

  - On the contrary, **in the press releases (excluding the appendices)**, 59% of the companies that use adjusted indicators of performance **provide only the adjusted APM without it being stated together with** the most directly reconcilable figure;

  - In addition, 6 companies of the 32 that use adjusted indicators of performance give more prominence to the adjusted indicator than to the IFRS equivalent: 2 companies do not provide GAAP-equivalents to the adjusted indicators even in their financial reports; 3 other companies only discuss the adjusted indicators in their Management Commentaries; one company introduces an entire adjusted Income Statement in its Management Commentary and comments it before commenting the one compliant with IFRS;

- **Adjusted Net Debt/EBITDA**: 10 entities out of 32 use this indicator, adjusting either the nominator or the denominator or both. In the 10 cases the adjusted indicator was not labelled as such nor presented alongside the most directly reconcilable indicator (Net Debt/EBITDA);

- **Adjusted gearing**: 7 entities out of the 37 in the industrial segment use this indicator, but none specify that the numerator or denominator are adjusted;
None of the entities commented OCI in their management commentary, in the press release nor in the presentation to the analysts. Accordingly, no APMs were presented with reference to components of OCI in the documents analysed;

Detailed definitions are always provided, but that they may not be entirely understandable, especially when dealing with adjusted indicators. In fact, this confusion is often accompanied by the APMs not being correctly labelled as “Adjusted” when in fact they really are.

- **With regards to the disclosures**, the companies disclose a clear basis for calculation in 96% of APMs analysed;
- With regards to presentation, the definitions are provided for 99% of the APMs and when provided, they are clearly worded and readable;
- 85% of the APMs are labelled correctly. For 15% of the APMs the labelling is not clear as they relate to adjusted APMs which are not labelled accordingly;
- In terms of presentation of Adjusted APMs, 63% of the companies that use adjusted indicators of performance define the reconciling items as “non-recurring” when they are likely to influence future periods;

- **With regards the reconciliation**, 75% of the cases for indirect and adjusted indicators provide reconciliations to the relevant GAAP measure.
  62% of the reconciling items are clearly explained and separately identified, which means that it is possible to identify the nature and the exact amount of the reconciling items.
  24% of all the APMs are not reconcilable, either because the reconciliations provided are not clear or because they are by nature not reconcilable, such as for use of future estimations or as they are derived from market data (Cost of Capital and Value Added, Like-For-Like and constant currency growth figures);

- 32% of APMs identified as “common knowledge” are accompanied by an illustration of their usefulness and an explanation of why they are used by the companies. 31% of the indicators other than those of common knowledge are accompanied by an illustration of their usefulness and an explanation of why they are being used by the companies;

- **APMs are present in every company in the sample to depict its performance.** Some groups include in their press releases and/or financial reports what we define as a “Cautionary Statement” explicitly stating that “Non-GAAP measures should not be viewed in isolation or as substitutes to IFRS-defined measures”;

- 97% of the APMs are presented with comparatives, which is very satisfactory and indicates that the APMs are generally not newly introduced and were used in the previous periods in compliance with ESMA’s consistency principle;

- **In terms of consistency**, only 4 companies, as ESMA’s Guidelines came into force, made changes between YE15 and to 1H16. 7 companies representing 19% of the industrial segment of the EUROSTOXX 50 introduced a section dedicated to “non-GAAP” or “non-

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1 The indicators defined as “common knowledge” are used by more than 15% of the industrial segment. An exhaustive list of these indicators is provided in the Appendix 3.
IFRS” or “Alternative Performance Measures” in their management reports.

Banking segment

- 8 Banking groups are included in the segment and they use more than 100 different indicators in their financial information. Of those, 23 are used by 3 or more banks in the sample;

- All the entities use **condensed or managerial templates** derived by summarising and aggregating items presented in the IFRS primary financial statements as a basis to comment on their performance. For banking groups based in Italy (2 groups) and Spain (2 groups), templates for IFRS primary financial statements are **regulated by local authorities**, thus leading to extensive use of reclassification between IFRS primary statements and “managerial templates”;

- As regards the Income Statement used as a reference for commenting on performance **divergences in practice exist with reference to EBIT**. In terms of **labelling**, this indicator is never labelled EBIT in this segment, but labels used are either operating income, operating margin or operating profit. In terms of **composition, divergences exist regarding the presentation** of the following items, which in turn results in the main source of divergences in the calculation of the **cost/income ratio**:
  - share of profit and loss of **investments accounted for using the equity method** (included in gross income by 6 entities);
  - **impairment of available for sale financial assets** (included in gross income by 6 entities);
  - **integration and restructuring costs** (excluded from operating expenses by 3 entities);
  - **loan loss provisions**, excluded from operating expenses by 6 entities);
  - **impairment on goodwill** (included in operating expenses by 2 entities), intangibles (included in operating expenses by 5 entities) property, plant and equipment (included in operating expenses by 6 entities);
  - **contributions to the single resolution funds** (excluded from operating expenses by 2 entities);

- **Adjusted net result/net income**: used by 6 entities and presented in their press releases and/or the presentations to investors. 2 of them also present the adjusted net result in the management commentaries; one of these 2 banks introduces the **adjusted result on the face** of the condensed/managerial Income Statement (under the label “underlying result”). 5 banking groups present an adjusted profitability ratio, i.e. Adjusted ROE, Adjusted ROTE or Adjusted RONE. The adjustments reflect the items commented above that are used to adjust the net result/net income. The corresponding GAAP measure (net profit) or its growth rate is adjusted to:
  - exclude from net profit the result of the disposal of an investment;
 exclude from net profit the effect of non-recurring or extraordinary transactions or non-recurring provisions;
 exclude from net profit the effect of “non-economic items”, i.e. the effect of changes in own credit risk in fair value of derivatives (CVA/DVA) and financial liabilities accounted for at fair value;
 adjust the net result for the effect of spreading across the quarters the regulatory charges (Single Resolution Fund and Deposit Guarantee Scheme) accounted for under IFRIC 21;
 exclude from net result/net income the provisions for “PEL/CEL”, a specific financial product prevailing in a given country;
 add to the GAAP net income for the period the gain upon the disposal of an investment announced before the end of the reporting period but accounted for after the reporting period;

 **Asset quality ratios:** all the banking groups use a coverage ratio of problem loans and 7 of the 8 banking groups in the segment use a problem loan ratio (i.e. problem loans divided by total loans). Divergences exist across the different countries:
   with reference to the labelling of problem loans and the definition of problem loans considered in the ratios. 5 entities refer to NPL. Of these, the 2 Italian entities state that such definition is consistent with EBA’s ITS, while the remaining 3 do not clarify how the definition compares to that of EBA, which is to be used by European banks for regulatory purposes. The 2 French entities refer to “Doubtful loans”;
   with reference to the formula considered in the coverage ratio: differently from the rest of the banking groups in the segment that refer to the loans only when they calculate the coverage ratio, the two Spanish banks take into account both the loans and the contingent liabilities;

 Management regularly uses indicators of Capital and Liquidity profiles in financial information, many of which are defined by the relevant regulations composing the Basel III requirements. Although not defined in a financial regulation framework, these indicators are more akin to GAAP measures than APMs. While the regulatory guidance supports enhanced comparability in the definitions, different labels are used, such as “transitional” or “phased-in” to define the same indicator; in addition, for “fully loaded” indicators the “pro-forma” qualifier is not always present;

 None of the entities commented OCI in their management commentary, in the press release nor in the presentation to the analysts. Accordingly, no APMs are presented with reference to components of OCI in the documents analysed;

 Overall definitions of APMs are presented and the disclosure provided is satisfactory. Many APMs are regulatory defined (within Capital and Liquidity regulations), which reduce the need for detailed illustration and helps calculation comparability. Nevertheless, different labels are used, such as “transitional” or “phased-in” to define the same indicator. In addition, for the “fully loaded” the qualifier “pro-forma” is not always present;

 In terms of prominence, in the management commentary Alternative Performance and
IFRS measures are stated together. However, the indicators most affected by managerial adjustments are presented in the press releases or presentation to analysts (not in the financial report), where they obtain equal and in some cases more prominence than the IFRS equivalent measures;

- Between YE15 and 1H16, as ESMA’s Guidelines came into force, 2 entities introduced a separate section dedicated to APMs;
  - 4 entities present an appendix to their financial report in the form of a glossary that includes definitions of APMs used, without stating their reasons for using them. The 4 remaining banking groups have a separate section within their financial report dedicated to APMs that include definitions of the indicators. 3 of these 4 provide an illustration of the rationale for using APMs and 2 of them also include a quantitative reconciliation with IFRS indicators.

Insurance segment

- The structure of IFRS Income Statements presented by the 4 insurance companies included in the sample differs. Key indicators presented on the face of the Income Statements are revenues and net result, plus, in 2 cases, operating profit;

- All entities make extensive use of APMs not presented on the face of their Income Statement to illustrate performance;

- The segment is characterised by a significant degree of consistency in the indicators used: 9 out of 13 indicators identified are used by all 4 entities;

- Divergences exist in labelling, definition and presentation of Operating profit, used by all the entities in the sample as a key indicator for commenting on their performance. It is not presented on the face of Income Statement by 2 entities and specificities adopted by each company suggest that the same label is used by these preparers to identify earnings indicators with a rather different nature;

- Alternative Performance indicators used to comment on performance are mainly non-reconcilable by nature, except for operating profit, adjusted earnings and ROE;

- 3 of the 4 entities in this segment use a ROE indicator, however significant deviations exist in the definition of this indicator. In addition, in 2 cases the label does not explicitly state that the indicator is adjusted. In one case, the IFRS-equivalent is presented together with the ROE. In another it is missing, whilst in the third case a reconciliation of the ROE to the IFRS-equivalent is presented;

- The Regulatory Solvency ratio is an indicator used by 3 out of 4 entities in the sample in their 1H16 reports. It is disclosed by the fourth insurance company in its YE15 report only. Due to regulatory developments which occurred between YE15 and 1H16, different labels were
used for the same ratio in the two periods. Different labels also exist across entities. Starting from 1H16 one of the insurance groups in the sample comments on the Economic Solvency ratio, presented together with the Regulatory Solvency ratio;

- None of the entities commented OCI in their management commentary, in the press release nor in the presentation to the analysts. Accordingly, no APMs are presented with reference to components of OCI in the documents analysed;

- 2 insurance groups out of 4 in the sample issue a separate document commenting on the definitions of APMs used: in one case this was issued for the first time in 1H16 (no equivalent found for YE15) and in the other case there was a reference to the YE15 annual document, for the definition (although reconciliations of figures were not included);

- One entity introduced starting from 1H16 a separate document dedicated to APMs on the investor relations website, including definitions and quantitative reconciliations. No other changes were observed between YE15 and 1H16.

Real Estate segment

- Due to the fact that only one entity is included in the sample, benchmarking across the segment is not feasible;

- The entity analysed introduces two direct APMs directly in its Consolidated Income Statement which are “Net Operating Result before Financing Costs” (also defined as “EBIT”) and “Net rental Income”;

- The company makes no comments on OCI in the management commentary, in the press release nor in the presentation to the analysts. Accordingly, no APMs were presented with reference to components of OCI in the documents analysed;

- Several indirect APMs are used to illustrate the performance in this specific sector. The company states its compliance with the “Best Practices Recommendations” issued by EPRA (European Public Real Estate Association) in both the appendices to its press releases and the management commentaries;

- Moreover, the company includes in its press releases a Comprehensive Income Statement which disaggregates “Recurring” and “Non-recurring” items by segment. This Comprehensive Income Statement is different from the one presented in the Primary Financial Statements and is not included in the recommendations provided by EPRA;

- “Non-recurring” activities include valuation movements, disposals, mark-to-market and termination costs of financial instruments, impairment of goodwill or recognition of negative goodwill as well as costs directly incurred during a business combination and other non-recurring items.
2 DETAILED FINDINGS:
INDUSTRIAL SEGMENT
2.1 The sample

37 companies in our sample belong to the industrial segment. For the purposes of our analysis, they were further disaggregated into 13 distinct sub-segments, as shown in the chart below, in order to obtain a meaningful level of comparability across sub-segments and, ultimately, identify meaningful fact patterns. The number of companies present in each sub-segment is summarised below:

Number of companies within each sub-segment*

- Media
- Retail
- Oil & Gas
- Food & Beverages
- Construction & Materials
- Telecommunications
- Technology
- Personal & Household Goods
- Healthcare
- Chemicals
- Automotive & Parts
- Utilities
- Industrial Goods & Services

*: common colours are attributed to the sub-segments that include the same number of companies.

2.2 Overview of the APMs identified

Occurrence of direct indicators in the industrial segment
The most frequently used indicators (employed by more than 50% of the industrial companies) were the following:

- **100%** EBIT: indicator of Performance
- **51%** EBIT margin: indicator of Performance
- **65%** Net Debt: indicator of Financial position
- **59%** Free cash flow: indicator of Cash flow
DETAILED FINDINGS: INDUSTRIAL SEGMENT

- Excluded items defined as "non-recurring" by 63% of the firms that used adjusted indicators
- Excluded items defined as "extraordinary" by 16% of the firms that used adjusted indicators

- 70% used the "By function" method to present operating expenses
- 83% of positive adjustments

- EBIT used by 100% of the industrial companies
- Included by 92% as a sub-total in their income statements

- Adjusted APM not presented together with most reconcilable item in Press Releases (excluding appendices) by 80% of the companies that used adjusted indicators

- Adjustments of Income Statement's items used by 86% of the industrial companies

- Income Statement

- Balance Sheet
- Statement of Cash Flows

Heterogeneity of calculations

- Net Debt or Net Financial Debt used by 95% of the industrial segment

- Of which
  - Adjusted indicator labelled as non-adjusted by 31% of the companies that used Net Debt

Free Cash Flow used by 59% of the industrial segment

- Adjusted Free Cash Flow employed by 19% of the industrial companies
2.3 APMs presented in the primary financial statements

EBIT (Earnings Before Interest and Taxes)

“AlAF/EFFAS Definition Guide” defines:
- Sales
- Cost of Sales and Operating Costs (including Personnel Expenses)
- +/- Non Recurrent Expenses (Income)
  - Depreciation
  - Amortisation
  - Provisions, Write Downs and Impairments
  = EBIT (Reported)

EBIT is generally presented directly in the Income Statement (92% of the companies). When presented outside the Income Statement it qualifies either as direct or indirect indicator: in one case, EBIT, used as a key performance indicator, is calculated excluding the “amortisation of capitalised borrowing costs” (which is included in “cost of sales”) and was considered as an indirect APM. In all other cases it was considered a direct APM.

Although all the industrial segment companies use EBIT to illustrate performance, this measure/metric is not always calculated consistently.
DETAILED FINDINGS: INDUSTRIAL SEGMENT

The major difference in the calculation of EBIT from one company to the other relates to the exclusion or inclusion of the share of profit/loss of equity-accounted investments as summarised below:

Calculations of EBIT

- 35% EBIT excluding “Share of profit/loss of equity-accounted investments”
- 65% EBIT including “Share of profit/loss of equity-accounted investments”

We also noted the following differences in the labelling of EBIT:

Labelling of EBIT
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation)

“**AIAF/EFFAS Definition Guide**” defines:
Sales
- Cost of Sales and Operating Costs (including Personnel Expenses)

\[
\text{EBITDA} = \frac{\text{Sales}}{+\text{Non Recurrent Expenses (Income)}} - \text{Cost of Sales and Operating Costs (including Personnel Expenses)}
\]

EBITDA is used with an occurrence of 46% (17 out of 37 entities). As regards presentation and classification, the indicator is:
- included in the Income Statement in 2 cases;
- a direct indicator in 3 cases;
- an indirect indicator\(^1\) in 12 cases.

EBITDA is an indirect indicator when companies use the “by function method” in the presentation of expenses on the face of their Income Statements as specified in IAS 1. This presentation of operating expenses is used by 70% of the 37 industrial companies in their Income Statements.

**Net Debt**

Used by 65% (24 out of 37) of the companies, this indicator of financial position shows the ability of a company to pay its debts with its available cash and liquid assets. It is defined by AIAF/EFFAS as follows:

“**AIAF/EFFAS Definition Guide**” defines:

Long-term financial debt
+ Short-term financial debt
– Cash
– Cash equivalents

\[
\text{Net Debt or Net Financial Debt} = \text{Long-term financial debt} + \text{Short-term financial debt} - \text{Cash} - \text{Cash equivalents}
\]

24 companies in the industrial segment use this indicator; it is presented on the face of the Cash Flow Statement only by 2 entities.

\(^1\) EBITDA is still indirect when the non-cash items (depreciation, amortisation and impairment) correspond to the amounts included in the Cash Flow Statement. It is only considered direct when the depreciation, amortisation and impairment expenses are directly included in the Income Statement.
Within the 24 companies that use this indicator, we noted the following differences in the calculations of Net Debt (even within the same sector) as summarised in the table below:

<table>
<thead>
<tr>
<th>Calculations</th>
<th>Frequency of use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term financial debt + Short-term financial debt - Cash and cash equivalents</td>
<td>8</td>
</tr>
<tr>
<td>Long-term financial debt + Short-term financial debt - Cash and cash equivalents - Current investments</td>
<td>4</td>
</tr>
<tr>
<td>Long-term financial debt + Short-term financial debt - Cash and cash equivalents - Long-term financial assets - Short-term financial assets</td>
<td>8</td>
</tr>
<tr>
<td>Cash and cash equivalents + Securities, loans and time deposits - Total third party borrowings</td>
<td>1</td>
</tr>
<tr>
<td>Total financial debt + Trade and other payables - Financial assets - Trade and other receivables - Cash and cash equivalents + Net commitments related to employee benefits</td>
<td>1</td>
</tr>
<tr>
<td>Total financial debt - Collateralised loans and receivables - Cash management financial assets - Cash and cash equivalents - Derivative financial assets</td>
<td>1</td>
</tr>
<tr>
<td>Total financial debt - Cash and cash equivalents - Current and Non-current derivative assets - Current investments - Equity components related to un-matured hedging instruments - cash collateral paid on non-current financial assets</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>24</td>
</tr>
</tbody>
</table>

The differences in the calculations could not be traced back to different structures of the balance sheet and they are therefore based on judgments made by the companies. We therefore conclude that this indicator has different definitions and calculations. However, we noted some other particularities:

- although being an indicator of Financial position, it is sometimes commented in the Management Report in the section dedicated to Cash Flows because changes in Net Debt from one period to the other are caused by movements in cash flows;
- consequently, when included in the Primary financial statements, it is included in the Statement of Cash Flows;
- 7 companies out of these 24 label the indicator “Net cash” or “Net liquidity” because they have reversed the order of the calculation (i.e. Cash and cash equivalents – Total financial Debt). Out of these 7 companies, 2 have a negative “Net liquidity” meaning that the Cash and cash equivalents are actually lower than the total financial debt;
- although “Net Debt” and “Net Financial Debt” are defined above as meaning the same thing, 2 companies use a “Net Financial Debt” and a “Net Debt” that are calculated differently as shown below:
DetaiLed FIndings: Industrial Segment

<table>
<thead>
<tr>
<th>Company 1</th>
<th>Company 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Financial Debt</td>
<td>Net Financial Debt</td>
</tr>
<tr>
<td>+ Net commitments related to employee benefits</td>
<td>- Liabilities related to put options granted to non-controlling interests</td>
</tr>
<tr>
<td>Net Debt</td>
<td>Net Debt</td>
</tr>
</tbody>
</table>

Free Cash Flow

“AIAF/EFFAS Definition Guide” defines:
Cash Flow from Operations (after changes in Net Working Capital)
– Capex
+/- Net Financial Investments/Divestments
= Free Cash Flow (FCF)

With regards FCF we have identified the following clusters in terms of presentation:

Presentation of Free cash flow

<table>
<thead>
<tr>
<th>Frequency of use</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>TOTAL 22</td>
</tr>
</tbody>
</table>

Used by 59% of the sample (22 companies out of 37), we identified the following divergences in the calculations of “Free Cash Flow”:
We noted that none of the companies in the “Utilities” sub-segment uses this indicator.

Cash Flow from Operations before changes in Working Capital

“All AIAF/EFFAS Definition Guide” defines:
EBITDA (reported)
+/- Organic increase in provisions
+ Dividends from non-consolidated companies
– Paid taxes
= Cash Flow from Operations (before change in Net Working Capital and before Capex)

All 8 companies (22% of our sample) which use this additional measure of cash flow from operations apply the following formula:
Cash Flow from Operating Activities – Changes in Working Capital Requirements.
4 entities presented this indicator on the face of the Cash Flow Statements.
However, we have found the following differences in labelling:

Labelling of Cash Flow from Operations before changes in Working Capital

Adjusted performance indicators: recurring operating income

Of the 37 entities in the industrial segment, 32 use a measure of adjusted operating income, i.e. obtained excluding selected items from GAAP operating income. Out of the 32 entities, 12 present the indicator of recurring operating income directly in their Income Statements on a separate line. This is a peculiarity pertaining to French companies as we can see in the chart below.
We consider this indicator as “adjusted”, as the analysis of indicators not presented in the Income Statements (illustrated in the paragraphs below) has shown that indicators with the same meaning are more frequently labelled “adjusted operating income” and are derived adjusting the
operating income presented in the Income Statement by excluding several items, as further illustrated below. Accordingly, in the following paragraph dedicated to adjusted income, the illustration provided of the items not included in the operating income also encompasses findings from the 12 entities that presented the indicator on the face of the Income Statements.

6 French companies state that they are complying with the “Recommendation 2013-03 dated 7 November 2013 issued by the ANC (Autorité des Normes Comptables)”, which recommends the presentation of a “Recurring Operating income” excluding non-recurring items separately from the “Operating income” in order to clarify the operational performance of the companies.

These common non-recurring items are presented in the chart below:

Although commonly labelled “recurring operating income”, the following differences in the
labelling were observed:

<table>
<thead>
<tr>
<th>Labelling of recurring operating income</th>
<th>Frequency of use</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Recurring operating income&quot;</td>
<td>6</td>
</tr>
<tr>
<td>&quot;Operating income&quot;</td>
<td>1</td>
</tr>
<tr>
<td>&quot;Operating profit&quot;</td>
<td>1</td>
</tr>
<tr>
<td>&quot;Trading operating income&quot;</td>
<td>1</td>
</tr>
<tr>
<td>&quot;Contribution from operations&quot;</td>
<td>1</td>
</tr>
<tr>
<td>&quot;EBITA adjusted&quot;</td>
<td>1</td>
</tr>
<tr>
<td>&quot;Current operating income&quot;</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>12</strong></td>
</tr>
</tbody>
</table>

The two labels highlighted in grey do not give indications that these indicators exclude non-recurring items.

After analysis of the consolidated Income Statements in both YE15 and 1H16, it emerges that the non-recurring items are generally expenses, which means that the recurring operating income was in 75% of the cases higher than the operating income (including the non-recurring items) as summarised in the following chart:

2.4 Other APMs

We illustrate here the indicators used by 15% or more of the entities in the industrial segment, other than those illustrated in the section above.
Direct indicators

Of the direct indicators, 75% are of common knowledge (see Appendix 3) and when not of common knowledge, they are always clearly defined and provided together with a basis of calculation for 98%. Based on the analysis of these calculations we can conclude that 50% of the APMs are derived directly from items stated in the Primary Financial Statements.

EBIT margin

Used by 19 companies of the industrial sector (51%) and always a direct APM, the EBIT margin definition is given by:

“AIAF/EFFAS Definition Guide” defines:
EBIT margin = EBIT / Sales

Although Return on Sales (ROS) could be considered as synonymous of EBIT margin, one company is inconsistent in the terminology it uses between different documents as it uses “EBIT margin” in its 2015 annual press release and “Return on Sales” in the 2015 Annual Report.

EBITDA margin

“AIAF/EFFAS Definition Guide” defines:
EBITDA margin = EBITDA / Sales

EBITDA margin is used with an occurrence of 22% (8 out of 37 entities) and in these 8 cases the indicator is:
- a direct indicator in 4 cases;
- an indirect indicator in 4 cases.

As commented above when illustrating EBITDA, EBITDA margin is an indirect indicator when companies use the “by function method” in the presentation of their Income Statements as specified in IAS 1.

Return on Equity - ROE (Performance indicator)

“AIAF/EFFAS Definition Guide” defines:
ROE = Net Profit / Shareholders’ Equity (end period) or
ROE (Average) = Net Profit / year opening and year end average of Shareholders’ Equity

Used by 11 companies in the industrial sector (30% of our sample), we identified the following differences in the labelling and calculation of this ratio as summarised below:
DETAILED FINDINGS: INDUSTRIAL SEGMENT

<table>
<thead>
<tr>
<th>Label</th>
<th>Calculation</th>
<th>Frequency of use</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;ROE&quot;</td>
<td>Net Income before Tax/Total Equity</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>EBIT/Total Equity</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Net Income/Average Equity</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Net Income excluding minorities interests/Equity excluding minorities interests</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Net Income excluding minorities interests/Average Equity excluding minorities interests</td>
<td>1</td>
</tr>
<tr>
<td>&quot;ROE before Taxes&quot;</td>
<td>Net Income before Tax/Average Equity</td>
<td>2</td>
</tr>
<tr>
<td>&quot;ROE after Taxes&quot;</td>
<td>Net Income/Total Equity</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Net Income/Average Equity</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>11</td>
</tr>
</tbody>
</table>

Of those 11 companies ROE is presented in the press releases of the three companies composing the “Automotive & Parts” sub-segment and by the others in the Financial Report. 4 of these companies, of which the three companies in the “Automotive & Parts” sub-segment and one in the “Industrial Goods & Services” sub-segment, use this indicator to describe the performance of their “Financial Services” segments. This is consistent with the banking segment where ROE is used by 7 of the 8 banks analysed.

In addition to these 11 companies (and excluded from the statistic of 30%), we have identified, when looking at the definitions and calculations provided, two more companies that use an adjusted indicator without specifying it in the label. Since this is a particular case, we do not comment on the adjusted ROE in the subsequent part of the report dedicated to adjusted indicators.

Profit margin

Profit margin is used by 9 companies of the industrial sector (24% of the 37 companies in the industrial segment) under various labels and with varying calculations as follows:

<table>
<thead>
<tr>
<th>Label</th>
<th>Calculation</th>
<th>Frequency of use</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Profit margin&quot;</td>
<td>Net Income of Industrial Business/Revenues</td>
<td>1</td>
</tr>
<tr>
<td>&quot;Net Income margin&quot;</td>
<td>Net income attributable to equity holders/Revenues</td>
<td>1</td>
</tr>
<tr>
<td>&quot;Return on Sales post-tax&quot;</td>
<td>Net Income/Revenues</td>
<td>2</td>
</tr>
<tr>
<td>&quot;Return on Sales&quot;</td>
<td>Net Income/Revenues</td>
<td>1</td>
</tr>
<tr>
<td>Only the calculation is provided</td>
<td>Net income attributable to equity holders/Revenues</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Net Income/Revenues</td>
<td>2</td>
</tr>
<tr>
<td>TOTAL1</td>
<td></td>
<td>10</td>
</tr>
</tbody>
</table>

1 The total is not 9 because one company provided both the profit margin attributable to equity holders and the profit margin of the company including minority interests.
Gross margin ratio

This ratio is used by 30% of our industrial sample (11 out of 37 entities) and qualifies as direct indicator. As a matter of fact, it is only employed by those companies that use the “by function” method and include the subtotal “Gross margin” directly in their Income Statement. It is consistently labelled and calculated across the entities. All 11 entities calculate this ratio as: Gross margin/Revenue with Gross margin = Revenue - Cost of Sales.

R&D ratio

This ratio is used by 19% of our industrial sample (7 out of 37 entities); and qualifies as direct indicator since it is used exclusively by those companies that use the “by function” method and include a line “research and development expenses” directly in their Income Statements. It is consistently labelled and calculated across the entities as research and development expenses divided by revenue.

Equity ratio

```
“AIAF/EFFAS Definition Guide” defines:
Equity ratio = Shareholders’ Equity including Minorities / Total Assets (or Total Liabilities)
```

Used by 30% of the companies (11 out of 37 entities), this indicator shows the level of leverage of the company and is consistently labelled and calculated. Moreover, it is generally presented in the Management commentary included in the financial report published by the companies.

Gearing and Debt-to-Equity ratio

```
“AIAF/EFFAS Definition Guide” defines:
Gearing (%) = Net Debt / (Equity + Net Debt)
Debt-to-Equity ratio = Net Debt / Equity
```

We present these two indicators together due to the fact that, although their formulas differ as per AIAF/EFFAS, given their underlying calculation as per the table below, they could be considered as equivalent. These indicators of leverage used by 9 companies (24% of the sample) reflect the following labelling and calculation variances:
DETAILED FINDINGS: INDUSTRIAL SEGMENT

The table above shows that:
- Only one company uses the calculation provided by the “AIAF/EFFAS Definition Guide”;
- The most frequent calculation is Net Debt/Equity as it is used by 8 entities.

Capex ratio

This ratio used by 9 industrial companies (24% of our sample) is commonly defined by the companies that use it as: Capital expenditures / Sales. However, 3 of these 9 companies use a Net Capex (Acquisitions-Disposals of PP&E and Intangibles) as their numerator.
Indirect indicators

Adjusted performance indicators

Of the 37 entities under analysis, 32 (86% of the entities in our industrial segment) use what we define as “Adjusted Indicators of performance”, which mainly represent financial figures that exclude some operating revenues and expenses.

Of the 32 companies that use adjusted indicators, we highlight that:

- 5 (16% of the entities that use adjusted performance indicators) define the excluded items as “extraordinary” impacts;
- 20 (63% of the entities that use adjusted performance indicators) label or define as “non-recurring” (or “one-off” in the case of one entity) adjustments that affected past periods and/or are likely to affect future periods (restructuring costs, impairment losses…).

Additionally, we noted that only one company (included in the “Healthcare” sub-segment) of the 32 that use adjusted performance indicators uses adjusted indicators of performance only in its Annual Report and not in its Half-Year Report.

In the chart below we summarise the most commonly adjusted indicators of performance with:

- in red: the indicators that are adjusted by more than 50% of the 32 companies that use adjusted indicators of performance;
- in purple: the indicators that are adjusted with an occurrence between 15 and 50% of the 32 companies that use adjusted indicators of performance.

![Commonly adjusted indicators of performance chart]

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Adjustment Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT</td>
<td>88%</td>
</tr>
<tr>
<td>Net income</td>
<td>75%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>59%</td>
</tr>
<tr>
<td>EPS</td>
<td>59%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>38%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>19%</td>
</tr>
</tbody>
</table>
Reconciling items differ significantly from one company to another even within the same sector. However, we were able to identify the following common reconciling items:

Adjusted indicators of performance: common reconciling items

- Disposal of business: 41%
- Litigation costs: 44%
- Impairment of PPE: 56%
- Disposal of PPE: 56%
- Acquisition related costs*: 63%
- Impairment of intangibles and/or goodwill: 69%
- Restructuring: 78%

*Acquisition related costs are impairment of assets and acquisition costs incurred in connection with business combinations

88% of the entities that present adjusted performance indicators show a frequency higher than 50% of positive adjustments to their IFRS most reconcilable measures; 66% of the entities used only positive adjustments (i.e. no negative adjustments).

These reconciling items generally have a positive effect on the performance indicators. In other words, the adjusted APM is higher than its non-adjusted IFRS or GAAP-equivalent measure. In the chart below, we summarise the frequency of positive and negative adjustment effects:

Adjusted performance indicators: adjustment effects

- Positive: 83%
- Negative: 17%
For 6 of the 32 companies (or 19%) that use adjusted indicators, the adjustments resulted in their negative direct performance indicator becoming a positive adjusted indicator as shown in the tables below:

<table>
<thead>
<tr>
<th>%</th>
<th>Company 1</th>
<th>Company 2</th>
<th>Company 3</th>
<th>Company 4</th>
<th>Company 5*</th>
<th>Company 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in EBIT or Net income</td>
<td>412%</td>
<td>237%</td>
<td>146%</td>
<td>204%</td>
<td>281%</td>
<td>450%</td>
</tr>
</tbody>
</table>

*Company 5 is one of the 12 companies that includes the "recurring operating income" in its Income Statement

ESMA Guidelines recommend that APMs are not displayed with more prominence, emphasis or authority than measures directly stemming from financial statements. Our analysis shows that in both the Annual and Half Year Reports the adjusted indicator and its GAAP most reconcilable measure are presented together by 94% of the 32 entities that use adjusted indicators of performance in the sample.

On the contrary, in the press releases (excluding the appendices), 59% of the companies that use adjusted indicators of performance provide only the adjusted APM without stating the most directly reconcilable figure.

In addition to the 2 companies (6%) that never provide GAAP-equivalents to the adjusted indicators even in their financial reports, we noted that 3 other companies only discuss the adjusted indicators in their Management Commentaries. Finally, one company introduces an entire adjusted Income Statement in its Management Commentary and comments on it before commenting on the one compliant with IFRS. Therefore, 19% (6 companies of the 32 that use adjusted indicators of performance) give more prominence to the adjusted indicator than to the IFRS equivalent.

4 companies (of which 2 in the “Technology” sub-segment) actually introduce an entire adjusted Income Statement in their management commentaries on top of the IFRS statement and which is commented with equal emphasis as the IFRS Income Statement. It is always clear that these statements are different from the IFRS Income Statement in their labelling since they are called either “Adjusted” or “Non-IFRS”.

<table>
<thead>
<tr>
<th>PROMINENCE ISSUES IN PRESS RELEASES</th>
<th>PROMINENCE ISSUES IN FINANCIAL REPORTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>59%</td>
<td>19%</td>
</tr>
</tbody>
</table>
Adjusted Net Debt

“AIAF/EFFAS Definition Guide” defines:
Long term financial debt
+ Short term financial debt
– cash – cash equivalents, excluding non-cash accounting effects (such as those resulting from the fair valuation of derivatives)
Net Debt Adjusted

In addition to the Net Debt figure discussed in the previous section, 11 companies adjust for non-cash accounting effects as defined by the AIAF/EFFAS. However, even within these 12 companies we noted divergences in the calculations as summarised below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Frequency of use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term financial debt + Short-term financial debt - Cash and cash equivalents - Non-cash accounting effects</td>
<td>4</td>
</tr>
<tr>
<td>Long-term financial debt + Short-term financial debt - Cash and cash equivalents - Current investments - Non-cash accounting effects</td>
<td>4</td>
</tr>
<tr>
<td>Total financial debt - cash and cash equivalents - Current investments - Long-term deposits - Non-cash accounting effects of non-current financial derivatives</td>
<td>1</td>
</tr>
<tr>
<td>Total financial debt - cash and cash equivalents - Non-current securities - Non-cash accounting effects + Provisions for pensions and Asset-retirement obligations</td>
<td>1</td>
</tr>
<tr>
<td>Total financial debt - cash and cash equivalents - Current investments - Debt of Financial Services* + Post-employment benefits + Credit guarantees - 50% nominal amount hybrid bond - Non-cash accounting effects</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>11</td>
</tr>
</tbody>
</table>

However, all these companies still label this indicator “Net Debt” or “Net Financial Debt”, with no indications whatsoever that it is actually an adjusted figure of financial position. Moreover, none of these companies provided a non-adjusted Net Debt measure in either their press releases, presentations or reports.
DETAILED FINDINGS: INDUSTRIAL SEGMENT

Adjusted Net Debt/EBITDA

27% of the companies (10 companies out of 37) calculate this indicator using either an adjusted Net Debt, an adjusted EBITDA or both as shown in the table below:

<table>
<thead>
<tr>
<th>Frequency of use</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Net Debt/EBITDA</td>
<td>3</td>
</tr>
<tr>
<td>Net Debt/Adjusted EBITDA</td>
<td>6</td>
</tr>
<tr>
<td>Adjusted Net Debt/Adjusted EBITDA</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>10</strong></td>
</tr>
</tbody>
</table>

As already stated, none of the companies adjusting their Net Debt specify it in the labelling. However, some of the companies that calculate the ratio using an adjusted EBITDA clearly specify it in the labelling as we can see from the chart below:

Labelling of Net Debt/Adjusted EBITDA

As discussed above, we noted that 7 companies of the 10 that use this indicator actually use an adjusted EBITDA for the denominator. In addition to these 10 companies, 3 other companies use a non-adjusted Net Debt/EBITDA. All the companies in the “Telecommunications” sub-segment use this ratio (either adjusted or not). Moreover, none of the 10 companies using an adjusted numerator and/or an adjusted denominator provide a non-adjusted Net Debt/EBITDA measure in either their press releases, presentations or reports.
Adjusted Gearing

7 companies of the industrial segment (19%) use an Adjusted Net Debt in order to calculate this leverage ratio with the following labelling and formula:

As we can see from the table above:
- None of the companies specify that the Net Debt is adjusted;
- One company (highlighted in grey) of the “Oil and Gas” sector uses an Adjusted Equity as its denominator excluding the “Distribution of the income based on existing shares at the closing date” from the Shareholders' Equity. However, this company still labels its indicator “Debt-to-Equity ratio” without specifying it was adjusted.

Moreover, none of these companies provide a non-adjusted Gearing measure in either their press releases, presentations or reports.

Adjusted Free Cash Flow

19% of the companies we have studied (7 out of 37 entities) use an adjusted figure of Free Cash Flow. However, adjustments are different for each company as summarised below:

<table>
<thead>
<tr>
<th>Reconciling items</th>
<th>Frequency of use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments in the context of pension and health care benefits in Germany and US + Acquisition of business</td>
<td>1</td>
</tr>
<tr>
<td>Tax impacts of capital gains and losses on disposal of assets, write-downs and material non-recurring provisions</td>
<td>1</td>
</tr>
<tr>
<td>Restructuring costs associated with plan to generate savings</td>
<td>1</td>
</tr>
<tr>
<td>Acquisitions and mergers + Customer financing</td>
<td>1</td>
</tr>
<tr>
<td>Dividends and spectrum investments*</td>
<td>1</td>
</tr>
<tr>
<td>Spectrum investments*</td>
<td>1</td>
</tr>
<tr>
<td>Not provided</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7</td>
</tr>
</tbody>
</table>
As we can see from the table above:

- One company included in the “Retail” sector does not provide any reconciliation nor specification of reconciling items;
- The two companies indicated with “*” belong to the Telecommunications sub-segment. They exclude any investments in the “spectrum” technology from their Capex. It is also worth noting that the third company in this sub-segment does not use a Free Cash Flow measure but still introduces an adjusted Capex that excludes the investments in “spectrum”. However, this last company is the only one to provide figures that both “include” and “exclude” acquisitions of “spectrum”.

Regarding the issue of prominence, we noted that:

- One company included in the “Automotive & Parts” sub-segment only provides the adjusted Free Cash Flow in its annual press release;
- The 2 companies in the “Telecommunications” sub-segment never provide a measure of Free Cash Flow including the investments in the “spectrum” technology.

### Like-for-like and organic growth figures

In order to enhance comparability from one period to the other, companies often use “Like-for-like” or “Organic growth” figures. “Like-for-like growth” and “Organic growth” exclude both exchange rates effects and changes in the consolidation perimeter.

With regards our population, 68% of the industrial companies use this indicator. We also noted that in the automotive sector, the like-for-like indicator excludes the currency effects, without excluding the changes in the consolidation perimeter.

In the chart below, we summarise the most frequent indicators for which a comparable growth figure is provided:
Capital Employed and Return on Capital Employed ("ROCE")

ROCE is an indicator used by 14 Industrial companies (38% of our sample) and shows whether a company makes efficient use of its capital. Specifically, ROCE is seen as a key component of “Value Added”. We have noted a significant number of disparities in both the calculations of “Capital Employed” and the numerator used in the calculation of ROCE as well as differences of labelling from one company to another, even within the same sector.

With regards the “numerator” of ROCE, we summarised in the chart below the different versions provided:

As we can see from the chart above, 5 companies use an adjusted indicator as a numerator. However, only one company specifies that the indicator was adjusted in the labelling.

Furthermore, with regards to the analysis of Capital Employed:

"AIAF/EFFAS Definition Guide" defines:
The denominator of ROCE as: Capital employed – Net Financial Assets

with Capital Employed (or Net Total Assets) being defined as:
Net Fixed Tangible Assets
+ Net Fixed Intangible Assets (excluding Goodwill)
+ Goodwill
+ Net Financial Assets
+ Net Working Capital
Capital Employed
DETAILED FINDINGS: INDUSTRIAL SEGMENT

5 of the 14 companies that use ROCE use an average of the beginning of period and end of period measure to compute “Capital employed”. Additionally, companies use different labels to identify “Capital employed” as summarised in the chart below:

Labelling of "Capital employed"

- "Capital employed"
- "Average Capital employed"
- "Net Assets"
- "Net Operating Assets"
- "Invested Capital"

Regarding the calculations of “Capital employed”, we have identified the following variances:

<table>
<thead>
<tr>
<th>Formula</th>
<th>Frequency of use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Operational Assets - Non interest-bearing liabilities</td>
<td>6</td>
</tr>
<tr>
<td>Total Operational Assets - Non interest-bearing liabilities - mark to market valuation</td>
<td>2</td>
</tr>
<tr>
<td>Shareholders’ Equity + Minorities Equity + Net Debt + Provisions</td>
<td>4</td>
</tr>
<tr>
<td>Shareholders’ Equity + Net Financial Debt - Adjustments for Associates and Financial Assets at Fair Value</td>
<td>1</td>
</tr>
<tr>
<td>Not provided</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>14</td>
</tr>
</tbody>
</table>
As a consequence of the variety of versions of the components of “ROCE” we highlighted previously, the ROCE ratio itself is presented under a variety of denominations as summarised below:

**Value Added**

Economic Value Added or “Value Added” as it is sometimes referred to, is an indicator of operating performance defined as: \( EVA = \text{Capital} \times (\text{Return on Capital Employed} - \text{WACC}) \). This is an indicator used by 16% of the companies and is a key performance indicator in the Automotive Sector. We provide hereafter a calculation of Economic Value Added based on the definitions provided by AIAF/EFFAS.

\[
EVA = \text{Capital Employed} \times (\text{Return on Capital Employed} - \text{WACC})
\]

We have found some differences in the labelling and the calculation of Value Added.
DETAILED FINDINGS: INDUSTRIAL SEGMENT

The chart below illustrates the differences in labelling of this indicator:

Labelling of "Value Added"

- Value Added
- Value contribution
- EBIT after cost of capital
- EBIT after asset charge

Differences in the calculation of “Value Added” are explained by the great disparities we have found in the calculations of ROCE as explained before.
2.5 Qualitative characteristics of the financial information produced using APMs

Disclosures provided

The level of disclosure provided for the whole population of APMs analysed is satisfactory, as for 96% of APMs analysed, the companies disclose a clear basis for calculation. With regards to the APMs that are classified as not of common knowledge (see Appendix for definition) the disclosures are provided for 95% of the APMs analysed.

Presentation

All APMs

- Definitions are provided for 99% of the APMs and when provided, they are clearly worded and readable;
- 85% of the APMs are labelled correctly. For 15% of the APMs the labelling is not clear as they relate to adjusted APMs which are not labelled accordingly.

Adjusted APMs

As noted before, 63% of the companies that use adjusted indicators of performance define the reconciling items as "non-recurring" when they are likely to influence future periods. We conclude that detailed definitions are always provided, but that they may not be entirely understandable, especially when dealing with adjusted indicators. In fact, this confusion is often accompanied by the APMs not being correctly labelled as "Adjusted" when in fact they really are.

Reconciliation

Indirect and adjusted indicators

Reconciliation only applies for indirect and adjusted indicators. Reconciliations to the relevant GAAP measure are provided in 75% of the cases for indirect and adjusted indicators. For the purposes of this statistic we have considered the adjusted indicators not to be reconciled when the reconciliation is not to the most directly reconcilable indicator. For example a reconciliation between "Net Profit" and "Adjusted EBIT" did not enable us to bridge "EBIT" to "Adjusted EBIT". 62% of the reconciling items are clearly explained and separately identified, which means that it is possible to identify the nature and the exact amount of the reconciling items. 24% of all the APMs are not reconcilable, either because the reconciliations provided are not
clear or because they are by nature not reconcilable, such as for use of future estimations or as they are derived from market data (Cost of Capital and Value Added, LFL and constant currency growth figures).

Explanation on the use of APMs

32% of APMs identified as common knowledge (see Appendix 3) are accompanied by an illustration of their usefulness and an explanation of why they are used by the companies.

Only 31% of the indicators other than those of common knowledge are accompanied by an illustration of their usefulness and an explanation of why they are being used by the companies.

Prominence of APMs

APMs are present in every company in the sample to depict its performance. We particularly focused on the possible problems of prominence of the adjusted indicators as we reported in the results above.

However, it is worth noting that some groups include in their press releases and/or financial reports what we define as a “Cautionary Statement” explicitly stating that “Non-GAAP measures should not be viewed in isolation or as substitutes to IFRS-defined measures”. We have summarised in the chart below the percentage of industrial groups that made such statements and where these could be found (we note a small increase from the year-end 2015 documents to the half-year 2016 communications):

Comparatives

Comparatives are presented for 97% of the APMs, which is very satisfactory and indicates that the APMs are generally not newly introduced and were used in the previous periods in compliance with ESMA’s consistency principle.
The remaining 3% provide no explanation of why comparatives are not provided.

Consistency

We have noted some changes between the 2015 Annual report and the Half-Year 2016 report. In particular, these inconsistencies relate to changes in the labelling of adjusted indicators for 3 groups as summarised below:

<table>
<thead>
<tr>
<th>Annual 2015</th>
<th>Half-Year 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;EBIT from ongoing business&quot;</td>
<td>&quot;EBIT adjusted for special items&quot;</td>
</tr>
<tr>
<td>&quot;Trading Operating Income&quot;</td>
<td>&quot;Recurring Operating income&quot;</td>
</tr>
<tr>
<td>&quot;EBIT adjusted for extraordinary effects&quot;</td>
<td>&quot;EBIT adjusted&quot;</td>
</tr>
</tbody>
</table>

Changes in 1H16 Reporting

Only 4 companies, as ESMA’s Guidelines came into force, made changes between YE15 and to 1H16:

- Two of these companies clearly stated their compliance with the ESMA Guidelines in 1H16 and gave a better presentation (more defined, better reconciliations, less prominence) of APMs;
- One entity did not use adjusted indicators in 1H16 while the YE15 was mainly composed of adjusted indicators. Reconciling items were defined as “special items” but not recurring;
- The last company clearly defined its adjusted indicators as such and gave a better disclosure of its APMs.

7 companies representing 19% of the industrial segment of the EUROSTOXX 50 introduced a section dedicated to “non-GAAP” or “non-IFRS” or “Alternative Performance Measures” in their management reports.
3 DETAILED FINDINGS: BANKING SEGMENT
3.1 The sample

8 Banking groups were included in our sample, with the following geographical composition (country where the parent company is based).
### 3.2 Overview of the APMs identified

Overall, the 8 banking groups present more than 100 indicators. The chart and the illustration of the detailed findings in the following paragraphs focus on the indicators that are used by 3 or more banking groups.

**Frequency of indicators**

<table>
<thead>
<tr>
<th>Category</th>
<th>Indicator</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>Operating profit/Adjusted Operating profit</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Cost/income ratio</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>ROE</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>ROA</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>ROTE</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Adjusted net result/net income</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Adjusted ROE,ROTE,ROKE</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Like-for-like and organic growth figures</td>
<td>5</td>
</tr>
<tr>
<td>Risk</td>
<td>NPL or impaired ratio</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>NPL or impaired coverage ratio</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Coverage ratio for performing loans</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Cost of risk</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Cost of risk by segment</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Value at risk</td>
<td>7</td>
</tr>
<tr>
<td>Regulatory defined indicators of capital</td>
<td>CET 1 ratio fully loaded</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>CET 1 ratio phased-in</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Tier 1 ratio</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Risk-Weighted-Assets</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Risk-Weighted-Assets by risk</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Risk-Weighted-Assets by sector</td>
<td>6</td>
</tr>
<tr>
<td>Regulatory defined indicators of liquidity</td>
<td>Leverage ratio fully loaded</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Leverage ratio phased-in</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Liquidity Coverage Ratio</td>
<td>4</td>
</tr>
</tbody>
</table>
3.3 APMs presented in the primary financial statements

Condensed/managerial Income Statements

Managerial comments to the performance are always based on Condensed Income Statements and Condensed balance sheets, whose templates (“managerial templates”) are derived by summarising and aggregating items presented in the IFRS primary financial statements.

For banking groups based in Italy (2 groups) and Spain (2 groups), templates for IFRS primary financial statements are regulated by local authorities (Bank of Italy and Bank of Spain respectively) with extensive use of reclassification between IFRS primary statements and “managerial templates”.

- As a result, the scope of APM usage is strictly speaking broader for these groups than in the rest of the sample (as there is a broader scope of regulated indicators). Accordingly, the Condensed Income Statement itself (and its lines) may be defined as both direct and indirect APMs, depending on the nature of the amounts reclassified and aggregated;
- Such reconciliations and aggregations typically refer to (i) shifts of single amounts between different lines of the templates for Income Statements and (ii) aggregation of lines.

As regards the reconciliation between IFRS primary financial statements and condensed/managerial templates:

- For the two Italian banking groups, appendices to the annual and interim financial reports detail the reconciling items;
- In one case the IFRS primary statement of profit or loss is not included in the financial reporting information analysed (press release, interim report, presentation to analysts) for the interim period (1H16) and only the condensed consolidated Income Statement is included;
- In the remaining 5 cases, a tabular reconciliation with the IFRS primary financial statements is not presented. However, the main items easily reconcile.

The statement of Other Comprehensive Income (“OCI”) is always included in the financial information analysed, as part of the primary statements (IFRS or condensed/managerial). One of the banking groups considered prepares two separate documents, a “Financial Report” and an “Auditor’s Report, Interim Condensed Consolidated Financial Statements and Interim Directors’ Report”. The first document includes the financial highlights presented to the analysts but does not include the Statements of OCI; the second includes the IFRS primary statements (including OCI) but does not include the financial highlights presented to the analysts.
Gross income

Divergences in practice exist with reference to the presentation (i) of share of profit and loss of investments accounted for using the equity method and (ii) of impairment of financial assets available for sale.

As regards the chart above, the two groups that exclude such item from both Gross Income and Operating Expenses present it below Operating profit.
Operating expenses

Divergences in practice exist with reference to the presentation of loan-loss provisions and integration/restructuring costs

**Loan loss provisions presentation**

- Included in Operating Expenses: 6
- Excluded from Operating Expenses: 2

**Integration/restructuring costs presentation**

- Included in Operating Expenses: 3
- Excluded from Operating Expenses: 5

Moreover, divergences in practice exist with reference to the presentation of impairment recognised following IAS 36 on impairment of goodwill, intangible assets and properties, plants and equipment (PP&E).

**Presentation of impairment charges within Operating Expenses**

- Impairment of Goodwill: 2
- Impairment of Intangible Assets: 5
- Impairment of PP&E: 6

Finally, two banks exclude contributions to Single Resolution Funds and/or Deposit Guarantees Schemes from their Operating Expenses and present such charge below the Operating profit line.
Operating profit/Adjusted Operating profit

6 out of the 8 banking groups in the segment use a subtotal of Operating profit or Net Operating Income. However, as a result of the various income and expenses classified below the subtotal “Operating profit” illustrated above, there are recurring items that are classified below it; please refer to the detailed illustration above. In addition, these adjustments are not specified in the labelling of the indicator.

3.4 Other APMs

Direct indicators

Cost/income ratio

“AIIF/EFFAS Definition Guide” defines:

Cost/Income (%) = Total Operating Costs / Total Banking Revenues

With:

Personnel costs
+ General & Administrative Expenses
+ Amortisation and Depreciation on tangible and intangible assets
+ Integration costs (not always)
+ IFRS “Non-Operating Provisions” made for risks not related to the loan book
= Total Operating Costs

Net Interest Income from the banking business
+ Non-Interest Income from the banking business (Commissions, Trading Income, Dividends, Other Operating Income)
= Total Banking Revenues

This indicator of performance is used by all the banking groups included in the sample.
DETAILED FINDINGS: BANKING SEGMENT

The items comprised in the calculation of the ratio differ from one bank to the other as summarised in the tables below:

**COMPOSITION OF OPERATING EXPENSES**

<table>
<thead>
<tr>
<th></th>
<th>BANK A</th>
<th>BANK B</th>
<th>BANK C</th>
<th>BANK D</th>
<th>BANK E</th>
<th>BANK F</th>
<th>BANK G</th>
<th>BANK H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel expenses</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Depreciation/amortisation of tangible/intangible assets</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Impairment of PP&amp;E</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Impairment of Intangible Assets</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Impairment of Goodwill</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Restructuring/Integration costs</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Contribution to Single Resolution Fund and Deposit Guarantees Schemes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Such divergences reflect the effects of divergences observed in the structure of the condensed statements of profit or loss commented above.

In addition, the banking groups that include loan loss provisions and impairment of available-for-sale financial assets in their Operating Expenses exclude these items in the calculation of the ratio.

Moreover, the following differences in labelling of the ratio were observed:

**COMPOSITION OF GROSS INCOME**

<table>
<thead>
<tr>
<th></th>
<th>BANK A</th>
<th>BANK B</th>
<th>BANK C</th>
<th>BANK D</th>
<th>BANK E</th>
<th>BANK F</th>
<th>BANK G</th>
<th>BANK H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interests</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Net commissions and fees</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Dividends</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Net insurance</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>Yes</td>
<td>N/A</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Gain/losses assets/liabilities @FVTPL</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Gains/losses assets/liabilities trading</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Net gain/losses from hedge accounting</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Net gains on exchange differences</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Gains on de-recognition of assets/liabilities not at FV</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Shares of result @equity</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Other operating income and expenses</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Impairment of available-for-sale financial assets</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Such divergences reflect the effects of divergences observed in the structure of the condensed statements of profit or loss commented above.

In addition, the banking groups that include loan loss provisions and impairment of available-for-sale financial assets in their Operating Expenses exclude these items in the calculation of the ratio.

Moreover, the following differences in labelling of the ratio were observed:
DETAILED FINDINGS: BANKING SEGMENT

Return on Equity, Return on Assets, Return on Tangible Equity

- **Return on Equity (6 entities out of 8):**

  Deviations exist in the definition of this indicator, as illustrated below:
  - 3 entities calculate the ratio as net result attributable to the group divided by total average equity;
  - 2 entities calculate the ratio as net result attributable to the group divided by total average equity attributable to the group;
  - 1 entity does not specify whether minority interests are included in the calculation or not.

  In addition to the divergences above, differences exist in the components of equity that are taken into account in the denominator.
  3 entities do not specify the exclusion of items from equity. 2 entities exclude items related to their undated super subordinated debt. 2 banks exclude items of valuation reserves. Finally, in one case it was unclear how accumulated negative results were considered in the calculation of this ratio.

  Other similar indicators were observed, with lower but material frequency:

  - **Return on Assets (5 groups out of 8):**
    - Calculated by 4 entities as profit after tax divided by total Assets;
    - 1 entity only provides it for one segment and calculates it as operating income divided by average TFAs without specifying the definition of TFAs.

  - **Return on Tangible Equity (5 groups out of 8).**
    The differences in the calculation of ROTE are of the same nature than the deviations observed in the calculation of ROE. All the entities exclude goodwill and intangibles from the Equity to obtain Tangible Equity.
Indirect indicators

Adjusted net result/net income

6 of the 8 banking groups use as a performance indicator a measure of adjusted net result. All the banking groups present the adjusted net result/net income in the press releases and/or the presentations to investors. However, 2 banks also include the adjusted net result in the management commentaries. One of these 2 banks introduces the adjusted result on the face of the condensed/managerial Income Statements (labelled “underlying result”).

The corresponding GAAP measure (net profit) or its growth rate is adjusted to:
- exclude from net profit the result of the disposal of an investment (5 groups of the 6 adopting an adjusted indicator);
- exclude from net profit the effect of non-recurring or extraordinary transactions or non-recurring provisions (5 groups of the 6 adopting an adjusted indicator);
- exclude from net profit the effect of “non-economic items”, i.e. effect of changes in own credit risk in fair value of derivatives (CVA/DVA) and financial liabilities accounted for at fair value (3 groups of the 6 adopting an adjusted indicator). In addition, another group in the sample presented an indicator of “financial market income adjusted”, i.e. net of CVA/DVA;
- adjust the net result for the effect of spreading across the quarters the regulatory charges (Single Resolution Fund and Deposit Guarantee Scheme) accounted for under IFRIC 21\(^1\) (1 groups of the 6 adopting an adjusted indicator);
- eliminate from net result/net income the provisions for “PEL/CEL”, a long-term retail financial instrument product that combines a savings account in the first phase and a lending product in the second phase (the 2 French banking groups of the 8 in the sample). This is a non-cash charge specific to this financial product;
- add to the GAAP net income for the period the gain upon the disposal of an investment announced before the end of the reporting period but accounted for after the reporting period (one banking group out of the 8 analysed); in this case the adjusted net income was labelled “pro-forma net income”.

Our analysis revealed that the adjusted net income was higher than the GAAP net income for 4 banking groups that used adjusted indicators in the 2015 annual results (5 in the half-year 2016 results) as shown below:

---

\(^1\) IFRIC 21 requires to account for the annual charges when the legal triggers for payment of the contributions are met, not allowing for quarterly accrual.
Adjusted ROE, ROTE, RONE

“AIAF/EFFAS Definition Guide” defines:
ROE (adj.) (%) = Net Profit (adj.) / two-year average of Shareholders’ Equity (excluding Goodwill)

ROE (%) including Goodwill = Net Profit (adj.) / two-year average of Shareholders’ Equity (including Goodwill)

“AIAF/EFFAS Definition Guide” defines:
ROTE % (Return on Tangible Equity) = Net Profit (adj.) / the two-year (according to fiscal year end) average of Tangible Book Value (Goodwill adjusted)

The following definition of RONE is presented by the entity that uses this indicator:
RONE (Return on Normative Equity) determines the return on average normative equity allocated to the group’s businesses.

5 banking groups out of the 8 analysed present an adjusted profitability ratio, i.e. Adjusted ROE, Adjusted ROTE or Adjusted RONE. The adjustments reflect the items commented above that are used to adjust the net result/net income.
Other indirect indicators

Like-for-like and organic growth figures

5 groups (out of 8) use an indicator of change (growth/decrease) of items in the Income Statements calculated adjusting:

- both the exchange rate effect (i.e. growth/decrease on a constant exchange rate basis) and the changes in consolidation perimeter (i.e. growth/decrease) on a constant perimeter basis (4 groups out of 8);
- the exchange rate effect only (1 group).

Generally, like-for-like trends are presented together with reported growth equivalents. However, one banking group provided a like-for-like increase of adjusted indicators without including the reported growth of these adjusted indicators in its annual press release. Another banking group only presented the growth of indicators at a constant exchange rate and/or a constant perimeter without providing the corresponding reported growth of those indicators in the presentation to investors.

NPL or impaired ratio and NPL or impaired coverage ratio

“AIAF/EFFAS Definition Guide” defines:

- NPL coverage % = LLP/NPL
- NPL ratio (gross) = The ratio is calculated as Non-Performing Loans divided by outstanding loans

With NPL = Non Performing Loans
LLP = Loan Loss Provision

For regulatory purposes, European banks have to follow the definition of Non-Performing Loans set by the European Banking Authority⁷. The definition of impaired loans following IAS 39 and the definition of NPL following EBA’s Implementing Technical Standards (ITS) are different. As stated in the EBA’s ITS, the non-performing exposures include the defaulted and impaired exposures.

All the banking groups use a coverage ratio of problem loans and 7 of the 8 banking groups in the segment use a problem loan ratio.

Divergences exist with reference to the labelling of loans and the definition of problem loans considered in the ratios:

- 5 groups out of the 8 define the two ratios considering NPL as a definition for problem loans. Of them:

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⁷ EBA standard (EBA/ITS/2013/03/rev1 24/7/2014)
DETAILED FINDINGS: BANKING SEGMENT

- the 2 Italian banks refer to a regulation issued by the Bank of Italy as a source for the NPL definition, stating that such definition is consistent with the EBA ITS; the remaining 3 entities using the NPL definition do not clarify how the definition compares to that of EBA;
  - one of the two Spanish banks refer to a NPL definition ruled by the Bank of Spain;
  - the 2 French banks refer to “Doubtful loans”. One of them clarifies that NPL loans are included in Doubtful loans, but does not refer to the EBA definition of NPL;
  - one of the Italian banks in the reporting for YE15 uses the label “Doubtful” to identify the riskiest class included in the problem loans, with a different meaning than the “Doubtful” definition used by the French banks, and changed the label in 1H16 to “Bad loans”.

Divergences exist as well with reference to the formula considered in the coverage ratio: differently from the rest of the banking groups in the segment that refer to the loans only when they calculate the coverage ratio, the two Spanish banks take into account both the loans and the contingent liabilities.

Other risk indicators

3 banking groups use the coverage ratio for performing loans to illustrate their performance. 6 banking groups use the indicator of Cost of risk (corresponding to the ratio of Net additions of loan loss provisions divided by volume of loans). In one case, it was explained that the denominator used is RWA (Risk Weighted Assets). Divergences exist to the extent that the other banking groups use the book value of loans as the denominator.

7 banking groups use an indicator of Value at Risk, Sensitivity or Back Testing to comment on their performances as regards market risk. While detailed bases for calculation were not disclosed, this is a non-reconcilable managerial indicator by nature.

Regulatory Key Indicators

In order to illustrate the performance of banks, management regularly uses indicators of Capital and Liquidity profiles in financial information.

Many such indicators are defined by the relevant regulations composing the Basel III requirements, i.e. the Capital Requirement Directive IV (CRD IV) and the Capital Requirement Regulation (CRR); others are managerial indicators.

The CRR is binding for all EU Member States and became effective as at 1 January 2014, with transitional arrangements. The full requirements will take effect from 1 January 2018. The CRD IV directs all EU Member States to implement certain components of Basel III in their own law. Although not all definitions and parameters of the CRR/CRD IV are finalised, the key principles of Basel III were included in both the solvency and liquidity risk appetite frameworks that are monitored by senior management. As such, they are part of the corporate financial communication.
DETAILED FINDINGS: BANKING SEGMENT

The indicators defined and specified in CRD IV or CRR and their frequency of use in the financial information is analysed hereafter:

- **Common Equity Tier 1 ratio (CET 1 ratio) fully loaded**: The CRR/CRD IV Common Equity Tier 1 ratio calculated according to the 2019 end-state rule. For the reporting periods covered by our analysis, this is a “pro-forma” ratio, as its requirement is not binding. This indicator is used by all 8 banking groups in their 1H16 and YE15 reporting;
- **CET 1 ratio phased-in**: the CRR/CRD IV Common Equity Tier 1 ratio calculated according to the rules applicable at the reporting date taking the transitional rules into account. For the reporting periods covered by our analysis this ratio is a binding requirement. This indicator is used by all 8 banking groups in their 1H16 and YE15 reporting;
- **One banking group presents, in addition to the CET 1 phased-in, an indicator of CET 1 phased-in adjusted for a gain upon disposal occurred after the reporting period**;
- **Tier 1 ratio phased in**: the CRR/CRD IV Tier 1 ratio calculated according to the rules applicable at the reporting date taking the transitional rules into account. For the reporting periods covered by our analysis this ratio is a binding requirement. This indicator is used by 6 out of 8 banking groups in their 1H16 and YE15 reporting;
- **Risk Weighted Assets**: This indicator is used by 7 out of 8 banking groups in their 1H16 and YE15 reporting;
- **Leverage ratio fully loaded**, calculated as Tier 1 ratio fully loaded divided by Total Assets. This indicator is used by all 8 banking groups in their 1H16 and YE15 reporting;
- **Leverage ratio phased-in**, calculated as Tier 1 phased-in divided by Total Assets. This indicator is used by 6 out of 8 banking groups in their 1H16 and YE15 reporting;
- **Liquidity coverage ratio (LCR)**, which is already a requirement in 1H16. This indicator is used by 4 out of 8 banking groups in their 1H16 and YE15 reporting.

Although not defined in a financial regulation framework, these indicators are defined in detail by the relevant regulatory requirements. Accordingly, they are not the result of managerial judgement and can be considered as more akin to GAAP measures than to non-GAAP or APM measures.
3.5 Qualitative characteristics of the financial information produced using APMs

Disclosures provided

Overall definitions of APMs are presented and the disclosure provided is satisfactory.

The main indicators of common use for the banking segment are APMs defined in detail within the regulatory framework. This helps in terms of comparability of the definitions used across entities and allows for transparency also in the absence of detailed illustration of the calculations. Nevertheless, for the regulatory APMs different labels are used, such as “transitional” or “phased-in” to define the same indicator. In addition, for the “fully loaded” the qualifier “pro-forma” is not always present.

Presentation

All APMs

The definitions of APMs that are provided are generally meaningful and clearly worded. However, as a result of the divergences illustrated above when commenting on the single indicators, APMs have different labels and bases for calculation from one company to the other. Therefore, it is only possible to understand what they actually refer to when looking at the definition and basis for calculation.

Adjusted APMs

As reported above, various contents are aggregated in the subtotal Operating profit on the face of the managerial statement that is used as a basis for the comments. In one case, this subtotal is labelled differently (“Underlying”). In another case, “Underlying result” is used to define an indicator of adjusted net profit presented outside the Income statement.

This reduces comparability.

In addition to the presentation of some recurring items below the subtotal Operating profit in the managerial Income Statement, sometimes referred to as “special items” or “extraordinary transactions”, in the presentation to analysts and press releases, indicators of adjusted net income or adjusted result are presented. This includes in one case the positive adjustment for a gain upon disposal of an investment occurred after the reporting period.
Reconciliation

For the two Italian banking groups that included a condensed Income Statement in their management commentaries, a clear and detailed reconciliation with the statutory Income Statement is always provided. The two Spanish banking groups did not provide a detailed quantitative reconciliation between their reclassified and statutory Income Statements.

Indirect and adjusted indicators

Adjusted net result/net income is always reconciled with the corresponding GAAP equivalent measure since it is possible to calculate the passage from one to the other.

Explanation on the use of APMs

3 of the 4 banking groups that present a separate section on APMs include a rationale for the use of these indicators to comment on the entity's performance. Rationales for the use of APMs are generally provided. Specifically, every banking group that present an adjusted net result/net income provide an explanation for doing so. One bank only provides calculations for APMs without giving an illustration of their usefulness. However, it is worth noting that these indicators are of common practice.

Prominence of APMs

The 4 Italian and Spanish banking groups base their entire management commentaries on the condensed/reclassified Profit and Loss Statement instead of the IFRS Consolidated Income Statement. However, as noted above, on top of the IFRS requirements these banks are subject to local regulation on templates for primary financial statements.

In the management commentary the Alternative Performance and IFRS measures are stated together. However, in terms of prominence, it is worth mentioning that the indicators most affected by managerial adjustments to IFRS equivalents are presented in the press releases or presentations to the analysts, as reported above when illustrating the adjusted net result/net income, where they obtain equal and in some cases more prominence than the IFRS equivalents.
In particular, in the presentation to investors:

- one banking group gives equal prominence to the net income defined by IFRS and the adjusted net income;
- another group only provides Like-for-Like growth of indicators without providing the reported growth of these indicators;
another group only includes the underlying net profit on the cover, without stating the IFRS amount alongside it (although IFRS information is stated in the rest of the presentation).

Moreover, as regards the press releases:
- one banking group only includes the adjusted net result in the headlines without the IFRS net result stated alongside it, although they are presented together in the detailed content of the press release. This group, however, only provides Like-for-Like growth of indicators without stating the reported growth of these indicators;
- another group comments only on the underlying results in the press releases;
- one group does not disclose adjusted and IFRS measures together throughout its press releases.

Comparatives

Comparative figures of APMs from previous periods are always provided for the 8 banking groups. However, it is worth noting that 2 banking groups only provide the percentage increase or decrease in the indicators without stating the figures of previous periods in their press releases.

Consistency

The information provided was consistent overtime. The only material change was the introduction of the adjustment due to the IFRIC 21 spreading of regulatory costs over the periods.

Changes in 1H16 Reporting

4 banking groups out of 8 present an appendix to their financial report in the form of a glossary, including definitions of the APMs used. One of them presents this appendix in the annual report only.

The 4 remaining banking groups have a separate page or section within their financial report dedicated to APMs, including definitions. 3 of them provide an illustration of the rationale for use of APMs and 2 of them also include a quantitative reconciliation with IFRS indicators.

The description above already takes into account the following change by some entities between YE15 and 1H16, as ESMA’s Guidelines came into force: 2 out of 4 of the entities that present a separate section dedicated to APMs introduced this section for the first time with their 1H16 reporting.
4 DETAILED FINDINGS: INSURANCE SEGMENT
4.1 The sample

Our analysis covered the 4 insurance groups included in the EUROSTOXX 50 index.

4.2 Overview of the APMs identified

Life and Non-life businesses represent two different segments that are monitored using different indicators. For the life business the entities in the sample use indicators such as Embedded Value, while for the Non-life business the entities in the sample use technical profitability indicators, such as the Combined ratio. The APMs identified in the analysis reflect the specificity of the business of each group of the entities in the sample. Consequently, the identification of APMs was performed differentiating between the two sub-segments of Life and Non-Life. All 4 insurance groups in the sample are active in both segments. The APMs analysed are as follows:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Sub-segment relevance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Premium Equivalent (APE)</td>
<td>Life</td>
</tr>
<tr>
<td>New Business Value</td>
<td>Life</td>
</tr>
<tr>
<td>Return On Equity (ROE);</td>
<td>Life + Non-Life</td>
</tr>
<tr>
<td>Current accident year or loss ratio</td>
<td>Non-Life</td>
</tr>
<tr>
<td>Combined ratio</td>
<td>Non-Life</td>
</tr>
<tr>
<td>Expense ratio</td>
<td>Life + Non-Life</td>
</tr>
<tr>
<td>New Business Margin</td>
<td>Life + Non-Life</td>
</tr>
<tr>
<td>Assets Under Management</td>
<td>Life</td>
</tr>
<tr>
<td>Adjusted earnings</td>
<td>Life + Non-Life</td>
</tr>
<tr>
<td>Adjusted ROE</td>
<td>Life + Non-Life</td>
</tr>
</tbody>
</table>

Use of APMs by insurance companies

- Direct Indicators
- Indirect Indicators
- Solvency Ratio
4.3 APMs presented in the primary financial statements

Operating profit

The structure of IFRS Income Statements presented by the 4 insurance companies included in the EUROSTOXX 50 index is different:

- 2 insurance companies present Total Income, Total Expenses and Earnings/Income Before Taxes on the face of the Income Statement:
  - one of them comments as key performance indicator its Revenues, presented on the face of the income statement;
  - both comment several indicators presented outside the income statements, including an indicator of operating profit/ and result, as illustrated below.
- 2 insurance companies present an operating profit as subtotal on the face of Income Statement, labelled respectively “Operating result” and “Income from operating activities before tax”. Both present interest expenses below this subtotal. However, while the first entity presents income from entities accounted for using the equity method as an operating item and change in goodwill as a non-operating item, the second adopts the opposite approach. In addition, one of them presents outside of the Income Statement an indicator of adjusted earnings, as illustrated below.

As better illustrated below, several APMs are used by all the insurance companies for illustration of their performance. These indicators are mainly presented outside the primary financial statements.

See also the paragraph below that illustrates Adjusting earnings.

4.4 Other APMs

Direct indicators

New Business Value - Life

The AIAF/EFFAS Definition Guide does not provide a definition for this indicator.

The following is described by one of the insurance groups included in our sample:  
It is an indicator of new value created by the new business of life segment. It is obtained by discounting at the date of new contracts the corresponding expected profits net of the cost of capital (net of the portion attributable to minority interests).

This indicator qualifies as direct indicator and is used by all 4 insurance entities in the sample. It is included in both the YE15 and 1H16 reports and in the press releases. In one case, this
indicator is labelled “New Business Premium”.

Return On Equity (ROE)

“\textit{AIAF/EFFAS Definition Guide}” defines:
\begin{quote}
Net Profit divided by Shareholders’ Equity (end period).
\end{quote}

Please refer to the paragraph further below on Adjusted ROE.

Combined ratio Non–Life %

“\textit{AIAF/EFFAS Definition Guide}” defines:
\begin{quote}
Combined Ratio = Claims Ratio + Expense Ratio.
\end{quote}

The Combined ratio is used by all the entities in the sample. It is included in the YE15 and 1H16 reports and qualifies as a direct indicator.
A Combined ratio in excess of 100% indicates that the Non-Life business is loss-making on a technical basis (i.e. excluding the investment income).

Expense ratio

“\textit{AIAF/EFFAS Definition Guide}” defines:
\begin{quote}
Expense Ratio (Life and Non-Life) is calculated as total expenses for the insurance business divided by Net Premiums Earned (Life and Non-Life).
\end{quote}

This ratio is classified as a direct indicator and is used by all the entities in the sample in the YE15 and 1H16 reports.
The Expense ratio in the insurance segment is the percentage of premiums used to pay all the costs of acquiring, writing, and servicing insurance and reinsurance.
Indirect indicators

Adjusted earnings

Out of the 2 entities that present the operating profit on the face of the Income Statement, 1 presents also an indicator of Adjusted earnings, reflecting the following positive adjustments to its IFRS result (without however having an overall material impact on the operating result):

- Profit or loss on financial assets (under the fair value option) & derivatives;
- Exceptional operations (including discontinued operations);
- Integration and restructuring costs.

Operating profit/result

Operating profit is used by all 4 insurance companies in the segment as a key indicator for performance.

As indicated in the paragraph dedicated to the indicators presented on the face of the Income Statement (see 4.3), 2 entities present an operating profit on the face of the Income Statement and two present it outside the Income Statement.

For the 2 entities that do not present the indicator of operating profit on the face of the Income Statement, operating profit is considered by them as a relevant indicator of performance:

- 1 of these companies bases its management commentary on the concept of “Operating result” (and thus “Operating ROE”). More than an adjusted indicator, the indicator reflects a segmentation of the overall IFRS income and expenses: components of IFRS income and expenses are allocated to "operating" and "non-operating" classes. Non-operating items include items such as:
  - discontinued operations, corporate restructuring, non-recurring general expenses;
  - amortisation of business acquired;
  - interest expenses on financial debt, stock option costs;
  - realised gains and losses on investments not considered in determining profits attributed to policyholders.
  This company includes a detailed illustration of the preparation criteria for this indicator in a methodological note within the annual report.

- the other company excludes from the Operating result the following items:
  - amortisation of expenses related to business combinations;
  - interest expenses from external debt;
  - income from financial assets/liabilities carried at fair value through income;
  - realised capital gains and losses (net) or impairments of investments;
  - certain one-off effects from pension revaluation;
  - profit (loss) of substantial subsidiaries held-for-sale, but not yet sold;
  - in all reportable segments, income from financial assets and liabilities carried at fair
DETAILED FINDINGS: INSURANCE SEGMENT

value through income (net) is treated as operating profit if the income relates to the operating business:

- for life/health insurance business and property-casualty insurance products with premium refunds, all items listed above are included in operating profit if the profit sources are shared with policyholders.

- In conclusion, while Operating profit is used by all the entities in the sample as a key indicator for commenting on their performance, divergences exist in its presentation. The specificities adopted by each company suggest that the same label is used by these preparers to identify earnings indicators with a rather different nature.

Adjusted ROE

“AI AF/EFFAS Definition Guide” defines:
Net Profit (adj.) divided by Shareholders’ Equity (end period).

It is an adjustment to a direct indicator.

This ratio results from an adjustment to a direct indicator.
3 out of the 4 entities in this segment use a ROE indicator.

Significant deviations exist in the definition of this indicator, as illustrated below:

- 1 of the entities clarifies, in the footnote of the YE15 and 1H16 reports, as in the other documents analysed, where this indicator is described, that ROE represents the annualised ratio of net income attributable to shareholders to the average shareholders’ equity excluding unrealised gains/losses on bonds, net of shadow DAC (Deferred Acquisition Costs), at the beginning of the period and at the end of the period. Accordingly, albeit not labelled “adjusted” this indicator reflects an adjustment to the IFRS ROE. In addition, the corresponding unadjusted IFRS ROE is not disclosed alongside it, but a reconciliation of the denominator with IFRS Equity is included;

- Another entity presents an Operating ROE and, in the document dedicated to definitions of APMs, it is clarified that the Operating ROE is calculated starting from the Operating result, but it is adjusted for:
  - Numerator: exclusion of interest on financial debt, income tax based on a mid-term expected tax rate, minority interests;
  - Denominator: exclusion from the average IFRS Equity of other gains and losses included in the Other Comprehensive income (such as gains and losses on investments available for sale, foreign currencies translation differences, net unrealised gains and losses on hedging derivatives).

The IFRS-equivalent indicator is not disclosed in the financial information analysed. Neither does the labelling specify that the indicator is an Adjusted operating ROE;
The third entity presents the adjusted ROE together with its IFRS-equivalent, the Adjusted ROE being significantly higher than the IFRS-equivalent. As regards the adjustments, both the numerator and denominator are adjusted. In particular, adjusted earnings exclude from the IFRS result the net financial charges related to undated debt whilst adjusted Equity excludes from the IFRS Equity the fair value of investment assets and derivatives on undated debt (both recorded through shareholders equity).

Other indirect indicators

Annual Premium Equivalent (APE) - Life

“AI AF/EFFAS Definition Guide” defines:
Annual Premium Equivalents or APE is defined as the sum of all regular premiums plus 1/10 of single premiums.

With regards to the Annual Premium Equivalent this indicator is used by all 4 insurance entities in the sample and is included in the YE15, 1H16 reports and in the press releases. The indicator qualifies as an indirect indicator. Annual premium equivalents (APE) is a common measure of ascertaining the business sales in the life insurance sector and is a synthetic indicator to measure the annualised life business volume.

Current accident year or loss ratio – Non-Life

“AI AF/EFFAS Definition Guide” defines:
The Claims Ratio, also referred to as loss ratio, is equal to Total Non-Life Claims & Provisions (claims paid and change in technical provisions over the accounting period, both net of reinsurance) divided by Net Non-Life Premiums Earned.

This indicator qualifies as an indirect indicator. It is used by all 4 entities in the sample and is included in the YE15 and 1H16 reports. No divergences in definitions was observed with reference to this indicator.
DETAILED FINDINGS: INSURANCE SEGMENT

New Business Margin

New Business Margin corresponds to the new production divided by APE. This indicator is not included in the EFFAS Definition Guide.
This ratio is classified as an indirect indicator and is used by 2 companies in the sample in the YE15 and 1H16 reports.

Assets Under Management

“AIAF/EFFAS Definition Guide” defines:
Assets Under Management is third-party assets excluding life separate account (e.g. unit-linked).

This indicator is used by all 4 insurance companies in the YE15 and 1H16 reports and the indicator is an indirect indicator;
Assets under management (AUM) is the total market value of assets that an investment company or financial institution manages on behalf of investors.

Asset Management net inflows

This is a cash-flow indicator. It is used to identify whether the company is generating a net increase or decrease in the total value of assets that are added to or removed.
This indicator is used by 2 of the 4 entities in the sample; it is classified as an indirect indicator.
A full definition of this indicator is not provided and its calculation method is not explicit.

Solvency ratios

Regulatory Solvency ratio

“AIAF/EFFAS Definition Guide” defines:
Solvency I Ratio = Capital available / Capital required (under Solvency I framework)
If available, use stated figure, otherwise it is possible to use standard parameters, i.e.:
- Capital available = Tangible NAV + Minorities + Subordinated/hybrid instruments;
  with Tangible NAV = NAV – intangibles (where NAV = IFRS Shareholder Equity + Off Balance net capital gains).
Capital required = 16% of P&C earned net premium (if premium breakdown is available then 1.5x factor should be applied to liability business lines excluding motor insurance) + 4% of net life reserves + 1% of life separate accounts.
DETAILED FINDINGS: INSURANCE SEGMENT

This indicator is defined by the relevant solvency regulation. It is used in the management presentations and commentaries as a relevant performance indicator, as it indicates whether a company’s cash flow is sufficient to meet its short-term and long-term liabilities.

This indicator is used by 3 out of 4 entities in the sample in their 1H16 reports and is disclosed by the fourth insurance company in the sample only in the YE15 report. Due to regulatory developments which occurred between YE15 and 1H16, different labels were used for the same ratio, as illustrated in the table below:

<table>
<thead>
<tr>
<th>Companies</th>
<th>1H16</th>
<th>YE15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance A</td>
<td>&quot;Solvency II&quot;</td>
<td>&quot;Conglomerate solvency ratio&quot;</td>
</tr>
<tr>
<td>Insurance B</td>
<td>-</td>
<td>&quot;Adjusted Solvency ratio (Solvency I)&quot;</td>
</tr>
<tr>
<td>Insurance C</td>
<td>&quot;Regulatory Solvency&quot;</td>
<td>&quot;Solvency I&quot;</td>
</tr>
<tr>
<td>Insurance D</td>
<td>&quot;Solvency II&quot;</td>
<td>&quot;Solvency I&quot;</td>
</tr>
</tbody>
</table>

In particular, the Solvency I ratio is the relevant regulatory reference for YE15. On the contrary, Solvency II is a regulation that came into force in January 2016, by which the European Union adopted a new system of regulation and supervision of the solvency of insurance and reinsurance companies based on three pillars.

Economic Solvency ratio

Starting from 1H16 one of the insurance groups in our sample comments on the Economic Solvency ratio.

This ratio is presented within the key group highlights together with the regulatory solvency ratio. In its reporting as of 31 December 2015 the ratio was not presented and the only solvency ratio presented was labelled “Solvency I ratio”. The same company re-named the solvency ratio as “Regulatory Solvency ratio” in its 1H16 reporting.

The definition is not included in the AIAF/EFFAS Definition Guide.

The definition provided by the entity is as follows:

*The ratio between Eligible Own Funds and the group Solvency Capital requirement, both calculated applying the internal model also to all the companies for which at present the authorization was not obtained yet.*

The entity justifies the use of this indicator as useful to provide an economic view of the group capital, as in the Regulatory solvency only a partial use of internal models is allowed (i.e. for the entities for which the authorisation was already obtained).
4.5 Qualitative characteristics of the financial information produced using APMs

Disclosures provided

APMs are disclosed differently by the companies included in the sample. In fact, each company presents the information in the manner it seems to consider the most appropriate for its own business. The APMs used by the 4 insurance companies are of common knowledge in the sector or, such as for the Economic Solvency ratio or non-operating income/expenses, are generally well described.

Presentation

Only two insurance groups out of 4 in the sample issue a separate document commenting the definitions of APMs used: in one case this was issued for the first time in 1H16 (no equivalent found for YE15) and in the other case there was a reference to the annual YE15 document, for the definition (although reconciliation of figures were not included).

Reconciliation

The indicators used to comment on performance are mainly non-reconcilable by nature, except for adjusted earnings and ROE. For adjusted earnings the reconciliation was presented, whilst for adjusted ROE see the paragraph dedicated to this indicator.

Prominence of APMs

All entities make extensive use of APMs to illustrate performance. Main IFRS indicators commented are revenues, net result, together with adjusted earnings/operating result and adjusted ROE.

Comparatives

Comparative figures are presented.
Consistency

Except for the introduction of the Economic Solvency Capital and the re-naming of the Solvency ratio by one entity, no changes were observed between the 2015 Annual report and the Half-Year 2016 report in terms of main indicators used and relative definitions.

Changes in 1H16 Reporting

One entity introduced, starting from 1H16, a separate document dedicated to APMs on the investor relations website, including definitions and quantitative reconciliations. ESMA Guidelines are mentioned as regulatory reference for this topic.

Another entity that used to present an appendix to the Annual Report dedicated to APMs, continued in 1H16 to refer to such document and included compliance with the ESMA Guidelines in a footnote to the 1H16 Interim Report.
No changes were observed for the 2 remaining entities.
5 DETAILED FINDINGS: REAL ESTATE SEGMENT
5.1 The sample

Only one Real Estate company is included in the EUROSTOXX 50 index.

5.2 Overview of the APMs identified

“EPRA Best Practices Recommendations” indicators\(^1\)

The company follows the “Best Practices Recommendations as of December 2014” issued by EPRA. These indicators were defined in order to improve transparency, comparability and relevance of the results of listed real estate companies in Europe taking into account the views of both investors and preparers. These measures are calculated as IFRS defined measures adjusted for certain items.

The company respects all the recommendations and was awarded a Gold medal in the “EPRA’s Best Annual Report awards” each year since the issuance of the recommendations. The company includes a section called “EPRA Performance Measures” dedicated to the explanation and reconciliation of these indicators with IFRS measures in both the appendices to its press releases and the Management Commentaries. A list of the indicators included in this section is provided in Appendix 4 of this report. However, EPRA NAV and EPRA NNNNAV are reconciled in both the appendices to the press releases and the Management Commentaries in a different section dedicated to Net Asset Value. Finally, these indicators are never included in the Primary Financial Statements.

We present below a more detailed analysis of those indicators.

5.3 APMs presented in the primary financial statements

“The AIAF/EFFAS Definition Guide” defines:

\[
\text{Gross Rental Income - Operating costs} = \text{Net Rental Income}
\]

The company introduces two subtotals on the face of its consolidated Income Statement which are Net Operating Result before Financing Costs (also defined as “EBIT”) and Net Rental Income.

5.4 Other APMs

EPRA disclosure

EPRA Earnings and EPRA Earnings per Share

“EPRA Best Practices Recommendations” defines:
Earnings per the IFRS income statement
– (i) Changes in value of investment properties, development properties held for investment and other interests
– (ii) Profits or losses on disposal of investment properties, development properties held for investment and other interests
– (iii) Profits or losses on sales of trading properties including impairment charges in respect of trading properties
– (iv) Tax on profits or losses on disposals
– (v) Negative goodwill/goodwill impairment
– (vi) Changes in fair value of financial instruments and associated close-out costs
– (vii) Acquisition costs on share deals and non-controlling joint venture interests
– (viii) Deferred tax in respect of EPRA adjustments
– (ix) Adjustments (i) to (viii) above in respect of joint ventures (unless already included under proportional consolidation)
– (x) non-controlling interests in respect of the above

EPRA Earnings

EPRA Earning per Share = EPRA Earnings / Basic number of shares

The adjustments required by EPRA in order to calculate these indicators result in a negative impact, leading to lower performance indicators than the IFRS-equivalent measures. The EPRA Earnings and EPRA Earnings per Share are included in the press releases, Management Commentaries but not in the Primary Financial Statements. In the press releases, the corresponding IFRS-equivalent indicators are only included in the Primary Financial Statements presented in the Appendices to the press releases. As a result, these APMs obtain more prominence than the corresponding IFRS indicator in the press release contents. Two different labels, “Recurring Earnings” or “EPRA Earnings”, are used to describe the same indicator. An underlying growth in recurring EPS (not recommended by EPRA) is provided in the press releases with explanation of its usefulness.
DETAILED FINDINGS: REAL ESTATE SEGMENT

EPRA Net Asset Value (NAV) and EPRA Net Asset Value per Share

“EPRA Best Practices Recommendations” defines:

NAV per the financial statement
- Effect of exercise of options, convertibles and other equity interests (diluted basis)
Diluted NAV, after the exercise of options, convertibles and other equity interests
+ (i.a) Revaluation of investment properties (if IAS 40 cost option is used)
+ (i.b) Revaluation of investment property under construction (if IAS 40 cost option is used)
+ (i.c) Revaluation of other non-current investments
+ (ii) Revaluation of tenant leases held as finance leases
+ (iii) Revaluation of trading properties
– (iv) Fair Value of financial instruments
– (v) Deferred tax
– (vi) Goodwill as a result of deferred tax
+/- Adjustments (i) to (v) above in respect of joint venture interests
EPRA NAV

EPRA NAV per share = EPRA NAV / Diluted number of shares

The adjustments required to calculate these indicators had a positive impact, leading to an indicator higher than the most directly reconcilable indicator derived from IFRS measures included in the consolidated Balance Sheet, which is the “NAV per Share” (Shareholders’ Equity attributable to the owners of the parent company / diluted number of shares at end of period).

While absent in the press release of the Annual 2015 results, those indicators are displayed in the press release of the Half-Year 2016 results without being compared to the NAV per Share. Although missing from the press release 2015, they are explained and reconciled in the “Net Asset Value” section included in the appendix of the press release 2015 and Management Commentary of the 2015 report.
DETAILED FINDINGS: REAL ESTATE SEGMENT

EPRA Triple Net Asset Value (NNNAV) and NNNAV Per Share

“EPRA Best Practices Recommendations” defines:

EPRA NAV
+ (i) Fair value of financial instruments
+ (ii) Fair value of debt
+ (iii) Deferred tax

EPRA NNNAV

EPRA NNNAV per Share = EPRA NNNAV / Diluted number of shares

The adjustments required to calculate these indicators had a positive impact leading to an indicator higher than the NAV per Share derived from IFRS measures. These indicators are displayed in the press releases for both periods without being compared to the NAV per Share.

EPRA Net Initial Yield and EPRA “topped-up” NIY

“EPRA Best Practices Recommendations” defines:

Investment property – wholly owned
+ Investment property – share of JVs/Funds
+ Trading property (including share of JVs)
– Developments
  + Completed property portfolio
  + Allowance for estimated purchasers’ costs
Gross up completed property portfolio valuation (B)
+ Annualised cash passing rental income
+ Property outgoings
Annualised net rents (A)
+ Notional rent expiration of rent free periods or other lease incentives
Topped-up net annualised rent (C)

EPRA NIY = A/B
EPRA “topped-up” NIY = C/B

Absent in the press releases (excluding the appendices), these indicators are only presented and reconciled in the section dedicated to the “EPRA Performance Measures” and are lower than the non-adjusted yields.
DETAILED FINDINGS: REAL ESTATE SEGMENT

EPRA Cost ratios

“EPRA Best Practices Recommendations” defines:
Include:
(i) Administrative/operating expenses line per IFRS income statement
(ii) Net service charge costs/fees
(iii) Management fees less actual/estimated profit element
(iv) Other operating income/recharges intended to cover overhead expenses less any related profits
(v) Share of Joint Ventures expenses
Exclude (if part of the above)
(vi) Investment Property depreciation
(vii) Ground rent costs
(viii) Service charge costs recovered through rents but not separately invoiced
EPRA Costs (including direct vacancy costs) (A)
(ix) Direct vacancy costs
EPRA Costs (excluding direct vacancy costs) (B)

(x) Gross Rental Income less ground rent costs – per IFRS
– (xi) Service fee and service charge costs components of Gross Rental Income (if relevant)
+ (xii) Share of Joint Ventures (Gross Rental Income less ground rent costs)
Gross Rental Income (C)

EPRA Cost Ratio (including direct vacancy costs) = A/C
EPRA Cost Ratio (excluding direct vacancy costs) = B/C

Both the EPRA Cost ratio (including direct vacancy costs) and EPRA Cost ratio (excluding direct vacancy costs) are provided by the company in the section dedicated to the “EPRA Performance Measures” but are not present in the press releases (excluding the appendices).

Total Portfolio Valuation

Duly described and explained, the Total Portfolio Valuation indicator, which is also included in the press releases, provides an additional vision of the asset portfolio owned by the company and is used in the calculation of the Loan-to-Value ratio. It is not disclosed together with the equivalent IFRS Asset measures in the press releases (excluding the appendices). Labelled “Total Portfolio Valuation” in the press releases, it is called “Total Assets, including Transfer Taxes” in the “EPRA Performance Measures” section and “Asset Portfolio Valuation” in the rest of the Management Commentaries.
DETAILED FINDINGS: REAL ESTATE SEGMENT

Loan-to-Value ratio

“AIIF/EFFAS Definition Guide” defines:
Loan-to-Value = Market value of Net Financial Debt / Appraised Value of Investment Properties

Even though this indicator is not recommended by EPRA, it is defined as a debt ratio and included in the section dedicated to the “EPRA Performance Measures”. The company however calculates this ratio as follows:
- for the numerator, it uses a nominal value of Net Financial Debt that excludes the mark-to-market effects. It is however worth nothing that this adjustment is not material;
- for the denominator, it uses Total Portfolio Valuation, which is well explained.

Conclusions

Clear reconciliations are provided between the above indicators and their IFRS equivalents so that the nature and amounts of adjustments are clearly identifiable and understandable. However, when included in the press releases (excluding the appendices), they are not disclosed together with their most directly reconcilable IFRS measures.

Other main indicators not disclosed in the “EPRA Performance Measures” section

Like-for-like Net Rental Growth

“AIIF/EFFAS Definition Guide” defines:
Like-for-Like Rental Growth = calculated on the stabilised portfolio as the growth rate resulting from indexation, increase/decrease of vacancy rates and renegotiation of rents with existing tenants.

The company reports a like-for-like growth measure in its Net Rental Income on a yearly basis with clear details of the adjustments made to obtain this growth figure. This indicator is present in the press releases together with the reported growth in Net Rental Income.

Like-For-Like Total Portfolio Valuation

A Like-for-Like growth measure of the Total Portfolio Valuation that excludes currency effect, investment properties under construction, assets accounted for using the equity method and
changes in scope is provided in the press releases and the management commentaries. It is always presented together with the reported growth in Total Portfolio Valuation and a clear explanation of the calculation is provided in the Management Commentaries.

Interest Coverage ratio

“AIAF/EFFAS Definition Guide” defines:
Interest Cover = EBITDA / Net Financial Interest
With Net Financial Interests defined as:
NFI = Interests received related to cash or cash equivalents – interests paid on financial debt

We noted that the company uses adjusted indicators in the calculation of this ratio without changing the labelling of the ratio whilst still defining it as “Interest Coverage ratio”. Specifically, the formula provided by the company for this indicator is as follows:

\[
ICR = \frac{\text{Recurring EBITDA}}{\text{Recurring Net Financial Expenses (including capitalised interest)}}
\]

With Recurring EBITDA = Total Recurring Operating results and other income – general expenses, excluding depreciation and amortisation.

Going-concern NAV

The company adds to the EPRA NNNAV per share the estimated transfer taxes and effective deferred capital gains taxes in order to obtain this indicator that corresponds to the amount of equity needed to replicate the group’s portfolio with its current financial structure. This measure of NAV per Share is the highest provided by the company and is provided in the press releases without being compared to the corresponding NAV per Share derived from IFRS measures thus leading to a prominence issue.
5.5 Qualitative characteristics of the financial information produced using APMs

Disclosures provided

The level of disclosure provided was very satisfactory for the whole population of APMs analysed. This is mainly driven by the fact that all the APMs were duly defined and accompanied by a basis for calculation.

Presentation

All APMs

- Definitions are provided for all the APMs and are always clearly worded and readable;
- APMs are clearly labelled except for the “Interest Coverage ratio” that is actually based on recurring items and “Net Financial Debt” that is provided at nominal value instead of market value.

Adjusted APMs

With regards adjusted APMs, which are all the indicators except Like-for-Like growth figures, adjustments are qualified as "non-recurring".

Reconciliation

Indirect and adjusted indicators

- Reconciliations of EPRA indicators with the relevant GAAP or Alternative Performance measure are always provided and the reconciling items are clearly explained and separately identified, which means that it is possible to identify the nature and the exact amount of the reconciling item;
- As stated before, EPRA Earnings, EPRA EPS, EPRA NAV per Share, EPRA NNNAV per Share and Going concern NAV are not presented together with the corresponding IFRS measures in the press releases (excluding appendices);
- 26% of all the APMs are not reconcilable by nature since they derive from estimated valuations of assets. The company uses like-for-like growth figures and many of the indicators of the sector are based on appraisal valuations of properties.
Explanation on the use of APMs

Except for the EPRA Performance measures and the Going Concern Net Asset Value, explanations on the use of APMs are not provided.

Prominence of APMs

In terms of prominence we noted that the indicators recommended by EPRA are not presented together with the most reconcilable indicators derived from IFRS measures which are net result, Earnings per Share and Net Asset Value in the press releases (excluding appendices).

Comparatives

Comparatives are always provided for the APMs used by the company.

Consistency

Comparing the financial information provided for 1H16 and for YE15, there were no refinements of existing indicators, no new indicators nor any discontinuation of old indicators. However, it is worth noting that some differences of labelling were found between the press releases, management commentaries and the “EPRA Performance Measures” sections (EPRA Earnings and Total Portfolio Valuation).

Changes in 1H16 Reporting

No changes in reporting were observed between the 2015 Annual report and the Half-Year 2016 report.

The company states it is compliant with the recommendations issued by EPRA but does not state compliance with the Guidelines issued by ESMA.
6 APPENDICES
## 6.1 Appendix 1: Entities in the sample

**EUROSTOXX 50 Composition (August 2016)**

<table>
<thead>
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<th>Entity</th>
<th>Industry</th>
<th>Country</th>
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### 6.2 Appendix 2: Labelling of EBIT – Industrial segment

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<td>Company 1</td>
<td>Profit before Finance Costs and Income taxes</td>
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<td>Profit from operating activities (EBIT)</td>
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<td>Income from Operations</td>
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<td>Company 4</td>
<td>Operating profit/loss</td>
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<td>Company 37</td>
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6.3 Appendix 3: Common knowledge indicators for the industrial segment

Based on the analysis conducted in the industrial sector, we defined as “common knowledge” the indicators used by more than 15% of the industrial segment as shown in the table below:

- EBIT (both adjusted and not adjusted)
- EBIT margin (both adjusted and not adjusted)
- EBITDA (both adjusted and not adjusted)
- EBITDA margin (both adjusted and not adjusted)
- ROE
- Equity ratio
- Gearing
- Capex ratio
- Gross Cash Flow
- Net Debt (both adjusted and not adjusted)
- Net Debt/EBITDA (both adjusted and not adjusted)
- Free Cash Flow (both adjusted and not adjusted)
- Adjusted Net Income
- Adjusted EPS
- ROCE (both adjusted and not adjusted)
- LFL or organic growth
- Value Added
- Profit margin
- Gross profit margin
- R&D ratio
6.4 Appendix 4: Indicators included in the “EPRA Performance Measures”

- EPRA Earnings
- EPRA Earnings per Share
- EPRA NAV per Share (reconciliation in the “Net Asset Value” section)
- EPRA NNNAV per Share (reconciliation in the “Net Asset Value” section)
- EPRA Net Initial Yields
- EPRA Cost ratios
- Loan-to-Value ratio
6.5 Glossary

APMs = Alternative Performance Measures
EBIT = Earnings Before Interest and Taxes
EPRA = European Public Real Estate Association
ESMA = European Securities and Markets Authority
GAAP = Generally Accepted Accounting Principles
EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortisation
IFRS = International Financial Reporting Standards
IAS = International Accounting Standards
IASB = International Accounting Standards Board
OCI = Other Comprehensive Income
1H16 = First Half 2016
YE15 = Year End 2015
AIAF = Associazione Italiana degli Analisti Finanziari (Italian Association of Financial Analysts)
EFFAS = European Federation of Financial Analysts Societies
ROE = Return on Equity
Capex = Capital expenditures
ROCE = Return on Capital Employed
PP&E or PPE = Property, Plant and Equipment
LFL = Like-For-Like
ROTE = Return on Tangible Equity
RONE = Return on Normative Equity
CVA = Credit Valuation Adjustment
DVA = Debit Valuation Adjustment
IFRIC = International Financial Reporting Interpretations Committee
PEL = Plan Epargne Logement
CEL = Compte Epargne Logement
NPL = Non Performing Loans
EBA = European Banking Authority
ITS = Implementing Technical Standards
R&D = Research and Development
NWC and WC = Net Working Capital and Working Capital
FCF = Free Cash Flow
FX = Foreign Exchange
T-swaps = swaps on Treasury Bills
ANC = Autorité des Normes Comptables
ROS = Return on Sales
EPS = Earnings per Share
Mln = Millions
US = United States
RONA = Return on Net Assets
ROI = Return on Investment
ROIC = Return on Invested Capital
APPENDICES

ROACE = Return on Average Capital Employed
EVA = Economic Value Added
WACC = Weighted Average Cost of Capital
CAPM = Capital Asset Pricing Model
CET 1 = Common Equity Tier 1
ROA = Return on Assets
FVTPL = Fair Value through Profit and Loss
FV = Fair Value
Adj. = Adjusted
LLP = Loan Loss Provisions
RWA = Risk Weighted Assets
CRD = Capital Requirement Directive
CRR = Capital Requirement Regulation
EU = European Union
LCR = Liquidity Coverage ratio
APE = Annual Premium Equivalent
DAC = Deferred Acquisition Costs
AUM = Assets under Management
NAV = Net Asset Value
P&C = Property and Casualty
NNNAV = Triple Net Asset Value
JVs = Joint Ventures
NIY = Net Initial Yield
NFI = Net Financial Interests
ICR = Interest Coverage
DE = Germany
ES = Spain
FR = France
NL = Netherlands
IT = Italy
BE = Belgium
FI = Finland
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