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THE USE OF ALTERNATIVE PERFORMANCE MEASURES AND THE APPLICATION OF ESMA GUIDELINES IN THE PSI 20 INDEX

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Dissertação submetida como requisito parcial para obtenção do grau de Mestre em Finanças

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November 2018

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Abstract

In 2015, the European Securities Markets Authority published its Guidelines on Alternative Performance Measures (APMs). These Guidelines aim to improve the transparency, comparability, reliability and comprehensibility of financial measures not defined by the applicable financial framework. The Guidelines became effective in Portugal in July 2016. The National Competent Authority responsible for the supervision of securities markets in Portugal, Comissão do Mercado de Valores Mobiliários, has incorporated the Guidelines on APMs into its supervisory practices. Therefore, issuers with securities admitted to trading on the Portuguese regulated market must make every effort to comply with the Guidelines when disclosing APMs in management reports, prospectuses and/or press releases. The Guidelines set out principles regarding the presentation (such as labels, prominence, neutrality, comparatives and consistency) and the disclosure (definitions, reconciliations and explanations) of APMs. This study aims to provide an illustration regarding the use of APMs by issuers in the PSI 20 Index and to assess their level of compliance with the Guidelines in press releases and management reports. This study reveals widespread use of APMs by all issuers in the PSI 20 Index when communicating their performance, in management reports, financial statements as well as in press releases. When analysing the use of APMs by sector, it was observed that issuers in the financial sector use more APMs, on average, than issuers in other sectors and Communications and Materials Sectors use fewer APMs. Findings of this study demonstrate that there is still room for improvement in the level of compliance by issuers in the PSI 20 Index with the APMs Guidelines, in particular in the context of press releases. Principles regarding the explanations, prominence and reconciliations were the least complied with while comparatives, consistency and neutrality the most complied with. The study also provides examples of incorrect application of the principles of the Guidelines enabling issuers to improve the quality of their reporting and the NCA with detailed analysis by issuer which may prompt enforcement.

Keywords: Alternative Performance Measures; ESMA Guidelines; PSI 20 index; APMs, non-GAAP,

Resumo

Em 2015, a Autoridade Europeia dos Valores Mobiliários e dos Mercados emitiu Orientações sobre Indicadores Alternativos de Desempenho (IAD). As Orientações que entraram em vigor em Julho de 2016 em Portugal, visam promover a utilidade e a transparência de IADs incluídos em relatórios de gestão, prospectos e/ou *press releases*.A autoridade competente responsável pela supervisão do mercado de valores mobiliários em Portugal, a Comissão do Mercado de Valores Mobiliários, declarou a sua aderência com as Orientações e incorporou-as nas suas práticas de supervisão. Porquanto, emitentes com valores mobiliários admitidos à negociação em mercado regulamentado devem desenvolver todos os esforços para dar cumprimento às Orientações. As Orientações estabelecem princípios relativos à apresentação (tais como denominações, relevo e destaque, neutralidade, comparativos e coerência) e à divulgação (definições, conciliações e explicações) de IADs. Este estudo tem por objectivo aferir a utilização de IADs e o cumprimento das Orientações em *press releases* e relatórios de gestão pelo Índice PSI 20. O estudo revela uma utilização universal de IADs pelo PSI 20 nos relatórios de gestão, demonstrações financeiras e em *press releases*. Ao analisar os resultados por sector, foi observado que, em média, os emitentes pertencentes ao sector financeiro utilizam mais IADs, e que os emitentes incluídos nos sectores de Comunicações e Materiais são os que utilizam menos. O estudo conclui que o PSI 20 apresenta um nível de cumprimento deficitário das Orientações, em particular no que concerne a *press releases*. Ao analisar o cumprimento dos emitentes por categorias de princípios verifica-se que os princípios relativos a explicações, destaque e relevo, e conciliações são os que apresentam um nível mais baixo de cumprimento, enquanto que os princípios referentes a comparativos, coêrencia e neutralidade os níveis mais elevados. O estudo também incluí exemplos específicos que demonstram uma aplicação incorrecta dos princípios das Orientações permitindo aos emitentes melhorar o seu reporte financeiro e, à autoridade competente, atuar de modo a corrigir os problemas detectados.

Palavras Chave: Indicadores Alternativos de Desempenho; Orientações; ESMA; PSI 20 index.

“Sou do tamanho do que vejo e não do tamanho da minha altura (Fernando Pessoa). Contudo, porque o essencial é invisível aos olhos (Saint-Exupéry, tenho em mim todos os sonhos do mundo” (Fernando Pessoa). Porquanto, o meu tamanho não tem altura: porque enxergo para além do que é visível à vista desarmada, porque os meus sonhos não têm limites ou fronteiras.

Três excertos de frases de Fernando Pessoa e de Antoine de Saint-Exupéry que trago comigo onde quer vou e que partilho com quem me quer ouvir. De uma pequena vila do interior de Portugal até ao centro da Europa, a caminhada foi longa, trabalhosa mas ainda não está terminada. Enquanto houver caminhos a percorrer, estradas a desbravar, barreiras para ultrapassar, estarei lá, com determinação e vontade de vencer!

Agradeço a todos os que comigo partilharam esta minha caminhada, que me ajudaram a levantar nos momentos difíceis e que comigo festejaram os sucessos. Mais estará por cumprir, mais haverá para ultrapassar, mais dias para viver... Agradeço aos meus pais, irmã, sobrinha, amigos, professores e colegas.

Um agradecimento especial a quem me ajudou no concretização de mais um projecto de vida (o de terminar este mestrado). Nomeadamente: às minhas orientadoras Doutoras Ana Simões e Cristina Pereira Pedro pela dedicação, disponibilidade, sábios conselhos e ensinamentos. A Eoghan O’Neill pela sua amizade, interesse no tema, revisão estilística e gramatical.

Finalmente, agradeço os comentários e sugestões dos participantes e colegas oradores da conferência “14th Workshop on European Financial Reporting EUFIN 2018” que se traduziram em relevantes contributos para a concretização deste trabalho.

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Acronyms and definitions

Accounting Directive	Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC Text with EEA.
Ad-hoc disclosures or press releases	Information published to market according to Article 17 of the Market Abuse Regulation.
Applicable financial reporting framework	For the purpose of this study and of APM Guidelines any of the following: (i) International Financial Reporting Standards (IFRS) as adopted in the EU pursuant to Regulation (EC) No 1606/2002 on the application of international accounting standards or (ii) the accounting requirements stemming from the transposition of the European Accounting Directives (78/660/EEC, and 83/349/EEC or 2013/34/EC) into the legal system of the Member States of the European Union or (iii) Generally Accepted Accounting Principles (GAAP) laying down equivalent requirements in accordance with Commission Regulation (EC) No 1569/2007 establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant Directive 2003/71/EC and 2004/109/EC of the European Parliament and of the Council for issuers that are exempted from the requirement of preparing IFRS as endorsed in the EU.
ESMA Regulation	Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC.
Financial statements	For the purposes of this study financial statements refer to annual, half-yearly financial statements and additional periodic financial information prepared in accordance with the applicable financial reporting framework and disclosed by issuers or persons responsible for the prospectus in accordance with the Transparency Directive or the Prospectus Directive.

Issuer	For the purpose of this study, an issuer is a natural person or a legal entity governed by private or public law, other than a State, whose securities are admitted to trading on a regulated market. In the case of depository receipts admitted to trading on a regulated market, the issuer means the issuer of the securities represented, whether or not those securities are admitted to trading on a regulated market.
MAR	Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC
Prospectus	For the purposes of this study, prospectus refers to a document prepared in accordance with Directive 2003/71/EC.
Prospectus Directive (PD)	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC
Prospectus Regulation (PR)	Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC
Regulated information	All information which the issuer, or any other person who has applied for the admission of securities to trading on a regulated market without the issuer's consent, is required to disclose under the Transparency Directive, under the Market Abuse Regulation, or under the laws, regulations or administrative provisions of a Member State adopted under Article 3(1) of the Transparency Directive (transposition of the Transparency Directive).
Transparency Directive or TD	Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (as amended by Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013)

Abbreviations

ALTRI	ALTRI, SGPS, SA
APM	Alternative Performance Measure
BCP	BANCO COMERCIAL PORTUGUES, SA
BPI	BANCO BPI, SA
CA or CORTICEIRA AMORIM	CORTICEIRA AMORIM, SGPS, SA
Capex	Capital expenditure
CEMG	CAIXA ECONOMICA MONTEPIO GERAL
CESE	Extraordinary contribution to the energy sector
CESR	Committee of European Securities Regulators
CFA Institute	Chartered Financial Analyst Institute
CMVM	Comissão do Mercado de Valores Mobiliários
CTT	CTT CORREIOS DE PORTUGAL, SA
CRR/CRD	Capital Requirements Directive
Daimler	Daimler AG
EBA	European Banking Authority
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciations and Amortizations
EBT	Earnings before Tax
EC or Commission	European Commission
EDP	ENERGIAS DE PORTUGAL, SA
EDPR	ENERGIAS DE PORTUGAL RENOVAVEIS, SA
EEA	European Economic Area
EFFAS	European Federation of Financial Analysts Societies
ESMA	European Securities and Markets Authority
EU	European Union
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
GALP	GALP ENERGIA, SGPS,SA
IAASA	Irish Auditing and Accounting Supervisory Authority
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IOSCO	International Organisation of Securities Commission
JM or JERONIMO MARTINS	JERONIMO MARTINS, SGPS, SA
KPI	Key Performance Indicators
MD&A	Management Report
ME or MOTA ENGIL	MOTA ENGIL, SGPS, SA
NAVIGATOR	THE NAVIGATOR COMPANY,SA
NCA	National Competent Authority
Net debt/GOP	Net debt/ Gross Operating Profit
NFSA	Norwegian Financial Securities Authority
NGFM or non-GAAP	Non-GAAP financial measures
NOS	NOS, SGPS,SA
OCI	Other Comprehensive Income
Oi	Oi S.A

PHAROL	PHAROL, SGPS,SA
POC	Plano Oficial de Contabilidade
Q&A	Questions and Answers
R&D	Research and Development
RCA EBITDA	Replacement Cost Adjusted EBITDA
RCA EBITDA	Replacement Cost Adjusted EBIT
RCA Net income	Replacement Cost Adjusted Net Income
REN	REN, SGPS, SA

1. Introduction

The introduction of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (IFRS Regulation) represented an important axe in the development of the Capital Markets Union by establishing a single accounting framework for consolidated financial statements published by issuers with securities admitted to trading on Regulated European Financial Markets.

However, although the IFRS Regulation harmonised the accounting principles to be applied by listed issuers when preparing consolidated financial statements, European legislation continues to grant issuers with almost total discretion to include in management reports (MD&A), prospectuses and ad-hoc disclosures (press releases) all the information they consider useful and relevant to provide a fair depiction of their performance, activities and financial condition.

Neither Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 (Accounting Directive or) nor Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 (Transparency Directive or TD) are prescriptive in relation to what financial information should be included in MD&As and how should be presented. Similarly, while harmonised at the European level, the principles in International Financial Reporting Standards (IFRS) applicable to the presentation of consolidated financial statements also do not provide extensive and clear guidance as to when, how and to which extent issuers should use metrics or Key Performance Indicators (KPIs) to explain their performance. In fact, IFRS define very few measures and the principles that guide the use of APMs or KPIs inside financial statements are also very flexible, difficult to implement and to enforce.

Against this background and based on the fact that performance should take into account their own business model, European issuers began widely using alternative performance measures (APMs), both within and outside financial statements, to portray and explain their performance through the eyes of the management. Measures such as Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), Operating Results, Free Cash flows or Net debt, to mention a few, have now universally entered into the vocabulary of financial market participants such issuers, analysts and investors as a consequence.

While some of these measures are now commonly understood by investors or analysts, their definitions, labels and/or components differ significantly between jurisdictions, industries, companies and reporting periods.

While literature and academics diverge regarding the usefulness and relevance of APMs in the decision-making process of investors, securities regulators all over the world have acted to ensure investor protection and to prevent these measures from presenting misleading information. The European Securities and Markets Authority (ESMA) was no exception.

In order to bring discipline to the market, contribute to investor protection and reinforce the principles of the IFRS Regulation,[1] ESMA issued, in 2015, Guidelines on APMs (Guidelines on APMs, Guidelines or ESMA Guidelines). These Guidelines are addressed to financial market participants (issuers and persons responsible for prospectuses) and to National Competent Authorities (NCAs). In Portugal, the Comissão do Mercado de Valores Mobiliários (CMVM) has the duty to supervise their application and take actions in case of infringements. The Guidelines on APMs apply generally to measures not defined in the applicable financial reporting framework disclosed in MD&As, press releases and/or prospectuses.

Recently, the International Accounting Standards Board (IASB) also decided to act in the area of APMs by (i) amending the principles in IAS 1 - *Presentation of Financial Statements* to regulate the use of subtotals inside the primary financial statements (statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows) and (ii) starting new projects on *Better Communication in Financial Reporting.* While it is expected that the latter will develop and reinforce the principles that guide the presentation of APMs in the primary financial statements and in the notes, it will not address measures presented outside financial statements.

[1] Comparability, Reliability and Comprehensibility.

Several studies have been published over the years on the use of the non-GAAP (Non-Generally Accepted Accounting Principles) measures, with most of them focusing in countries other than Portugal and none of them addressing the compliance of PSI 20 Index companies with ESMA Guidelines on APMs. This study aims to provide an overview on the use of APMs disclosed by the PSI 20 companies in MD&As (both in annual and interim management reports) and in press releases related to earnings results. In addition, this study will also assess the level of compliance of these companies with the ESMA Guidelines. This study, however, does not address the compliance of issuers with the Guidelines in prospectuses.

The aim of this study is to (i) contribute to the work of CMVM who may use its results when taking supervisory actions against non-compliant issuers, (ii) improve the transparency of the information disclosed by listed issuers when using APMs, by identifying areas for improvement and potentially preventing sanctions from NCAs, (iii) contribute to the ongoing academic debate on the use of APMs when taking investment decisions, notably by assessing the comprehensibility and quality of the information provided to investors and (iv) contribute to the debate originated by the IASB on the use of APMs inside financial statements and their interaction with the information included outside financial statements.

Following this introductory section, the background for this work, based on previous studies, is presented in section 2. Section 3 describes the methodology used. Finally, section 4 summarises the findings and the section 5 includes the main conclusions of the study.

2. Background and Literature Review

2.1 Legal Background - ESMA Guidelines on APMs

In its founding regulation, ESMA is asked to contribute to (i) ensuring the integrity, transparency, efficiency and orderly functioning of financial markets, (ii) strengthening international supervisory coordination and (iii) enhancing customer protection.[2] In order to achieve these objectives, ESMA has at its disposal the power to (i) provide opinions to the Union institutions, (ii) develop guidelines and recommendations, and (iii) draft regulatory and implementing technical standards.

In October 2015, ESMA published Guidelines on APMs pursuant its powers under article 16 of the ESMA Regulation.[3] These Guidelines are addressed to issuers, as defined in the Transparency Directive and to persons responsible for a prospectus, as referred to in the Prospectus Directive, who should apply them, and to NCAs who should supervise their application and act in case of infringements.

While guidelines and recommendations issued by ESMA do not constitute direct legal obligations with which issuers and NCAs must comply,[4] they require financial market participants and NCAs to make every effort to comply. If an NCA or financial market participants (e.g. issuers) decides not to comply with the guidelines or recommendations issued by ESMA, they may be asked to explain their non-compliance (notably why the guidelines are not complied with) and to provide evidence that, despite all their efforts, compliance was not possible.

The ESMA Guidelines enter the legal framework of a given jurisdiction if the NCA (the entity required to monitor its compliance) states its compliance with the Guidelines. In July 2016, all NCAs of European Economic Area (EEA), except the Danish FSA,[5] declared their compliance and thus the Guidelines became effective in all members states except Denmark. In Portugal, CMVM declared its compliance and incorporated them into its supervisory practices.

[2] Article 1 (5) of the ESMA Regulation.
[3] Regulation (EU) n. 1095/2010 of the European Parliament and of the Council of 24 November 2010.
[4] ESA's Guidelines are issued under the mechanism of comply or explain.
[5] The Danish FSA has declared its intention to comply with the APM Guidelines.

The APM Guidelines set out principles fostering the transparency of financial information published by issuers, notably in terms of their labelling, calculation, presentation and comparability. Therefore, as it is not expected that direct costs of complying with the Guidelines are significant (as in some cases, the Guidelines only require further disclosures to be published). Accordingly, it is difficult for issuers to justify their non-compliance. In this respect, it is important to note that where costs of compliance are significant, they can be avoided or reduced because issuers are not explicitly required to use APMs in MD&As.

The Guidelines are also grounded on the principles included in the Transparency Directive and the Accounting Directive, notably true and fair view of an issuer's assets, liabilities, financial position and profit or loss and in the principles included in the Accounting Directive referring to "fair review of the development and performance" and to "balanced and comprehensive analysis". As such, compliance with the Guidelines ensures that the information included in the MD&A is comprehensive, balanced and provides for a fair review of the performance of an issuer in relation to the APMs disclosed.

In a nutshell, the non-compliance with recommendations and guidelines of ESMA particularly in this case, constitute an enforceable obligation in accordance with the European Regulation. Issuers who do not comply with the Guidelines incur infringements and sanctions both from NCAs and from investors who may able to undertake legal actions against them for not complying with the principle of true and fair view included in the Transparency Directive and failing to comply with article 16 of the ESMA Regulation (e.g. not having made every effort to comply).

2.2 The scope and principles of ESMA Guidelines on APMs

The Guidelines set out a common approach towards the use of APMs and are expected to increase users' understanding of financial information and to promote market's confidence. As such, NCAs and other bodies with responsibilities under the

Transparency Directive, Prospectus Directive[6] or Market Abuse Regulation[7] should monitor the compliance of issuers and the persons responsible for the prospectus with the APM Guidelines.

The principles included in the ESMA Guidelines on APMs are built on the qualitative characteristics of useful financial information in IFRS which guide the presentation and disclosure of the information included in the IFRS financial statements, notably, relevance, faithful representation, comparability, verifiability, timeliness and understandability.

As the financial accounting framework defines very few measures and taking into account the wide use of APMs by issuers, ESMA decided not to define each and every measure disclosed. Although providing a definition for each measure used by issuers (such as operating profits) would have a greater impact on the comparability of financial information,[8] it would require intense work to identify and define every metric used in all industries. In addition, it could lead to loopholes in the application of the Guidelines, as issuers could easily change the label of the APM used to be outside the scope of the Guidelines.

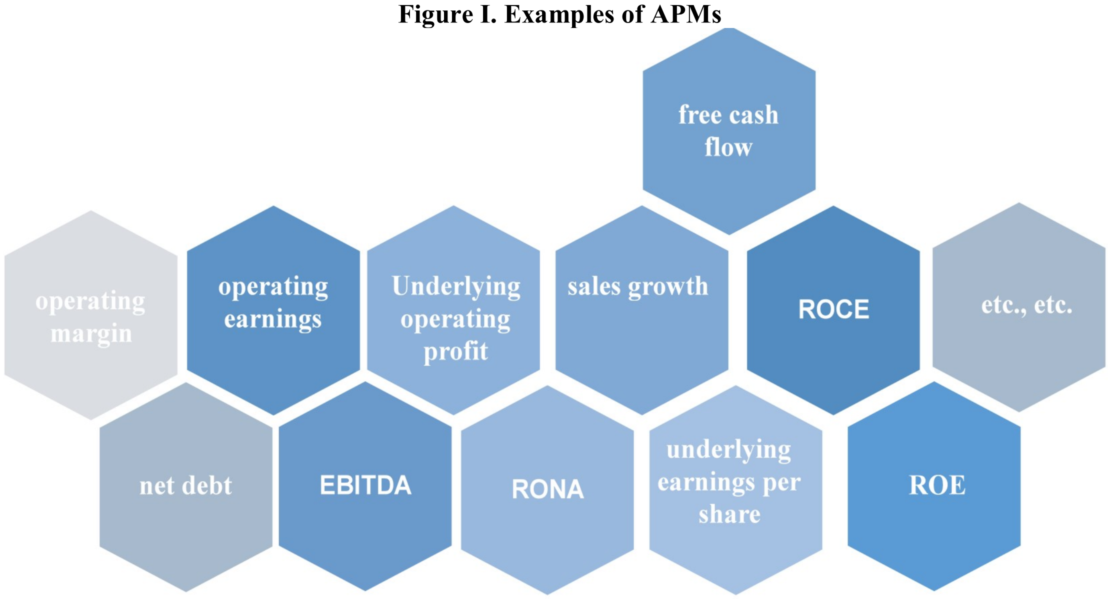
Consequently, ESMA decided to provide a definition of an APM which would comprise most of the measures not defined by the applicable financial reporting framework. The definition of an APM in the Guidelines, is as follows:

"A financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.[9]

[6] Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC.
[7] Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.
[8] As all issuers would need to apply those definitions.
[9] Paragraph 17 and 18 of the APM Guidelines.

APMs are usually derived from (or based on) the financial statements prepared in accordance with the applicable financial reporting framework, most of the time by adding or subtracting amounts from the figures presented in financial statements."

Figure I. Examples of APMs



Source: ESMA

As a response to the criticism received from market participants via the public consultation noting that the definition would be too wide that could comprise almost all numerical measures included in MD&As (regardless whether these numerical measures had a financial nature), ESMA decided to narrow down the definition and exclude some metrics. Notably, the Guidelines are not applicable to:[10]

"• measures defined or specified by the applicable financial reporting framework such as revenue, profit or loss or earnings per share;

• physical or non-financial measures such as number of employees, number of subscribers, sales per square meter (when sales figures are extracted directly from financial statements) or social and environmental measures such as greenhouse gases emissions, breakdown of workforce by type of contract or by geographic location;

• information on major shareholdings, acquisition or disposal of own shares and total number of voting rights;

[10] Paragraph 18 of the APM Guidelines.

• *information to explain the compliance with the terms of an agreement or legislative requirement such as lending covenants or the basis of calculating the director or executive remuneration."*

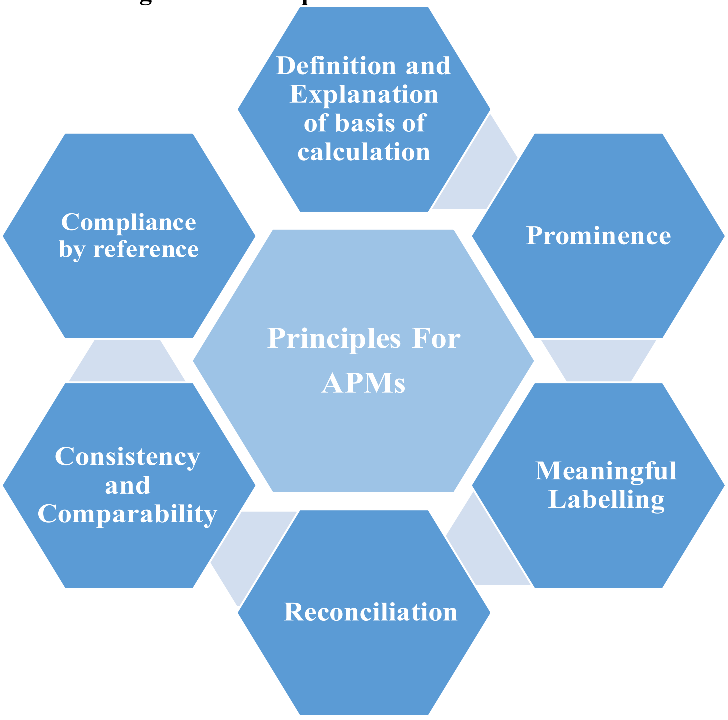
In addition, paragraph 4 of the APM Guidelines excludes from its scope measures disclosed in accordance with applicable legislation, other than the applicable financial reporting framework, setting out specific requirements governing the determination of such measures.

"Therefore, the guidelines do not apply to measures included in prospectuses such as pro forma financial information, related party transactions, profit forecasts, profit estimates, working capital statements and capitalisation and indebtedness for which the specific requirements of the prospectus regime apply. Similarly, the guidelines should not be applicable to prudential measures including measures defined in the Capital Requirements Regulation and Directive – CRR/CRD IV."

ESMA decided to exclude measures defined in the applicable financial reporting framework and measures defined by other European legislation in order to avoid potential overlaps between the principles included in the APM Guidelines and the principles and requirements included in other applicable financial frameworks or European legislation.

At the same time, this exclusion is also explained by the fact that the APM Guidelines are mostly directed to measures which are calculated by the issuers' management without a specific framework, on their own initiative; and as such increasing earnings management risk. When financial measures are already defined by the applicable financial framework or by other European legislation, the risk that management will provide an over optimistic picture of an issuer's performance in their own benefit (e.g. if their remuneration is calculated based on a specific APMs) is already mitigated.

Figure II. Principles of the APM Guidelines



Source: ESMA

The following are ESMA Guidelines on APMs' key principles:

- **Definition:** issuers should define the APMs reported, their components as well as the basis of calculation adopted. Details of any material hypotheses or assumptions used should be also disclosed;
- **Labels:** issuers should give meaningful labels to APMs 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, separately identifying and explaining the material reconciling items should be provided. Issuers 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 more reliable and relevant information on the financial performance. Where applicable, comparative figures should be restated.

2.3 Questions and Answers on the APM Guidelines

Following the entering into force of the APM Guidelines in July 2016, ESMA and European regulators started monitoring their compliance by issuers. In some countries, NCAs' and ESMA's representatives[11] participated in events to promote awareness concerning the principles of the APM Guidelines and their effective date of application.

At those events as a result of the direct contact between issuers, NCAs and ESMA, ESMA received specific questions concerning the application of the Guidelines. As the requirements of the APM Guidelines are principles based, namely, they provide issuers with sufficient flexibility on how to apply them, ESMA assessed the need to provide more guidance to the market given the objective of ensuring supervisory convergence within NCAs (e.g. ensuring that NCAs would supervise and take actions based on similar standards).

As a result of this assessment, ESMA issued 17 Question and Answers (Q&As). These Q&As provide tailored made guidance concerning how the principles should apply to particular measures, how the principles interact with each other's and providing examples on how the principles may be applied generally. Although the Q&As do not

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[11] Mazars – AIAF Roundtable • Milan Alternative Performance Measures (APM) in Financial Information Current Practice of European Listed Companies, Tuesday 29 November 201 www.aiaf.it/system/storage/.../20161129_Programme_AIAF%20Mazars%20event.pdf.
IFRS Symposium 2016, 21 SEPTEMBER 2016 – BONNIERHUSET, Stockholm, http://ifrssymposium.se/wp-content/uploads/2014/02/IFRS_Symposium_2016_4s_Folder_Webb.pdf.

have the same legal effect as the Guidelines, (i.e. they are not issued under article 16 of the ESMA Regulation and thus, issuers do not have to make every effort to comply), they represent ESMA's interpretation of the Guidelines and NCAs will consider them when enforcing and challenging issuers.

Some of the most relevant Q&As published by ESMA are presented below:

- **Measures presented simultaneously inside and outside financial statements:** when the APM is presented both in and outside financial statements, the issuer does not need to provide a reconciliation between the APM used and the most directly reconcilable line item in financial statements and may use the compliance by reference principle to refer to the specific page or section in the financial statements, where this information is readily and easily accessible to investors (Q&A #2);
- **Financial ratios:** unless financial ratios are defined in or specified by the applicable financial reporting framework or by other applicable legislation, the APMs Guidelines apply to the financial ratio and to the components of these measures when the latter components are not directly extracted from financial statements. Otherwise, the APMs Guidelines apply only to the financial ratio (Q&A #3);
- **Concept of Prominence:** the Q&A enumerates a list of examples where it may be considered that APMs are presented with more prominence than IFRS figures (e.g. presenting only APMs and omitting comparable measures stemming directly from IFRS financial statements in an earnings result release headline or in their key messages; Describing an APM as, for example, "record performance" or "exceptional" without at least an equally prominent descriptive characterisation of the IFRS measure/figure) (Q&A #9);
- **Definition and basis of calculation of 'Organic Growth':** the issuer should present not only the total change in revenues that can be derived from the financial statements, but also the disaggregation of the other components (Q&A #15);
- **Qualitative vs quantitative reconciliation:** the reconciliation should show how the figure is calculated, therefore issuers should provide a reconciliation in a numeric form (Q&A #16);

- **Fair review principle applied to APMs:** depending on facts and circumstances, presenting biased APMs - adjusted to exclude only one-off losses but including one-off gains of the same nature and occurring during the same period - may violate this principle (Q&A #17).

2.4 Comparative Legislation/ frameworks

Throughout the years, several NCAs have issued Guidelines, recommendations or legislation dealing with the APMs. While this guidance differs in terms of the legal status, language issued, scope or level of specificity or restrictiveness, their overarching objectives and principles are generally common. In this respect, the following guidance is described below:

- **SEC Guidance**
- **IOSCO Statement**
- **Canada, Australia and South Africa**

SEC Guidance

The US SEC (Securities Exchange Commission) issued guidance in different periods and addressing different scopes. Regulation G (Reg G) on non-GAAP financial measures (NGFMs or APMs) entered into force in 2003 as a response from the US SEC to several incidences with APMs misreporting related to internet dot-com companies in the late 1990s. Following this, the SEC updated its guidance in 2010 and, most recently, in May 2016 through Compliance and Disclosure Interpretation Documents (similar to ESMA Q&As). Most of the Q&As included in Disclosure Interpretation documents arose from the enforcement activities of the SEC, in relation to the regulations on APMs.

The SEC Guidance consist of the following:

- Regulation G, enacted in 2003 after Sarbanes–Oxley, is relevant for regulatory filings, press releases, and other management communications (Including oral communications).
- Item 10(e) guides reporting of NGFMs under Regulation S-K requirements—all filings with the SEC under the Securities Act and the Exchange Act – MD&As and financial statements.

- Item 12 guides reporting of NGFMs in Form 8-K – Earnings results.

IOSCO STATEMENT

Outside the United States, IOSCO (International Organisation of Securities Commissions) has also issued guidance that targets the same areas of deficiency in APMs reporting. Similar to the APM Guidelines, the IOSCO statement on APMs is less prescriptive (e.g. providing more flexibility for issuers to apply its principles) and less restrictive concerning acceptable locations for APM reporting (e.g. where APMs cannot be disclosed inside financial statements) than the requirements in the SEC guidance.

Both IOSCO and ESMA's guidance is intended for APMs disclosed outside financial statements, including press releases; periodic reports, MD&As; prospectuses or disclosure documents filed with securities regulators; and other communications to shareholders and market participants.

Although generally there is consistency between the principles included in the ESMA Guidelines and the principles included in the IOSCO Statement, the main difference refers to the legal status of both documents. The IOSCO statement on APMs is not part of the EU legal framework (i.e. European issuers are not required to make every effort to comply), and thus without a transposition to the national legislation (or regulation) by each member state, it is not enforceable in Europe. Consequently, NCAs are not able to sanction issuers in case of infringements regarding the IOSCO Statement. Finally, the Guidelines on APMs are also addressed to NCAs who should make every effort to comply with the Guidelines (in this case, NCAs are required to include them into their supervisory practices and monitor the compliance of issuers with the Guidelines).

Australia, Canada, South Africa

Similar to the US and to Europe, other jurisdictions such as Australia, Canada and South Africa have issued guidance in respect of APMs. However, as their scope of application is limited to those specific countries, the focus of this study is on US,[12] IOSCO or ESMA guidance.

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[12] While the scope of Regulation G is applied only in the US, a very relevant number of issuers outside the US are also required to apply these standards if they are also listed in the US.

Main differences between the ESMA Guidelines, IOSCO and SEC Guidance

While most of the guidance issued by ESMA, IOSCO and the SEC is similar and covers the same main principles, there are slight differences (apart from the legal framework as discussed above). The following table illustrates the main differences:

Table I. Main differences between APM Guidelines, IOSCO Statement and SEC Guidance

	Main differences between the APM Guidelines, IOSCO Statement and Regulation G
General disclosure requirement	Regulation G: Regulation G includes the general disclosure requirement that a registrant, or a person acting on its behalf, shall not make public a non-GAAP financial measure that, taken together with the information accompanying that measure, contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the presentation of the non-GAAP financial measure, in light of the circumstances under which it is presented, not misleading
	ESMA: while the ESMA Guidelines do not include such statement, it refers to fair review as an overarging principle that should guide the inclusion of all information included in the Management Report published in accordance with the Transparency Directive. This principle is also applied to APMs included in such documents.
Explicit caution against comparison across companies	IOSCO: Explicitly state that NGFM does not have standardized meaning prescribed by the issuer's GAAP and therefore may not be comparable to similar measures presented by other issuers.
Unbiased	IOSCO: Should not use non-GAAP measures to avoid presenting adverse information.
	Regulation G: The SEC Q&As (Q&A 100.03) adresses the same issue of biased measures, tating that a non-GAAP measure that is adjusted only for non-recurring charges when there were non-recurring gains that occurred during the same period could violate Regulation G.
	ESMA: Although the Guidelines do not address unbiased measures, a Q&A published in October 2018 addresses this issue. Notably, biased APMs which are adjusted to exclude only one-off losses but including, one-off gains of the same nature and ocurring at the same time may violate this principle.
Recurring items	IOSCO: Restructuring costs and asset impairments should not be described as non-recurring, infrequent, or unusual without sufficient explanation.
	ESMA: Issuers should not mislabel items as non-recurring, infrequent, or unusual (e.g. restructuring costs or impairment losses)
	Regulation G: Prohibits adjusting a non-GAAP performance measure to eliminate or smooth items identified as non-recurring, infrequent or unusual, when (1) the nature of the charge or gain is such that it is reasonably likely to recur within two years, or (2) there was a similar charge or gain within the prior two years.

As mentioned above, the SEC guidance on non-GAAP measures is more prescriptive than the guidance issued by ESMA or IOSCO, for example in addition to the mandatory disclosure requirements, the SEC prohibits the following pertaining to the calculation and presentation of non-GAAP measures:

- excluding charges or liabilities that requires, or will require, cash settlement, or would have required cash settlement absent an ability to settle in another manner, from non-GAAP liquidity measures, other than the measures EBIT and EBITDA;

- presenting non-GAAP financial measures on the face of the registrant's financial statements prepared in accordance with GAAP or in the accompanying notes;
- presenting non-GAAP financial measures on the face of any pro forma financial information required to be disclosed by the SEC regulations.

2.5 Previous literature on APMs

Over the years a significant number of studies have addressed the use of APMs, most of them focusing on the usefulness of APMs in the decision making process of investors and whether the adjustments made to GAAP figures improve financial reporting. Very few studies, in particular in Europe, have focused on the transparency and the quality of the disclosures associated to APMs.

With regard to the usefulness of APMs in the decision making process of investors, the outcome of research diverges. While some studies point to the fact that APMs are informative and relevant, others have noted that APMs may be misleading, in particular, when they are not accompanied by adequate disclosures.

For example, studies carried out in the UK, in 2003, by Walker and Louvari, in 2007, by Choi *et al.,* and in 2015 by Choi and Young analysed the determinants for the disclosure of non-GAAP measures and the most relevant adjustments made to GAAP figures. All of them confirmed the usefulness of APMs in the communication of performance, as they considered that most adjustments made by managers were adequate and constituted valuable information. This conclusion is consistent with empirical studies developed for the US (e.g.: Bhattacharya *et al.*, 2003), for Australia (Coulton, *et al.*, 2016) and for Europe (Curtis *et al.,* 2018) which concluded that non-GAAP measures or APMs are informative and relevant for investors.

Indeed, Bini *et al.* (2017), Allee *et al.* (2007) and Watson *et al.* (2002) concluded that APMs can ease and expedite an investors’ understanding of financial information with a potential positive effect of increasing efficiency in the analytical process. APMs are particularly helpful for retail investors with less experience in the financial field and consequently less proficient in making their own adjustments to GAAP figures. Empirical research has also demonstrated that APMs are particularly relevant in the context of risk and return evaluations (e.g. Wyatt (2008) and Banker & Mashruwala (2017)).

However, other studies have shown that APMs or non-GAAP figures can be used opportunistically by managers. Studies conducted by Walker and Louvari (2003) and Isidro and Marques (2015) have demonstrated that the use of APMs or non-GAAP figures is more prevalent when the GAAP figures miss predetermined financial targets. Indeed, these studies concluded that when there is more pressure to meet short-term earnings targets and earnings management, the disclosure of APMs beating pre-determined targets or earnings benchmarks is more frequent.

A recent study on impression management[13] conducted by Guillamon-Saorin *et al.* (2017) concluded that managers used high levels of impression management to mask the recurring nature of some non-GAAP adjustments. However, contrary to management expectations, this study demonstrated that investors have not only identified this opportunistic behaviour but also that it penalised firms, as evidenced by corresponding decreases in share prices where this technique was used.

Studies on impression management corroborated the importance of providing complete, comprehensive and transparent disclosures on the adjustments made to GAAP figures and/or a reconciliation. As without information that adheres to these criteria it might not be possible for investors (in particular for retail investors) to differentiate between useful and biased/misleading information.

Studies conducted on the use of APMs in the different sectors have shown that high-tech firms (Zhang and Zheng, 2011), and utilities (Coulton et *al. 2016*) use APMs more frequently when communicating their performance. Conversely, Black *et al.* (2017), when analysing the disclosures of the S&P500 firms in the US, concluded that issuers in the financial sector make the smallest number of adjustments, when calculating non-GAAP measures.

[13] Impression management is a process in which managers' select and present information, either qualitative or quantitative, in a way that distorts users' perceptions of corporate achievements (Neu *et al*., 1998).

Most of the studies conducted by European regulators aimed at encouraging their supervised issuers to comply with the recommendations/Guidelines in place and to promote changes to their practices. In some cases, these studies refer to actions taken by regulators without entering into detail on the sanctions applied in case of infringements or non-compliance issues. Notwithstanding this, prior to the entering into force of the Guidelines, some studies conducted by associations or private institutions focused on the use of APMs, and how investors and analysts may be misled by an incorrect presentation and calculation of APMs.

The study "Investor uses, expectations and concerns on non-GAAP financial measures (NGFM or APMs)" (CFA Institute) articulates investors' uses, expectations, and concerns on APMs. Notably, this study reflects investor feedback received through a survey taken by its members and backed by evidence from academic research, showing that investors use APMs as a valuation input when taking investment decisions. The same also identifies various shortcomings associated with reporting of APMs both based on the empirical evidence of financial analysts from the buying and selling side concerning their analyses on APMs and on a short sample of disclosures from European companies using APMs when communicating their performance. The study concludes that most adjustments made by issuers to GAAP figures present a rosier picture of their performance relative to GAAP measures.

In addition, while analysts believe that some adjustments and the APMs used may be justified by a lack adherence and adequacy of the applicable financial reporting framework to the business models of some companies in certain industries (such as in pharmaceutical industry where GAAP adjustments are made to exclude research and development (R&D) expenses), in other cases, some exclusions such as stock option expenses are very questionable.

Finally, this study also notes that the lack of consistent definitions; incomparable reporting; undue management emphasis and greater prominence in presentation of APMs relative to GAAP figures may be misleading.

The second study "Bridging the GAP: Ensuring effective non-GAAP and Performance reporting" (Chartered Financial Analyst Institute or CFA Institute) addresses the differences between the guidance issued by securities regulators over the world and proposes ways of strengthening the overall performance reporting framework based on the view that APMs ought to remain only as supplemental and informative measures—and should not undermine or supplant GAAP figures. This study emphasises that standard setters should strive to define and improve the presentation and comparability of GAAP measures included in financial statements and securities regulators, in particular in Europe, should have a more active role in the supervision of APMs. The study also stresses the important role that auditors and audit committees have in ensuring that the non-GAAP measures are disclosed and presented in an appropriate way.

Finally, the latter study identifies reasons for the use of APMs on the grounds of shortfalls in accounting literature in faithfully illustrating the complexity and economic reality of certain business models of companies and certain sectors. In this respect, it is noted that IFRS and, in particular, IAS 1 is to be applied independently of the business models of issuers or industries. Therefore, adaptations and adjustments in the presentation of the statement of profit or loss or other comprehensive income may need to be required in addition to the use of subtotals.[14] However, what remains to be explained why some of these non-adjusted APMs are not presented inside financial statements. If this was the case, APMs would be audited and thus, more reliable and less dependent on the discretion of management.

In addition to the previous studies focusing on the use of APMs, other studies were published, primarily, by European regulators, analysing issuers' adherence to the 2005 CESR (Committee of European Securities Regulators) recommendation and the ESMA Guidelines on APMs.

Similar to the studies published by the CFA institute, the Irish Auditing and Accounting Supervisory Authority (IAASA) published, in 2012, a study addressing the use of APMs, notably, analysing issuers' compliance with the CESR recommendation on APMs (Alternative Performance Measures – A Survey of their Use together with Key

[14] In December 2014, the International Accounting Standards Board (IASB) has issued Disclosure Initiative (Amendments to IAS 1) as part of a wider project to improve the presentation of, and disclosures in, IFRS financial statements. These amendments became effective in the 2016 financial statements.

Recommendations - November 2012). The study showed that despite the wide use of the APMs by Irish issuers, definitions, reconciliations and explanations on the reasons for the use of APMs for the adjustments made were seldom given. The shortfalls identified in the study regarding the information provided to the market led the Irish regulator to strengthen the message included in the CESR recommendation and support ESMA's initiative in reviewing this guidance and publishing Guidelines.

Years later, after the consultation paper on the ESMA Guidelines on APMs had been published, the same regulator conducted another study on the same topic (Alternative Performance Measures – A Survey of their Use together with Key Recommendations: An Update (2015), IAASA). Although some improvements compared with its 2012 study were encountered, the Irish regulator concluded that issuers should still improve their financial disclosures with regard to the reasons provided for the use of APMs and for giving equal or less prominence to these measures when compared with IFRS figures (e.g. in most cases, APMs were presented with more prominence that IFRS figures). Once more, in 2017, after the implementation of the APM Guidelines, another study on the same topic was conducted by IAASA. In the Alternative Performance Measures – Thematic Survey (2017), the Irish regulator concluded that, from a sample of 28 issuers, the most frequent infringements found concerned the reconciliations, which were often not given for all APMs used and the application of the prominence principle. In the case of the latter, very often the description of the performance was limited to the APMs and no reference to the GAAP figure was included.

On the contrary, thematic studies conducted in the UK, by the accounting regulator Financial Reporting Council (FRC)[15], in 2016 and 2017 on a sample of 20 companies acknowledged improvements in disclosures provided to the market by UK issuers. In the 2017 study compared with the previous study on the 2016 interim MD&As, the principles least complied with by issuers related to labels and to explanations for the use APMs. According to the findings of the 2017 study and despite the warnings included in the APM Guidelines, some issuers continued to label restructuring costs as non-recurring even if these costs spread over several years. Additionally, the reasons given

[15] FRC. (2016 and 2017). ***Corporate Reporting Thematic Review. Alternative Performance Measures.***

to explain the use of APMs were often considered by the regulator as cursory or boiler plate.

When comparing the studies conducted in Ireland and UK, it is noticeable that the Irish regulator reported very few issues concerning the adequacy of the explanations provided. In the case of the studies conducted in the UK prominence was not of particular concern.

Also in 2017, the Norwegian Financial Supervisory Authority (NFSA) published a study on the use of APMs. The study outlined the findings of NFSA following two different approaches, the first focused on a self-assessment made by all issuers admitted to trading on the regulated market on the use of APMs and their compliance with the APMs Guidelines. The second consisted of a desktop review conducted by the NFSA to all issuers in the OBX index.[16] The results of both approaches showed that Norwegian issuers also fell short on the compliance with the APM Guidelines. In particular, the regulator started enforcement procedures against three issuers of the OBX index on the ground of poor disclosures and non-compliance with the principles requiring reconciliations and explanations. For example, the Norwegian regulator considered that the reasons disclosed by issuers for the use of APMs were not sufficiently entity specific.

Finally, in June 2016 and March 2017, Mazars published a study on the use of APMs in financial information – Current practice of European Listed Issuers. The report presents the results of a benchmarking analysis of the current use of APMs in financial reporting. While the 2016 analysis covered the listed entities belonging to the EUROSTOXX 50 Index,[17] the 2017 study also covered 40 issuers from the UK STOXX 50,[18] STOXX Europe Mid 200[19] and STOXX Europe Small 200.[20] The study has shown that all issuers use APMs when presenting their performance both inside and outside financial

[16] T*he OBX index compri*ses the 25 most liquid shares on Oslo Stock Exchange.

[17] The EURO STOXX 50 is a stock index of Eurozone stocks made up of fifty of the largest and most liquid stocks in the Eurozone.

[18] The STOXX UK 50 Index provides a Blue-chip representation of the largest companies in the UK. The index contains 50 stocks and is derived from the STOXX UK TMI.

[19] The STOXX Europe Mid 200 Index is a fixed component number index designed to provide a representation of mid capitalisation companies in Europe.

[20] The STOXX Europe Small 200 Index is a fixed component index designed to provide a representation of small capitalisation companies in Europe.

statements. The analysis concludes that there is diversity in the definitions and labels used when similar APMs are disclosed. In addition, while definitions were generally provided, the study has identified several shortcomings in terms of the presentation of APMs. For instance, the principle of prominence as prescribed in the APM Guidelines was often not followed and the explanations for the use of APMs were usually absent. These findings are consistent with the conclusions reached by the studies conducted by European regulators. However, the study points out differences in the compliance level between larger issuers and small listed issuers and between the different documents.

For example, the study highlights that smaller listed issuers presented lower levels of compliance with the APM Guidelines and the Guidelines are less complied with in earnings results releases when compared to MD&As. In the latter, the study notices a very weak adherence of issuers with the principle of prominence both in relation to larger and smaller issuers.

On the compliance of European issuers with the APMs Guidelines only one study carried out by Jana, S. (2017) is known. The study focuses on the German market and on the 2016 annual financial statements. Through the development of the compliance index by the author based on the principles included in the APM Guidelines, it was concluded that German issuers present a poor level of compliance with the guidelines. On average German issuers reached a compliance index of 0.57 with the Guidelines. None of the issuers reached full compliance and evidence collected demonstrated that compliance with the Guidelines was higher in the larger issuers and among issuers reporting fewer measures. The study however did not take into consideration the effect of the issuance of the Q&A on APMs (and thus did not consider whether measures were biased/neutral) nor if APMs were presented consistently across periods.

2.6 European and US enforcement activity concerning APMs/ non-GAAP

In order to stress out the importance of a correct implementation of the APM Guidelines by European issuers, ESMA and European enforcers have included this topic in its 2016 European Common Enforcement Priorities. Every year since 2012, ESMA identifies topics on which European enforcers will focus their attention when performing financial information reviews in the following year. The presentation of financial performance both inside and outside financial statements was one of the topics of 2016, which included, of course, the compliance of issuers with the APMs Guidelines.

The 2017 Enforcement and regulatory activities of accounting enforcers[21] revealed that, on a sample of 170 issuers, European enforcers took 35 actions against issuers concerning the application of the APM Guidelines. While most of the actions taken required issuers to correct or to provide better disclosures in the future annual reports, the ratio of actions per number of examinations of around 20% shows that this was one of the topics where more infringements were identified. In this respect, the actions taken mainly concerned the lack of reconciliations and/or definitions (around 20%), mislabelling (6%) or prominence (10%).

Similar to ESMA, the SEC has also placed non-GAAP figures very high in its agenda. In addition to create awareness on the topic by including it in its strategic priorities, according to Deloitte, in 2016, non-GAAP measures was the second most relevant topic addressed in the SEC comment letters. 23 % of reviews with comment letters included comments on non-GAAP measures. Most of the comments raised related (1) undue prominence of a non-GAAP measure (e.g. by including a full non-GAAP income statement), (2) lack of or inappropriate reconciliations between the non-GAAP measure and the most directly comparable GAAP figure, (3) inappropriate disclosures about the purpose and use of non-GAAP measures and clear labelling, (4) liquidity versus performance measures, and (5) the nature of reconciling adjustments and the related disclosures.

With respect to disclosures of non-GAAP figures in press releases, the SEC has asked questions concerning (1) specific adjustments (e.g., restructuring charges and legal settlements) and whether those adjustments may be considered normal, recurring expenses; and (2) certain industry metrics to ensure that the metrics do not use individually tailored accounting principles (e.g., non-GAAP measures that adjust for proportionate consolidation of joint ventures, which are common in the real estate industry, among other industries).

[21] European Securities and Markets Authority Regulation. 2018. ***Report Enforcement and Regulatory Activities of Accounting Enforcers in 2017.***

Although no study was produced to evaluate the effectiveness of the APMs Guidelines which may be due to the fact that the ESMA Guidelines are recent, several academic studies have assessed the effectiveness of the US 2003 Regulation G requirements. Kolev, Marquardt, and McVay (2008), concluded that there was an improvement in the quality of APMs reporting by US filers after SEC Regulation G guidance took effect in 2003. Notably, the evidence shows that many companies that had low-quality exclusions prior to the entering into force of Regulation G stopped communicating APMs when the guidance became effective. The evidence also shows, however, that the 2003 Regulation G requirements contributed to companies shifting recurring expenses to special items, as well as to a decline in information quality of exclusions/adjustments for some companies.

Also using US data, Jennings and Marques (2011) analysed the impact of Regulation G, and corporate governance, on non-GAAP disclosures. Considering two corporate governance variables: (i) percent of independent directors present in the board of directors, and (ii) percent of outstanding shares held by institutional investors, the authors concluded that before Regulation G investors were misled by the adjustments made by firms with weak corporate governance, but after the regulation was issued this effect is no longer present.

In Europe, and again, although no empirical evidence was gathered, immediately after the entering into force of the Guidelines, some issuers stopped using some APMs when communicating their performance. For example, Daimler announced in February 2017 that it would no longer report in their public documents the measure “Adjusted EBIT” as reaction to the ESMA Guidelines on APMs.[22]

2.7 IASB “Better Communication” Projects

With the overall objective of improving the relevance and usefulness of financial information to investors, the IASB decided to focus its new projects on the enhancement of the effectiveness of the communication of financial information. Two of these new projects are related to the presentation of performance and, particularly, on

[22] The Wall Street Journal (2017 February 2), ***Daimler to End Adjusted Ebit Reporting***.

the use of performance measures inside financial statements. Another project is ongoing related to the presentation of information in MD&A.

The first project relates to the presentation of primary financial statements. Notably, this research project proposes to examine potential improvements to the structure and content of the primary financial statements with a particular focus on the statement(s) of financial performance and the statement of cash flows.

As mentioned before, the IFRS standards define very few performance measures and provide issuers with significant flexibility to include performance measures on the face of primary statements (e.g. as subtotals). Although the amendments to *IAS 1* providing more guidance on the use of subtotals became effective in Europe in 2016, IFRS still allow performance measures to be included inside financial statements.

This flexibility, in conjunction with cultural differences, may explain the wide use of APMs inside financial statements. In this respect it is important to note that before the introduction of IFRS, some national GAAPs[23] defined some measures which were generally used by issuers with securities admitted to trading on regulated markets on the face of their primary financial statements. These were often carried over to the IFRS financial statements with no opposition from standard setters[24] or from regulators.

One of the main objectives of the IASB project is to determine if more measures should be defined on the statement(s) of financial performance. Currently, different IASB staff papers point to the possibility of defining "EBIT" as an additional IFRS performance measure. However, it is important to highlight that the project is an early-stage research project and thus, it is not expected that any measures defined by the IASB under this umbrella will reach European legislation in the next five years.

The second project that is linked to the APM Guidelines refer to the Principles of Disclosure project. In 2017, the IASB Board published a discussion paper on this

[23] For example, previous to the introduction to Sistema de Normalização Contabilistica, the Portuguese Nacional GAAP (Plano Oficial de Contabilidade) defined Operating Results (Resultados Operacionais), Financial Results (Resultados Financeiros), Extraordinary Results (Resultados Extraordinários).

[24] IAS 1 paragraph 87 prohibits issuers to present any items of income or expense as "extraordinary items" which includes results.

project, and following the feedback received, is now focusing on specific disclosure issues relating to the location of information and accounting policy disclosures. It is expected that the project will result further amendments to IAS 1.

In this respect, it is important to emphasise that the APM Guidelines do not apply to financial statements and that some reliefs from some of the requirements in the Guidelines are provided if these measures are also included inside financial statements.[25] Therefore, the exclusion of financial statements from the scope of the APM Guidelines, together with the significant flexibility given in IFRS, could have led issuers to include more measures inside financial statements in order to avoid to comply with all the requirements of the Guidelines.

ESMA, therefore, has been very supportive of the work performed by the IASB in these projects and in the reinforcement of the principles included in IAS 1 concerning the notes to financial statements and its alignment with the principles included in the APM Guidelines.[26]

Finally, the IASB project related to information included in the MD&A will address amongst other subjects, the inclusion of APMs in these documents. While the project enters into the remit of the scope of application of the APM Guidelines, it still unclear what will be the outcome of the work of this project and what will be its legal status (e.g. whether it will be endorsed by the EU and form part of the European Corporate reporting legislation). If the IASB concludes this work and it becomes part of the EU legal framework, there will be a need for ESMA to substantially change or to repeal the APM Guidelines in order to avoid regulatory overlaps and inconsistencies between the two different frameworks. Nevertheless, it is not envisaged that this work will be finished in the upcoming years.

[25] Question and Answer n. 2 of the ESMA Q&A on APM Guidelines.

[26] Letter to IASB regarding its Discussion Paper on Principles of Disclosure (ESMA32-61-189), ESMA, 20/10/2017.

3. Data and methodology

3.1 Sample

The study focuses on the PSI 20 index,[27] which is made up of shares issued by maximum 20 highest-ranking companies in terms of free float market capitalization on Euronext Lisbon. The companies included should have a minimum free float market capitalization of € 100 million.

At the entering into force of the APM Guidelines, the composition of the PSI 20 Index was the following:

Table II. Composition of PSI 20 (July 2016)

Component	ISIN
ALTRI SGPS	PTALT0AE0002
BCP,SA	PTBCP0AM0015
BPI,SA	PTBPI0AM0004
CORTICEIRA AMORIM, SGPS,SA	PTCOR0AE0006
CTT CORREIOS PORTUGAL, SA	PTCTT0AM0001
EDP, SA	PTEDP0AM0009
EDP RENOVAVEIS, SA	ES0127797019
GALP ENERGIA, SGPS,SA	PTGAL0AM0009
J.MARTINS,SGPS, SA	PTJMT0AE0001
CAIXA MONTEPIO GERAL	PTCMHUIM0015
MOTA ENGIL, SGPS, SA	PTMEN0AE0005
NOS, SGPS	PTZON0AM0006
PHAROL, SGPS,SA	PTPTC0AM0009
REN,SGPS,SA	PTREL0AM0008
SEMAPA, SGPS,SA	PTSEM0AM0004
SONAE, SGPS,SA	PTSON0AM0001
SONAE CAPITAL, SGPS,SA	PTSNP0AE0008
THE NAVIGATOR COMPANY, SA	PTPTI0AM0006

The sample was also classified by sectors in accordance with Bloomberg Index methodology (Appendix I). As such, the use of APMs as well as the compliance with the Guidelines was analysed per sector as followed:

[27] Since 2012, PSI 20 is only composed of 18 companies.

Table III. Distribution of the sample by sectors

Component	ISIN	Sector
NOS, SGPS	PTZON0AM0006	**Communications and Tecnology**
PHAROL, SGPS,SA	PTPTC0AM0009	
CTT CORREIOS PORTUGAL, SA	PTCTT0AM0001	**Consumer Discretionary**
SONAE CAPITAL, SGPS,SA	PTSNP0AE0008	
J.MARTINS,SGPS, SA	PTJMT0AE0001	**Consumer Staples**
SONAE, SGPS,SA	PTSON0AM0001	
EDP, SA	PTGAL0AM0009	**Energy**
EDP RENOVAVEIS, SA	PTEDP0AM0009	
GALP ENERGIA, SGPS,SA	ES0127797019	
REN,SGPS,SA	PTREL0AM0008	
BCP,SA	PTBCP0AM0015	**Financials**
BPI,SA	PTBPI0AM0004	
CAIXA MONTEPIO GERAL	PTCMHUIM0015	
ALTRI SGPS	PTALT0AE0002	**Materials**
CORTICEIRA AMORIM, SGPS,SA	PTCOR0AE0006	
MOTA ENGIL, SGPS, SA	PTMEN0AE0005	
SEMAPA, SGPS,SA	PTSEM0AM0004	
THE NAVIGATOR COMPANY, SA	PTPTI0AM0006	

3.2 Data

In accordance with articles 4 and 5 of the Transparency Directive, issuers admitted to trading on regulated markets must publish annual and interim reports. These annual and interim reports must contain (i) the consolidated financial statements, (ii) MD&As and (iii) statement from the management declaring that to the best of their knowledge, the financial statements give a true and fair view of assets and liabilities, the financial position and profit or loss of the issue and that the MD&A includes a fair review of the development and performance of the business. Furthermore, in accordance with article 17 of the Market Abuse Regulation, issuers shall inform the public as soon as possible of inside information which directly concerns them.

While the APM Guidelines also apply to prospectuses drawn up in accordance with the Prospectus Directive,[28] the submission of a prospectus for approval to NCAs does not occur regularly. Issuers and persons responsible for a prospectus only submit those documents for approval in case they decide to offer securities to the public and/or require the admission of securities to trading on regulated markets. Therefore, due to the

[28] Recently derogated by Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market.

lack of regularity of such documents, which would impair any analysis performed with respect to the comparability, comprehensibility and transparency on the use of APMs between entities or industries, the study does not address the use of APMs in prospectuses and/or their adherence to the Guidelines.

Indeed, the study focuses on MD&As presented in conjunction with financial statements and press releases of earnings results of the PSI 20 Index (composition at the beginning of July 2016 – entering into force of the Guidelines on APMs). The analysis is conducted by dividing the population of entities into industries/sectors (e.g. Financial, Industrial, Energy, etc.).

The analysis covers the following financial information available on the CMVM's website:

- Annual report for YE15, with particular focus on the primary financial statements and other indicators presented in the MD&A;
- Interim report for 1H16 and Annual report for YE16, with particular focus on the primary financial statements and other indicators presented in the MD&A;
- Interim report for 1H17 and Annual report for YE17, with particular focus on the primary financial statements and other indicators presented in the MD&A;
- Press releases announcing the half-year and annual results for 2016;
- Press releases announcing the half-year and annual results for 2017;

The sample covers in total 136 observations, concerning half and annual MD&As and press releases of earnings results since the effective date of the Guidelines. The annual reports of 2015 were only reviewed to assess the consistency of the APMs across periods as such these documents were not counted in the total number of observations.

In this respect, it is important to note that not all issuers within the sample published earning results press releases and therefore the averages calculated take this into account. Notably, the results (in particular, the calculations of averages) were adjusted to ensure that the comparability of the analysis of the findings was not affected:

- Corticeira Amorim does not publish press releases with annual or half-year earnings results; only the MD&As mandated by the Transparency Directive;

- Pharol – Although Pharol publishes press releases, these are a replica of the Oi, SA (an associate of Pharol) press releases. As Pharol does not have control in accordance with *IFRS 10 Consolidated Financial Statements* as endorsed by the EU over Oi, SA, and consequently over the information contained in these documents, these press releases were not considered in the sample as Pharol should not be held responsible for the compliance of Oi, SA with the Guidelines on APMs. As such, the sample with respect to Pharol, only covers the annual and half year MD&As;

3.3 Methodology

The analysis consists of (i) the identification of the indicators frequently used by the entities in the sample when illustrating their financial performance and (ii) in the assessment of the content of such APMs and the level of disclosure provided about definitions, labels reconciliations and explanations as required by the Guidelines on APMS. The purpose of the analysis is:

- Identification of changes in the behaviour of issuers in the presentation of APMs following the introduction of the APM Guidelines. For this purpose, the study will compare the APMs contained in the annual report of 2015 published before the entering into force of the APM Guidelines with the information disclosed in the annual report of 2016, after these became effective.
- Identification of similarities at sector/industries level to assess the consistency on APMs, the labels and the definitions used. This should enable an understanding of (i) whether users of the financial information are able to compare the information provided by different issuers (ii) whether those measures are presented consistently between periods (iii) whether adjustments were made between measures presented inside and outside financial statements and whether these adjustments are duly explained.
- An overall assessment of the compliance of issuers with ESMA Guidelines on APMs in MD&As and press releases. Notably, to understand whether there are differences in the use of APMs and in the level of compliance of issuers with the ESMA Guidelines in the two types of documents.

- An overall assessment of the quality of the information provided using APMs for each entity in the sample, having as point of reference the principles included in the ESMA Guidelines.

Use of APMs

In order to identify similarities between APMs used, all APMs included in annual and half year MD&As, primary financial statements and earning results press releases were hand-collected and codified. In this respect, it is important to emphasise that only the measures which complied with the definition of an APM were the object of this study. Thus, non-financial measures (e.g. physical measures or sustainability measures), measures defined by the applicable financial reporting framework or measures related to major shareholdings were excluded.

It should also be noted that measures included in MD&As/press releases that are defined by other applicable legislation (for example, regulations emanating from Banco of Portugal in the case of the financial sector) are not within the scope of the ESMA Guidelines. Therefore, when these were identified in the documents analysed, they were excluded from the analysis carried out in this study. In the absence of such clear identification, these were gathered and considered APMs for the purpose of the study.

Measures which were used to describe both the total and segment performance were included only once, unless differences in the definitions and calculations could be identified. Whenever ratios were identified they were also collected, as long as the ratios fulfilled the requirements defined in the APM Guidelines. Measures which were presented only to reflect the growth or the variation between measures across periods were not collected as these lack the aggregated factor usually encountered in the calculation and definition of APMs.

Similar to the study conducted by Mazars (2016 and 2017), all APMs were codified based on the definitions included in the European Financial Federation of Financial Analysts Societies (EFFAS) Definition Guide (Appendix II).[29]Whenever the measures presented by issuers in the sample did not follow the definitions included in this guide,

[29] https://effas.net/pdf/setter/EFFAS_DefinitionGuide_V14.pdf.

they were codified as “Adjusted+ original label”. Subsequently, measures codified as adjusted were compared with the most comparable subtotal included inside financial statements (GAAP figures) or, where disclosed, with non-adjusted measures in order to calculate the value of the adjustments. Descriptive information concerning the nature of such adjustments was also hand collected in order to identify commonalities on the adjustments made.

Measurement of the compliance with the APM Guidelines

The quality of disclosures may be assessed in a variety of different ways as it is understood to be a multidimensional and complex construct (Beattie *et al*. 2004). Usually research develops and adopts self-constructed disclosure indexes in order to capture the quality construct (Beretta & Bozzolan, 2007). Therefore, similar to the study conducted by Jana *et al.* (2017),[30] to ensure consistency in the assessment made in this paper a compliance checklist was developed to assess the compliance of issuers in each document (MD&A or press release) and across periods.

Taking into consideration that some of the principles included in the Guidelines on APMs are qualitative (i.e. requiring more transparent information to be disclosed to the market), the analysis and the methodology followed includes a mix between quantitative and qualitative methods.

The compliance checklist reflects the principles included in the APM Guidelines and the Q&As, organised by categories and disaggregated by questions. While some of principles are more objectively verifiable (such as assessing whether definitions/reconciliations are included or not), others require a qualitative analysis by the author (e.g. assessing if the information provided is sufficient, informative and/or not boilerplate e.g. in the case of explanations provided). The objective of this compliance checklist is to obtain a scoring reflecting the compliance of issuers with the Guidelines.

[30] Determinants of Alternative Performance Measures' Disclosure Quality: Evidence from Germany.

Contrary to the study conducted by Jana *et al.* (2017) which only considers six categories,[31] the principles included in the APM Guidelines and respective Q&As, were divided into eight main categories as followed:

a) Definitions,
b) Neutral/biased measures,
c) Labels
d) Reconciliations,
e) Explanations,
f) Prominence,
g) Comparatives, and
h) Consistency.

Similarly to the methodology followed by Jana *et al.* (2017) a dichotomous scoring system was applied, implying that a score of 1 is assigned if a certain requirement was fulfilled; a score of 0 was assigned if the requirement was not fulfilled. This system implies that a disclosure requirement can only be completely satisfied if all sub-criteria presented in sub-questions of each category (as indicated in Appendix IX) were satisfied as well. The main criteria to assess compliance of issuers with the principles included in the Guidelines in relation to each category are identified as follows:

a) **Definitions:** It was analysed whether these definitions were included or not and if every component was disclosed separately. It was considered that the definition was displayed in a clear way, if (i) a glossary/separate section including all APMs used was included inside the document (e.g. MD&A or press-releases) or (ii) if a definition was placed together with the measure (e.g. as a footnote). Where neither of these criterion were complied with, it was considered that the definition was non-existent. Where issuers did not identify each component separately it was considered that the definition was not clear.

b) **Neutral/biased measures:** In this case, components of the APMs used were analysed to understand if the adjustments made to GAAP figures were biased

[31] Determinants of Alternative Performance Measures' Disclosure Quality: Evidence from Germany, does not assess consistency as the study focuses only on the 2016 Management reports and does not consider the principle included in the #Q&A 17 (Biased/Neutral) of ESMA Q&As on APMs, which was implicit in paragraph 8 of the APM Guidelines.

(for instance, only eliminating the negative items of the performance but including positive items of the same nature). For example, it was considered as "biased" if a measure such as "Adjusted EBIT" included the reversals of impairments of intangibles (positive effect) but excluded within its components the item impairments of intangibles (negative effect). This is in line with Q&A #17 of the ESMA Q&A on APM Guidelines.

c) **Labels:** when assessing whether an APM was labelled correctly by an issuer (i) it was verified whether the label reflected in substance its components (e.g. if a measure labelled as EBITDA was calculated according to EFFAS Definition Guide); (ii) if the issuer used overly optimistic or positive labels, (iii) mislabelled items as "non-recurring" or labelled measures as "recurring" but excluding "recurring items" or (iv) used labels which were confusingly similar to GAAP measures.[32]

d) **Reconciliations:** It was verified if the issuer included a reconciliation. Although the APM Guidelines do not define the format that the reconciliation should follow, according to Q&A #16 of the ESMA Q&A on APM Guidelines, a numerical reconciliation between the most comparable GAAP figure and the APM should be disclosed. Where APMs were presented in a table, both showing the nature and the amount of all its components, it was considered that the reconciliation principle was complied with.[33] When APMs were simultaneously included in and outside financial statements (primary financial statements), a reconciliation is not required (per Q&A #2 of the ESMA Q&A on APM Guidelines) and thus it was considered that the issuer complied with the reconciliation principle included in the Guidelines. In the case of ratios, it was considered that an issuer complied with the Guidelines if, together with the APM or in a glossary, could be verified both the numerator and the denominator of the ratio. If the numerator or denominator were not extracted directly from financial statements (e.g. directly identified as such), these components should also be defined and reconciled back to the GAAP figure (per Q&A #3 of the ESMA Q&A on APM Guidelines).

[32] Paragraph 24 to 26 of the APM Guidelines.
[33] Paragraph 28 of the APM Guidelines.

e) **Explanations:** It was considered whether the issuer included any explanations justifying the use of such measure (including measures presented inside financial statements) and whether these explanations were informative. With regard the latter, it was verified if the explanation included an indication on how the issuer uses it when taking their decisions and/or how the market should consider it (e.g. analysts, investors). How and why the APM is important for the decision making process of investors.

f) **Prominence:** When assessing prominence the criteria set out in Q&A #9 of the ESMA Q&A on APM Guidelines was used. In press releases it was considered if more emphasis was given to APMs compared with GAAP figures, for instance in the highlights of the press release. In MD&A it was considered whether the description/ analysis of the performance was accompanied by an analysis to figures directly extracted (e.g. directly identified) from financial statements.

g) **Comparatives:** It was verified if APMs presented comparatives for the previous years per Q&A #7 of the ESMA Q&A on APM Guidelines.

h) **Consistency:** Consistency of the APMs used and/or their definitions were assessed based on documents of a similar nature (e.g. APMs included in the annual MD&A of 2017 were compared with the information included in annual MD&A of 2016) and documents representing the same reporting period (e.g. APMs included in the 2017 earnings press release were compared with APMs comprised in the 2017 annual MD&A). When there was consistency on the APMs used in the situations referred to above, it was considered that this principle was complied with. When this was not the case, information explaining this divergence was sought. If this information was disclosed, it was considered that the principle had been complied with by the issuer.

i) **Compliance by reference:** where issuers used this practical expedient it was verified if paragraphs 45 to 47 of the APM Guidelines were complied with and thus, a specific reference to a webpage, section of a document or page was included provided together with the APM used.

Compliance Index

As there are no indications why certain requirements should have a higher score than others, the APM Guidelines do not define any hierarchy between the principles and categories, to each one of these categories an equal height of 12.5% was given in the total scoring. Each category was further subdivided into questions with a specified height. The compliance of issuers with the Guidelines was assessed against each question, of each category of principles in accordance with the criteria set out above. The scoring for each issuer with respect to each document was obtained by the sum of the heights of each category, as represented by the following equation:

I.

$$CI= \sum(12.5\%a + 12.5\%b + 12.5\%c + 12.5\%d + 12.5\%e + 12.5\%f + 12.5\%g + 12.5\%h)$$

CI - Compliance Index of each document (e.g. MD&A 1H16; MD&A 2016 – YEH16)

a, b, c corresponding to the categories described above;

12,5% the height given to each category

In order for an issuer to be considered fully compliant with the Guidelines concerning each document, it should obtain the sum of 100% when aggregating the sum of each score for all categories.

The level of compliance of an issuer in each type of document is determined by the arithmetic mean scored by that issuer for each individual document of same nature (e.g. arithmetic mean of the scoring of press releases and arithmetic mean of the scoring of MD&As – both annual and interim).

(II)

$$\textbf{CI type document} = \frac{\sum CI}{4}$$

CI Type of Document– Compliance Index of MD&A or Press release s

CI - Compliance Index of each document;

N- Number of documents analysed[34]

[34] In most of the cases these refer to four documents (2016 Annual and Half year MD&A and its respective press releases and 2017 Annual and Half year MD&A and its respective press releases).

The overall assessment of compliance of an issuer is determined according to the following equation, representing the arithmetic mean of the compliance with the Guidelines per type of document (e.g. press release and MD&As):

(III)

$$\textbf{CI Issuer} = \frac{\sum \boldsymbol{CI\ type\ document}}{\mathbf{2}}$$

The arithmetic mean of compliance by sector was determined as follows:

(IV)

$$\textbf{CIsector} = \frac{\sum \boldsymbol{CI\ Issuer}}{\boldsymbol{n}}$$

Where:

CI Sector – Compliance Index by sector

CI Issuer - Issuer Compliance Index of the issuer;

N- Number of issuers in a determined sector

However, not all companies presented press releases for all periods identified so, the arithmetic mean was adjusted in those cases.

4. Discussion of the Results – Use of APMs in the PSI 20 Index

This chapter analyses the use of APMs inside financial statements, MD&As and press releases. Consistent with the methodology, this chapter aims at identifying similarities in the use of the APMs within sectors, most common labels used as well the most common adjustments made by issuers compared with definitions included EFFAS Definition Guide.

Although the APM Guidelines are not applicable to financial statements, there is a clear link between APMs and GAAP figures. Very often APMs are derived from or are calculated based on figures included in financial statements and/or measured and recognised in accordance with the principles defined in applicable financial reporting framework. In addition, the APM Guidelines contain reliefs in the application of their principles if such measures are included simultaneously inside and outside financial statements,[35] notably in relation to reconciliations.

Furthermore, with regard to MD&As, the European Accounting Directive requires that the MD&A shall include a fair review of the development and performance of the issuer. Where relevant and appropriate the issuer shall (i) include both financial and non-financial key figures and (ii) include references to, and additional explanations of, amounts reported in the annual financial statements. In many European jurisdictions, MD&As are reviewed by auditors to ensure consistency between the information included in the front end of the annual reports (i.e. MD&A) with the information included on the back of annual reports (i.e. financial statements). Although this consistency is, in some cases, verified by auditors, it does not represent the same level of assurance of an audit to financial statements. In Europe, only annual financial statements are required to be independently audited. Some issuers require an audit or a limited review to half year reports. Where this occurs, there is an extra assurance that the figures included inside financial statements are presented, measured and recognised in accordance with the principles included in the applicable financial reporting framework (in this case, IAS 1). However, as there is no specific audit standard dealing with the use of financial information included in the MD&A, practice diverge on the level of assurance and how consistency in these documents is assessed in Europe.

[35] Q&A #2 of ESMA Q&A on APMs.

As discussed in the previous chapter, the IASB is also conducting a research project related to the presentation of APMs inside financial statements, thus it is relevant that the study also reports on this aspect.

4.1 Use of APMs outside financial statements

4.1.1 Use of APMs by Sector in MD&As and Press releases

All issuers, included in the sample, use APMs in their communications to the market. This is consistent with other studies published in other countries which have identified a wide use of APMs by issuers in published documents when describing their financial performance.[36] Out of the 136 observations, equalling the total number of documents analysed, it was hand collected a total of 2, 240 APMs, representing 358 different types of APMs (Appendix IV). This confirms the relevance of the studies in this area in Portugal.

Taking into account all issuers in the sample, on average, PSI 20 issuers disclose around 17 APMs in press releases and MD&As. In this respect, it is important to highlight that issuers disclose more APMs in MD&As than in press releases (19 APMs vs 15 APMs) and that issuers in the financial sector report more APMs than issuers belonging to other industries (25 APMs on average in the financial sector vs 17 APMs representing the average for all sectors). Explaining this behaviour is, the fact that press releases are usually short documents (less than 30 pages) containing the main highlights of the performance of an issuer. On the other hand, MD&As are usually long documents (more than 100 pages) that include a detailed description of the performance, and the main events related to an issuer during a specific reporting period. Consequently, it would be expected that the use of the APMs was, as evidenced by the study, more common in MD&As when compared with press releases.

With regard the use of APMs in the financial sector in Portugal, it is important to recall that in accordance with Q&A #3 of ESMA Q&A on APMs, financial ratios composed exclusively of figures included in financial statements also fall within the definition of an APM in accordance with the APM Guidelines. Therefore, in the absence of

[36] The use of Alternative Performance Measures in Financial Information Current Practice of European Listed Companies (2016) Mazars.

information in the MD&A or in press release signposting that the ratios reported are defined by other applicable legislation,[37] all ratios used by the issuers were considered as APMs for the purpose of the study. This is of particular relevance in the financial sector, as it is common that a significant number of financial and prudential ratios is disclosed. Conversely, the sector of Communications, discloses on average fewer APMs in both press releases and MD&As than the average for all sectors.

Table IV. APMs disclosed on average by issuers within sectors, by type of document

Sectors	MD&A	Press releases	Total
Communications	14	8	11
Consumer Discretionary	22	15	18
Consumer Staples	24	20	22
Energy	16	18	17
Financials	29	22	25
Materials	11	10	10
APMs used on average per issuer	**19**	**15**	**17**

Although the table above demonstrates that the use of APMs is transversal to all sectors, the extent of their use varies significantly between companies, even within a given sector. For example, while the average indicates that issuers in the financial sector report around 25 APMs, CEMG reports 23 APMs while BPI 33 APMs in MD&A.

When comparing the use of APMs across all issuers in the sample, it was also noted that a wide range of APMs were reported by PSI 20 issuers (Appendix IV). For example, while on average Pharol discloses only 3 APMs in its MD&A (NA to Press releases), BPI reports more than 30 APMs in the same type of document (23 in Press releases). In the case of Pharol, it is important to emphasise that, the company does not have an operational activity other than managing its investment in Oi, SA. Consequently, it could be expected that the number of APMs would be limited to those relevant to manage shares in an associate.

[37] Other than the applicable financial reporting framework.

Figure III. Number of APMs disclosed on average by issuer and type of document

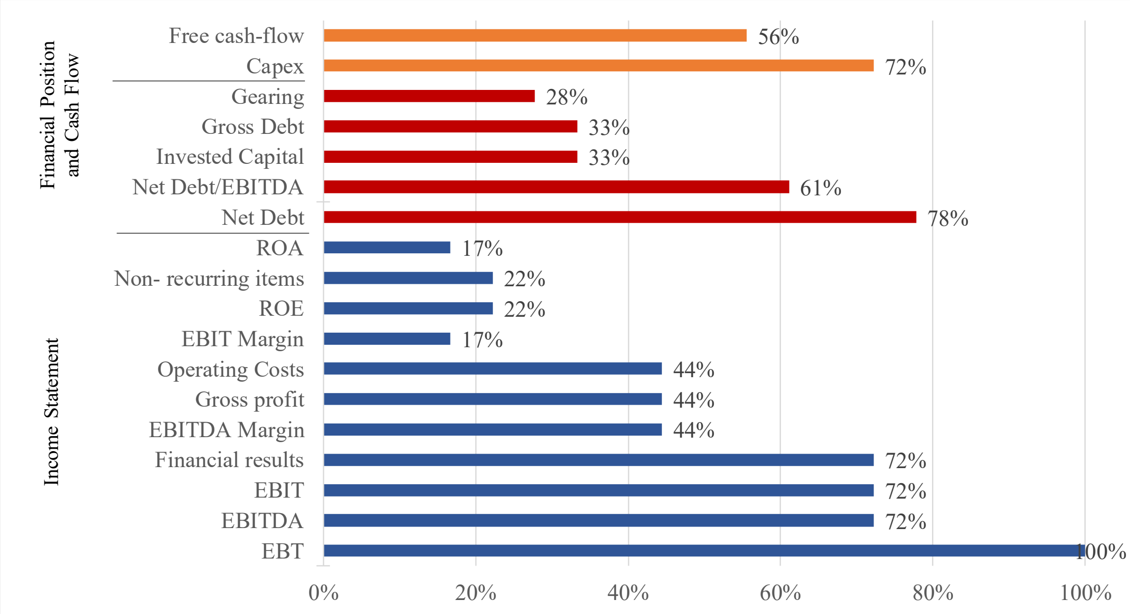
4.1.2 Non adjusted APMs

For the purpose of the study and as explained in the previous chapter, all APMs collected were codified in accordance with EFFAS Definition Guide. The following graphic illustrates the variety of Non-adjusted APMs following the definitions in the EFFAS Definition Guide.

The graphic below shows that most of the APMs reported relate to the income statement. EBT (Earnings Before Tax) is used by all issuers included in the sample (18 issuers), followed EBITDA, EBIT and Financial results reported by 72% of the issuers in the sample. 44% reported separately EBITDA Margin and Total Operating Costs inside the MD&A and press releases.

With respect to measures related to the financial position, Net Debt was reported by 78% of the issuers, while the ratio Net Debt/ EBITDA is reported in 61% of the cases. Finally, from the measures related to Cash Flows, Free Cash Flow was reported in 56% of the cases while Capex is used by 72% of the issuers in the sample. None of the issuers analysed comment other comprehensive income statement (OCI) in their MD&A nor in their press releases, which may be explained by the fact that currently there is no clarity on the role of OCI when analysing performance. Despite several attempts, until now the IASB has never defined "performance" in IFRS and therefore, analysts or investors do not usually require information included in the OCI. Consequently, the IASB should reconsider the role of the OCI in financial reporting.

Figure IV. Most frequent APMs reported, all issuers, MD&A and Press Releases (n=18)



4.1.3 Adjusted Measures & Most frequent adjustments made

Adjusted Measures

When the definitions used by issuers differed from the definitions included in the Definition Guide labelled "as reported" – Appendix II, these were codified as "Adjusted". Out of 358 different types of APMs collected, 19% were classified as adjusted measures (Appendix VI). Adjusted Measures represent usually known financial measures that exclude some operating revenues, expenses or costs.

Adjusted measures were presented more frequently in the Energy Sector (30%), Financial (25%) and Consumer Discretionary Sectors (23%).

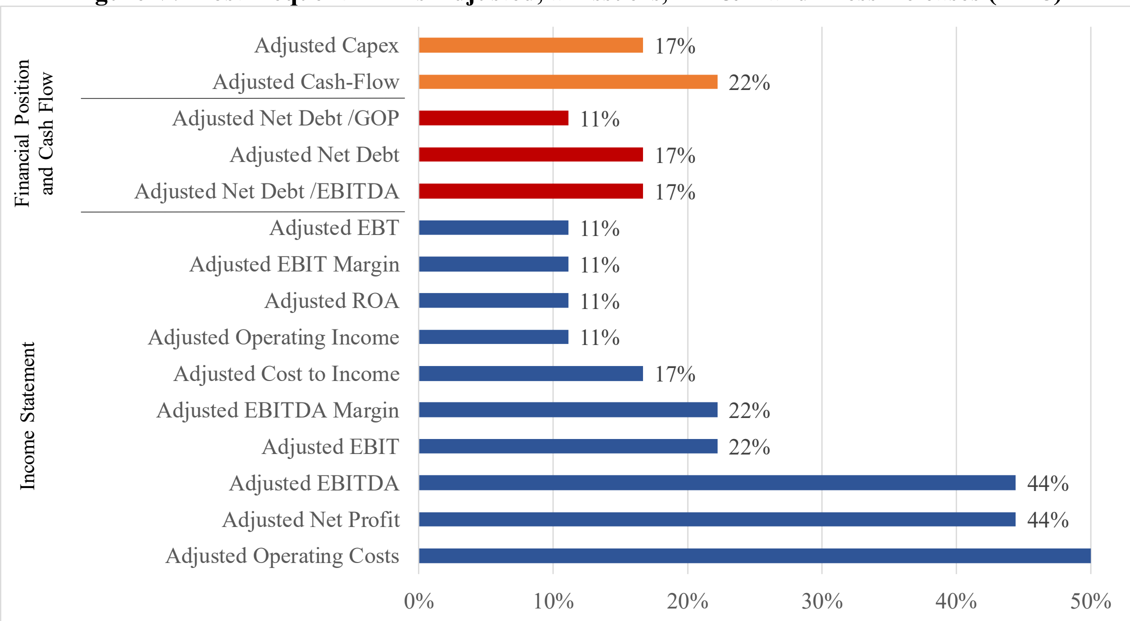
Table V. Number of Adjusted APMs disclosed by Sector, in %

Sectors	N. Adjusted APMs	%
Communications	4	6%
Consumer Discretionary	11	23%
Consumer Staples	10	7%
Energy	21	30%
Financials	17	25%
Materials	6	9%
Total	**69**	**100%**

Consistent with other studies,[38] most of the measures adjusted by Portuguese issuers in press releases and MD&As relate to figures presented in the income statement. Adjusted Operating Costs was presented by 50% of the issuers, while Adjusted Net Profit or Adjusted EBITDA were disclosed by 44% of the issuers in the sample respectively. Adjusted EBIT and Adjusted EBITDA Margin were reported, at least once, by 22% of the issuers included in the sample.

The following graphic shows the most common measures adjusted by issuers included in MD&A and/or press releases.

Figure V. Most frequent APMs Adjusted, all issuers, MD&A and Press Releases (n=18)



Most frequent adjustments made

Reconciling items or the adjustments made differ significantly from one issuer to another even within the same sector of activity. However, what seems to be consistent amongst the companies that adjust GAAP figures is the fact the usually the APM beats the most comparable GAAP figure.

[38] The use of Alternative Performance Measures in Financial Information Current Practice of European Listed Companies (2016 and 2017) Mazars and Jana *et al*. Determinants of Alternative Performance Measures' Disclosure Quality: Evidence from Germany.

The analysis made to Adjusted Net profit and Adjusted EBITDA[39] shows that these measures were on average 107% higher than non-adjusted EBITDA or Net profit as reported in financial statements (Appendix VIII).

This conclusion reflects the fact that most of the adjustments made to GAAP figures or to non-adjusted measures are related to costs or expenses and less are related to income. These findings are consistent to findings in other studies such as Mazars (2016 and 2017), and Young (2014) and Bhattacharya *et al.* (2003). The latter studies concluded that there is an opportunistic behaviour of issuers and a biased use of APMs where management prefers to present higher earnings (e.g. by preferably reporting non-recurring expenses in contrast to nonrecurring earnings or by declaring normal recurring expenses as one-time items), delay losses and generally present financials in a more favourable light with the motive to increase stock valuations and, ultimately, personal benefits.

With regard to the most common adjustments made to GAAP figures by issuers within the PSI 20 Index, it was identified that the most common adjustments made refer to restructuring costs (20%), disposal/acquisition of a businesses (15%),[40] gain or losses in financial instruments and impairment of tangible assets (9%).

Based on the nature of these adjustments, it can be concluded that there is a positive bias on the use of Adjusted APMs with the objective of portraying a rosier picture of the performance of an issuer in a given year which is confirmed by the fact that the impact of the adjustments made led the Adjusted APMs (i.e. Adjusted Net Profit and Adjusted EBITDA) to beat the non-adjusted measures or the comparable GAAP figures.

This does not necessary mean, however, that a specific measure is biased, as most measures analysed excluded both negative and positive aspects of the performance of an issuer.

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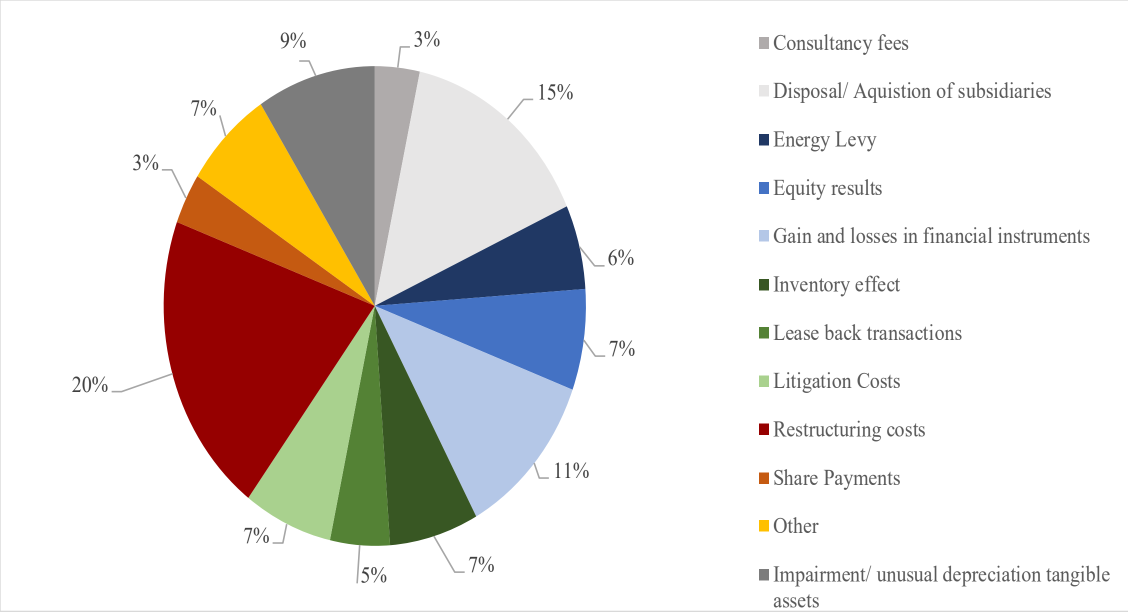
[39] It was analysed these two measures as these measures are often used by analysts and investors to assess performance on an aggregated level (i.e. considering both income and costs items).
[40] Which may be negative or positive.

Figure VI. Most frequent adjustments made to Adjusted Net Profit/ Adjusted EBITDA (n=88)



While some of these adjustments may be explained due to the one-off events, such as disposal/acquisition of subsidiaries (unless the strategy of the issuer is to grow by acquisition), other adjustments are, at least, arguable. Studies have confirmed that,[41] nowadays, restructuring costs occur more often than in the past. In order to remain competitive, issuers need to adapt their business models regularly. Therefore, restructuring costs/impairment of assets related to downsizing of a business segment or closing of operations in certain geographies have become more and more common. In addition, in some cases restructuring programs affect several reporting periods.

Another common adjustment made to non-adjusted APMs (e.g. Net Profit, EBITDA or EBIT) or GAAP figures relate to impairment of goodwill. However, with regard the latter it is often relevant to understand the causes which led to the recognition of impairment in goodwill. Although frequently analysts agree with such adjustments (as they often exclude goodwill from their analysis), impairment of the goodwill is usually connected with a decrease in the profitability of a segment, business unit or operation in a given location. In addition, the recognition of goodwill is, in some cases, related to synergies expected to be achieved after a business combination takes place.

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

Consequently, it may be argued that the recognition of impairment of goodwill is connected with the regular operation of an issuer because it is related to a decrease in the future profitability of an issuer/segment/geography and/or is the result of the fulfilment of synergies arising from a business combination.[42]

More controversial adjustments to APMs than restructuring costs or impairment of goodwill are those which represent recurrent and usual costs/expenses when an issuer undertakes its regular business activities such as consultancy fees, adjustments related inventory or share base payment (which were also observed in this study).

While some studies have considered some adjustments made adequate (Choi *et al.* 2007), it is key that these adjustments are explained in order to allow investors to make their own judgements about their adequacy. It may be argued that for instance, the frequency of occurrence of a given item may not require the use of an adjusted APM, or adjustments to GAAP figures. Instead, if an issuer may provide for the definition of a non-adjusted measure, highlight and describe in the narrative those components that may not be usual in a given year and explain how those items have affected its performance in that year.

4.2 Use of APMs inside financial statements

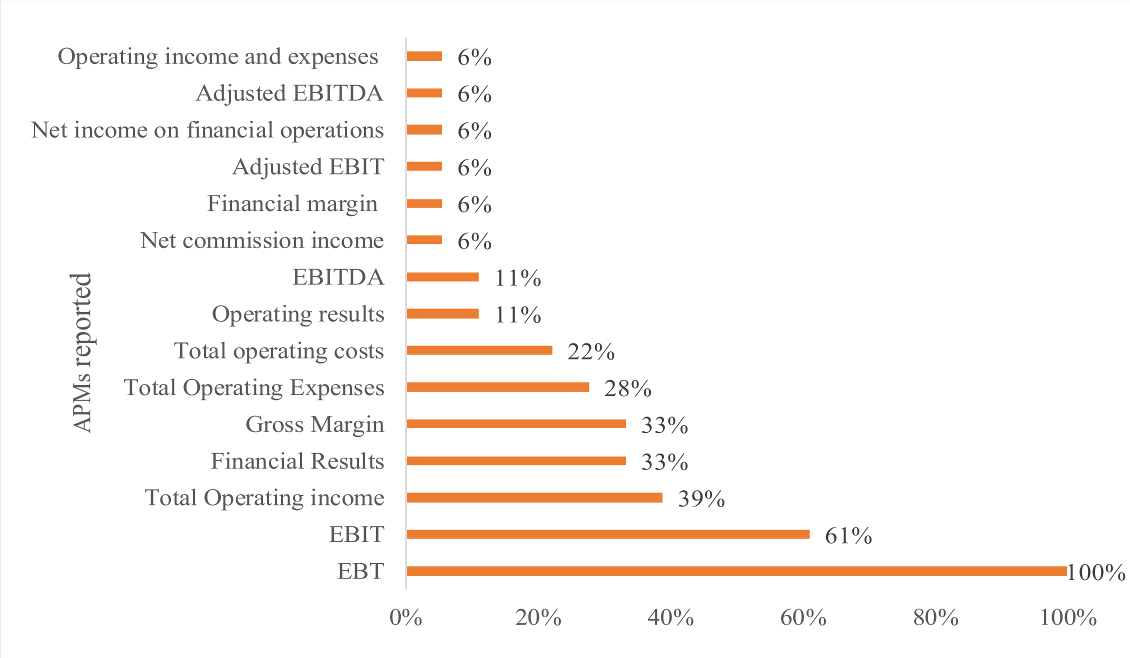
Two aspects were analysed in this study. First, the consistency between the information contained in annual financial statements of 2015 and 2016 to understand if more APMs were included inside financial statements following the entering into force of the Guidelines. No significant changes in the subtotals presented in the 2015 primary financial statements were identified compared with the primary financial statements presented in the following years.

Secondly, the number and the type of APMs presented in the primary financial statements of 2016 and 2017. It was concluded that APMs are also widely used inside financial statements by issuers in PSI 20 Index. All issuers included in the sample reported, at least, one APM on face of the primary financial statements.

[42] Therefore, there is no longer a reason for the recognition of this asset (or part of it) in the statement of financial position.

Although labelled differently, all issuers included EBT inside financial statements.[43] EBIT is reported inside financial statements in 61%, while Total Operating Income is reported as a subtotal in 39% of the cases. Adjusted EBITDA/EBIT was reported inside financial statements in one case by an issuer in PSI 20 Index.

Figure VII. Overview of the APMs disclosed on the face of primary statements, in 2016 annual reports, % total (n=18)

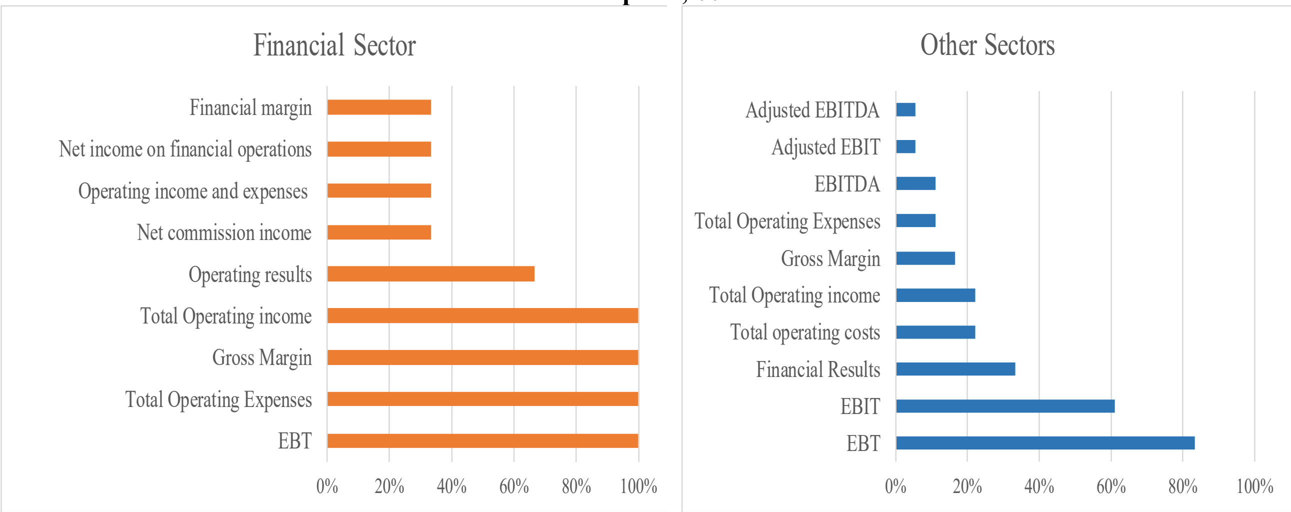


Differences were also observed between the reporting of APMs in the financial sector with others measures used in other sectors. For instance, measures such as EBITDA or EBIT are seldom used in the financial sector. This is easily explained by the fact that these measures establish a clear distinction between the operational and the financing performance of an issuer (e.g. isolating the impact that financial results have in the performance of an issuer). In the case of financial institutions (such as the ones analysed), financing clients and obtaining resources from customers is the operational activity, as such this distinction and these measures do not seem relevant.

Similarities between the financial sector and others sectors are found in relation to EBT, (although labelled differently), Total Operating Income and in Gross Margin, that in the case of the financial sector corresponds to Net Interest Income.

[43] This aspect will be addressed later in this study.

Figure VIII. Overview of the APMs disclosed on the face of primary statements, by sector, in 2016 annual reports, % total



N=3 **N=15**

Consistent with the findings regarding the reporting of APMs outside financial statements, inside financial accounts issuers in the financial sector report more APMs than issuers of other sectors of activity (financial sector on average 6.3 APMs vs 2.7 APMs other segments). The number is however, significantly lower than the report of APMs outside financial statements where, on average, issuers in the financial sector report around 29 APMs.

Although all issuers in the sample report EBT, this measure alone provides low value information in terms of financial analysis when understanding the operational performance of a company. Consequently, taking into consideration the observed sectorial differences in use of APMs and their activities, the IASB should analyse the inclusion in IFRS of measures such as EBIT, Financial Results and EBITDA in the non-financial sector and of Operating Costs and Operating Income in the financial sector.

In this respect, it is important that the IASB investigates where equity method results should be accounted for (i.e. as part of the operational activity of an issuer - within EBIT or outside for example within in the Financial Results). This clarification which is relevant to all sectors would solve the divergence often encountered.[44] In Portugal, all issuers except Sonae and REN, exclude these results from the Operational Results/EBIT caption, which is consistent with the accounting treatment prescribed in the previous GAAP (POC) where these results were presented within financial results.

[44] Mazars (2016 and 2017).

4.3 Compliance of Issuers with the APM Guidelines

This chapter analyses the level of compliance of issuers in PSI 20 Index with the APM Guidelines. For this purpose, and as explained in the methodology, the compliance with the Guidelines was assessed against a compliance checklist developed based on the principles included in the Guidelines and the guidance provided in the Q&As issued by ESMA on the same subject.

4.3.1 Compliance with the APM Guidelines by document and by sector

Table VI. Compliance with APM Guidelines, by issuer, sector and type of document

Empresas	Sector	MD&A	Press Release	Issuer's average
NOS, SGPS	Communications	67%	54%	**61%**
PHAROL	Communications	86%	N/A	**86%**
	Average Communications	**76%**	**54%**	**73%**
CTT CORREIOS PORT	Consumer Discretionary	61%	60%	**61%**
SONAE CAPITAL	Consumer Discretionary	56%	56%	**56%**
	Average Consumer Discretionary	**59%**	**58%**	**58%**
J.MARTINS,SGPS	Consumer Staples	53%	44%	**48%**
SONAE	Consumer Staples	56%	56%	**56%**
	Average Consumer Staples	**55%**	**50%**	**52%**
GALP ENERGIA-NOM	Energy	68%	63%	**65%**
EDP	Energy	86%	75%	**80%**
EDP RENOVAVEIS	Energy	86%	69%	**77%**
REN	Energy	44%	44%	**44%**
	Average Energy	**71%**	**63%**	**67%**
B.COM.PORTUGUES	Financials	72%	70%	**71%**
BPI,SA	Financials	66%	66%	**66%**
MONTEPIO GERAL	Financials	90%	63%	**76%**
	Average Financials	**76%**	**66%**	**71%**
ALTRI SGPS	Materials	50%	50%	**50%**
CORTICEIRA AMORIM	Materials	81%	N/A	**81%**
MOTA ENGIL	Materials	88%	50%	**69%**
SEMAPA	Materials	88%	75%	**81%**
THE NAVIGATOR COMP	Materials	75%	75%	**75%**
	Average Materials	**76%**	**63%**	**71%**
	Total	**71%**	**61%**	**67%**

Overall, issuers in the sample generally comply with the principles included in the Guidelines on APMs (around 67%). The level of compliance is higher in MD&As than in press releases (71% MD&A vs 61% Press releases). This study shows a higher compliance level of issuers in the PSI 20 than the compliance level achieved in Germany (Jana and *al.,* 2017) where on average the issuers analysed achieved a compliance scoring of 57%. These figures are not entirely comparable, as the composition of the sample differs (this study is mostly focused on PSI 20 Index issuers), and the principles analysed also differed. This study also addresses the consistency and neutrality/biased principles which were not considered in the study conducted in Germany.

In fact, the compliance of PSI 20 Index issuers with the Guidelines in press releases is significantly low. Although the Guidelines provide tailored made reliefs to allow an effective application of the Guidelines in press releases, notably, by allowing issuers to include by reference information concerning reconciliations, definitions or explanations, this facility was rarely used or when used by issuers it was not done properly. For example, BPI used this mechanism in the 2016 and 2017 annual MD&As, however, the chapter in those reports addressing the Bank's compliance with the Guidelines did not include a direct link where the missing information could be found, or included references to where the required reconciliations could be consulted.

Overall, low compliance level with the Guidelines by issuers, in particular in relation to press releases, may also be due to a lack of awareness of issuers or to an effective enforcement in case of infringements. In Portugal, is not common that the securities regulator publicises enforcement decisions. This practice has been also referred to by ESMA in its Peer-review Report on the ESMA Guidelines on enforcement of financial information[45] who recommended CMVM to become more visible in the market by using more regularly corrective notes[46] when material enforcement infringements are detected. The fact that only 3 issuers[47] out of 18 make reference to the Guidelines on APMs in their public documents, may indicate that they might not be aware that they should make every effort to comply with these Guidelines in relation to press releases containing financial information, annual and half-year MD&As.

Table VI presents the level of compliance of each issuer in the sample with the Guidelines. It can be observed issuers included in the Communication Sector, followed by Materials and Financials present on average a higher level of compliance with the Guidelines when compared with issuers in the other sectors. It is also relevant to note

[45] European Securities and Markets Authority. 2017. *Peer Review on Guidelines on Enforcement of financial information Report.*

[46] Issuance by an enforcer or an issuer, as initiated or required by an enforcer, of a note making public a material misstatement with respect to particular item(s) included in already published financial information and, unless impracticable, the corrected information. ESMA Guidelines on enforcement of financial information.

[47] Caixa Economica Montepio Geral, BPI, and Jeronimo Martins.

that in the Communication and Materials sectors, issuers report fewer APMs. Issuers in the Communication sector report on average 11 APMs while issuers included in the Materials sector report on average 10.

Issuers in the financial sector are, on the other hand, subjected to a higher level of scrutiny, as they are under the supervision of the securities and prudential regulators and thus, their compliance departments are usually more robust than in other sectors of activity. This may explain a higher level of compliance despite the higher number of APMs reported.

Appendix X also shows that there no significant differences in the levels of compliance of issuers with the Guidelines across periods. Although the information contained in the annual reports is usually more comprehensive than the information contained in the half year reports, no material differences in the level of compliance with the Guidelines between the annual and half year MD&As were observed. This is due to the fact that the information contained in the MD&A concerning financial performance is usually consistent across periods. Annual reports are usually longer than half year reports due to (i) the financial statements which are usually more comprehensive for year-end accounts when compared with interim periods, (ii) corporate governance reports or (iii) sustainability reports and not particularly due to the information contained in MD&As.

Where differences were identified between periods, they tended to be positive. For example in the case of CEMG, BPI or BCP there was an increase in the level of compliance with the Guidelines from 2016 to 2017. In all these cases, this increase in the level of compliance with the Guidelines coincided with the approval of prospectuses. As the Guidelines are also applicable to prospectuses, the NCA approving the prospectus should have mandated their compliance.

Issuers belonging to the same group have also similar compliance levels, for instance EDP and EDPR or the Sonae and SonaeCapital. Small differences exist, however, between the compliance levels of Sonae/SonaeCaptital and NOS which is now is jointly controlled by Sonae. Navigator and Semapa also present small differences in the compliance level with the Guidelines, due to differences in the compliance of both issuers with the reconciliation principle.

4.3.2 Compliance with the APM Guidelines by category of the principles

In this section it is analysed the level of compliance by issuers with the APM Guidelines by category of principles. Taking into account the diversity found between issuers included within the different sectors, the analysis of the results is assessed at the issuer's level and not at sector's level. In this respect it is important to highlight that, in accordance with the methodology followed, an equal scoring of 12.5% was given to each category. Therefore, in order to obtain a maximum scoring in each category, issuers should obtain a 12.5%.

Table VII. Compliance with APM Guidelines by category of principles, by issuer, sector and type of document (part 1)

Companies	Sector	Definitions			Biased/Neutral			Labels		
		MD&A	Press releases	Average	MD&A	Press releases	Average	MD&A	Press releases	Average
NOS	Communications	0%	0%	0%	13%	13%	13%	6%	6%	6%
PHAROL	Communications	13%	N/A	13%	13%	N/A	13%	13%	N/A	13%
Average Communications		**6%**	**0%**	**6%**	**13%**	**13%**	**13%**	**9%**	**6%**	**9%**
CTT	Consumer Discretionary	6%	6%	6%	13%	13%	13%	6%	6%	6%
SONAE CAPITAL	Consumer Discretionary	13%	13%	13%	13%	13%	13%	6%	6%	6%
Average Consumer Discretionary		**9%**	**9%**	**9%**	**13%**	**13%**	**13%**	**6%**	**6%**	**6%**
J.MARTINS	Consumer Staples	3%	0%	2%	13%	13%	13%	6%	6%	6%
SONAE	Consumer Staples	13%	13%	13%	13%	13%	13%	6%	6%	6%
Average Consumer Staples		**8%**	**6%**	**7%**	**13%**	**13%**	**13%**	**6%**	**6%**	**6%**
GALP ENERGIA	Energy	13%	6%	9%	13%	13%	13%	6%	6%	6%
EDP	Energy	13%	13%	13%	13%	13%	13%	13%	13%	13%
EDP RENOVAVEIS	Energy	13%	6%	9%	13%	13%	13%	13%	13%	13%
REN	Energy	0%	0%	0%	13%	13%	13%	6%	6%	6%
Average Energy		**9%**	**6%**	**8%**	**13%**	**13%**	**13%**	**9%**	**9%**	**9%**
B.COM.PORTUGUES	Financials	13%	13%	13%	13%	13%	13%	9%	8%	9%
BPI	Financials	9%	9%	9%	13%	13%	13%	6%	6%	6%
MONTEPIO GERAL	Financials	9%	0%	5%	13%	13%	13%	13%	13%	13%
Average Financials		**10%**	**7%**	**9%**	**13%**	**13%**	**13%**	**9%**	**9%**	**9%**
ALTRI SGPS	Materials	0%	0%	0%	13%	13%	13%	13%	13%	13%
CORTICEIRA AMORIM	Materials	13%	N/A	13%	13%	N/A	13%	6%	N/A	6%
MOTA ENGIL	Materials	13%	0%	6%	13%	13%	13%	13%	13%	13%
SEMAPA	Materials	13%	13%	13%	13%	13%	13%	13%	13%	13%
THE NAVIGATOR	Materials	13%	13%	13%	13%	13%	13%	13%	13%	13%
Average Materials		**10%**	**6%**	**9%**	**13%**	**13%**	**13%**	**11%**	**13%**	**11%**
Total		**9%**	**6%**	**8%**	**13%**	**13%**	**13%**	**9%**	**9%**	**9%**

Definitions

The APM Guidelines require that issuers provide definitions for all APMs used, while most of the issuers published sufficiently detailed information concerning the components of the APMs used, this did not satisfy the requirement to provide definitions as required by the Guidelines. Although presenting tables disaggregating the components of an APM in a given period may satisfy the reconciliation requirement in the Guidelines, definitions for all APMs failed to be provided in the cases of NOS, CTT, JM and Altri. Some compliance issues were also identified in BPI and CEMG in 2016, which were solved in 2017.

The definition principle was less complied with in the cases of press releases than in the cases of MD&As. Definitions are relevant because, when consistent, they allow investors to predict, in advance the presentation of earnings results, the adjustments made to GAAP figures or to non-adjusted APMs. Even in cases where a particular measure is well known, such as EBITDA or EBIT, definitions are important to ensure that there are no deviations to the general known definitions. For example, in the case of JM the definition of EBITDA and EBIT were adjusted to exclude specific items.

It was also not considered compliant with the Guidelines when the definition did not identify all components separately. In several cases, such as JM and CTT, and in some measures reported by EDP and EDPR, there was a general reference to adjustments related to "non-recurring items" whose components were not separately identified in the definition. This "broad concept of definition" does not ensure the consistency and comparability in the presentation of such measures across countries and periods as prescribed in the Guidelines, as issuers may apply the concept of "non-recurring" differently every year depending on whether a specific measure "fits" the purpose.

As also concluded in Bhattacharya *et al.* (2003), the lack of definitions and uniform application of APMs obstruct the comparability of financial information across periods and documents. Therefore, it is key that investors are able to rely on these measures when taking investment decisions and do not perceive that definitions change continuously over time. As such, definitions should be presented in a clear and readable way in order to ensure that consistency is achieved.

<u>Biased/Neutral</u>

A key aspect related to the use of APMs is to ascertain whether issuers use these measures to remove only negative elements of their performance. For this purpose, it was analysed if the definitions indicated or if the adjustments made to GAAP figures (such as net profit) or to non-adjusted measures (such as EBITDA, EBIT) were exclusively to remove negative items of performance.

While it was concluded that, in particular in the case of adjusted measures, most of the adjustments made related to operational costs (please refer to 4.1.3), it was observed that issuers also adjust APMs or GAAP figures to exclude positive elements (income) of their performance (e.g. to remove unusual or infrequent income occurring in given reporting period). For instance, when APMs are disclosed to demonstrate the impacts arising from changes in the issuer's consolidation perimeter (e.g. disposal or acquisition of subsidiaries), issuers disclosed APMs considering the impacts of the transaction regardless whether these impacts were negative or positive.[48]

Although some studies demonstrated that APMs are more frequently used when the GAAP figure misses the target or when there is poor performance of the issuer, this was not backed up by the findings of this study.[49]Even when adjusted APMs are reported, issuers exclude positive elements of their performance and thus, it cannot be concluded that issuers present a biased behaviour towards the use of such adjustments. This conclusion is consistent both in press releases and in MD&As.

Labels

With regard to labels it is important to highlight that it was observed that there is no consistency between the labels used by issuers when reporting APMs, even in situations where the APM aims to depict a similar aspect of the performance of an issuer. This conclusion, consistent with the results of other studies,[50] has the effect of impairing comparability of the financial information disclosed by issuers in PSI 20 Index and in Europe. The lack of consistency between labels used in APMs, which affect similarly financial information included in MD&As, press releases and financial statements is a direct result of an absence of an European framework defining each one of such measures.

[48] For instance in terms of their impact in the profit or loss statement or in terms of impact in the issuer financial position (e.g. increase/decrease of the net debt).
[49] Walker and Louvari (2003) and Isidro and Marques (2015).
[50] Mazars (2016).

Table VIII. Overview of the labels used concerning EBIT, EBT in MD&As

Labels Used (EBT)	%
Earnings before taxes	6%
Income (loss) before taxes	6%
Income before taxes	17%
Net income / (loss) before income taxes	6%
Net income before income tax	6%
Profit before income tax	22%
Profit before income tax and CESE	11%
Profit before tax	17%
Profit/(Loss) before taxation	6%
Profit/(Loss) before taxation from continuing operations	6%
Total	**100%**

N=18

Labels Used (EBIT)	%
Earnings before financial income and taxes	9%
EBIT	18%
Income before financial results and taxes	18%
Operating Income	9%
Operating profit	9%
Operating results	27%
Operational profit/(loss)	9%
Total	**100%**

N=11

The table above illustrate the diversity found in the labelling of APMs for instance in the case of EBIT and EBT.

Additionally, the APMs Guidelines do not define the exact terminology that should be used by issuers when reporting APMs, however, they require that the labels are clear for the reader in order to avoid conveying misleading messages.

With regard to labels, the study focused on three main aspects: (i) use of labels reflecting their content and the basis of calculation (ii) use of labels which are similar in applicable financial reporting frameworks, and therefore investors could interpret an APM as a figure defined by European legislation and (iii) misuse of non-recurring labels of APMs or their components.

With respect to the first aspect considered, the study identified situations where the labels used did not reflect their content or their basis of calculation. For instance, in the case of JM or REN, the performance of the issuer in the MD&As or the press releases is described by using measures such as EBITDA or EBIT.

However, it is necessary to analyse the content of the financial statements/MD&As to understand that these measures are adjusted to exclude from what JM or REN consider as non-recurring events (either positive or negatively). Therefore, the labels that are used when reporting such measures are not faithfully depicting the content of its components. A reader of those documents would consider that an APM labelled as EBITDA would represent (Earnings Before Interest Taxes and Amortisation) or EBIT (Earnings Before Interest and Taxes), but in fact these measures were adjusted to exclude items such as expenses incurred with restructuring costs, impairment of tangible assets or income from sales of tangible assets.

The study also encountered situations where the terminology used for the APMs reported could be confusing when compared with the terms defined and/or specified in the applicable financial reporting framework or other applicable legislation. An example of this situation related to the use of the label "Operating Cash Flow" by Nos, which may be interpreted as "Cash flow from operating activities" which is a term defined by the applicable financial reporting framework (however, the amounts do not match). Similar examples were found in the financial sector where the labels used could not make a clear distinction between ratios set out by issuers on their own initiative and ratios calculated following European prudential regulations (such as CRR/CRD IV or EBA Guidelines) or Banco of Portugal's rules.

The importance of providing meaningful labels is independent of whether the adjustments made are explained, defined or highlighted in the narrative. For example, labels should reflect clearly if the adjustments made also follow the rules arising from European/national legislation. On the contrary, it remains unclear whether some adjustments are in agreement with the applicable legislation. For instance, when ratios exclude the impact of some particular events (e.g. when the cost to income ratio calculation excludes the costs incurred from staff restructuring costs programmes in BCP, BPI or CEMG), it is not sufficient to explain the adjustment. Labels should also give an indication whether these adjustments were made in accordance with the rules applicable and thus, reassuring investors that most likely the respective NCA agrees with such adjustments.

Consequently, it is paramount that, in particular in the financial sector but not exclusively, when APMs are not calculated on the basis of other legislation, the labels distinguish them from those measures that are.

The most relevant issue found with mislabelling by issuers included in the sample related to the labelling of APMs, items or components as "non-recurring". The argument used to exclude income and, most frequently, cost items from the operational activity due to a yearly assessment of the likelihood of recurrence, was not defined or explained in most cases. It is very often debatable, and the Guidelines point in this direction, whether restructuring costs or impairment losses may be labelled as non-recurring. Yet this practice is common amongst issuers included in the sample.

Although the Guidelines or the ESMA Q&As do not provide guidance when APMs or their components may be labelled as "non-recurring", it is difficult to accept that items that are adjusted across years could be classified indefinitely as non-recurring. Restructuring programmes concerning staff layoffs or early retirements are not unusual or infrequent events as they often are prolonged across reporting periods and even if these do not happen every year, the probability that these will occur in the future in some manner or form is very high.

Adjusting business models is part of the game for companies to survive in a competing environment, it shows capacity of an issuer to adapt to a reality in constant mutation and resilience to unforeseen events or advancements in technology. As such, it is difficult to concede that some of these adjustments should not be considered as part of the usual operation of a business.

Nevertheless, even if these adjustments are made based solely on the likelihood of reoccurrence, it is key that labels reflect such principle. According to the SEC Regulation,[51] issuers are prohibited to adjust non-GAAP measures if issuers label items as non-recurring, infrequent or unusual when the nature of the charge or gain is such that it is reasonably likely to reoccur within two years, or there was a similar charge or gain within the prior two years. Portuguese issuers within the sample did not provide information on rationale used when determining that a specific item is considered non-recurring.

Although very often a list of items classified as such is provided, it was also observed that the nature of the items adjusted were very often presented across periods, giving the indication of the persistence of their occurrence.

[51] Question 102.03 of the SEC non-GAAP financial measures (updated in May 2016).

Examples of these items are restructuring costs, impairment of tangibles, litigation costs or, in some rare cases, costs with consultancy fees or share based payments. Some of the issuers in the sample that misclassified items as non-recurring were JM, GALP, CTT, Sonae and SonaeCapital, REN, BCP and BPI (even though BCP and BPI changed their practice).[52]

It is worth mentioning that the above considerations are also valid when APMs are labelled as "recurring", such as in the case of CTT which labels certain measures as "Recurrent EBITDA", "Recurring Operating Costs". This practice gives the impression that all items which are not included in these measures, are, by default, non-recurring.

Examples identified which complied with the label of non-recurring, were situations related to disposal or acquisition of subsidiaries (such was the case of BPI) as its business model is not buying and selling businesses. However, it is important to highlight that even in the case of acquisition or disposal of subsidiaries or businesses it may be misleading to label such adjustments as non-recurring, for instance when the issuer is a venture capital company whose main activity is buying and selling businesses or when the issuer previously communicated to the market that his strategy for the business development is to grow by acquisition.

Finally, issues described above regarding mislabelling were consistent in findings of press releases and MD&As analysis.

[52] In the case of BPI, the Commission de Surveillance du Secteur Financier (Luxembourg Securities regulator) required changes to a prospectus approved to remove/change labels per "non-recurring". BPI, 2017, EUR 7,000,000,000 Euro Medium Term Note Programme Prospectus, pages 198 and followings. http://web3.cmvm.pt/sdi/emitentes/docs/fsd287745.pdf.

Table IX. Compliance with APM Guidelines by category of principles, by issuer, sector and type of document (part 2)

Companies	Sector	Reconciliations			Explanations			Prominence		
		MD&A	Press releases	Average	MD&A	Press releases	Average	MD&A	Press releases	Average
NOS	Communications	11%	11%	11%	0%	0%	0%	13%	0%	6%
PHAROL	Communications	13%	N/A	13%	0%	N/A	0%	13%	N/A	13%
	Average Communications	**12%**	**11%**	**12%**	**0%**	**0%**	**0%**	**13%**	**0%**	**9%**
CTT	Consumer Discretionary	13%	13%	13%	0%	0%	0%	0%	0%	0%
SONAE CAPITAL	Consumer Discretionary	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Average Consumer Discretionary	**6%**	**6%**	**6%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**
J.MARTINS	Consumer Staples	6%	0%	3%	0%	0%	0%	0%	0%	0%
SONAE	Consumer Staples	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Average Consumer Staples	**3%**	**0%**	**2%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**
GALP ENERGIA	Energy	13%	13%	13%	0%	0%	0%	0%	0%	0%
EDP	Energy	11%	0%	5%	0%	0%	0%	13%	13%	13%
EDP RENOVAVEIS	Energy	11%	0%	5%	0%	0%	0%	13%	13%	13%
REN	Energy	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Average Energy	**8%**	**3%**	**6%**	**0%**	**0%**	**0%**	**6%**	**6%**	**6%**
B.COM.PORTUGUES	Financials	0%	0%	0%	0%	0%	0%	13%	13%	13%
BPI	Financials	0%	0%	0%	3%	3%	3%	13%	13%	13%
MONTEPIO GERAL	Financials	9%	0%	5%	9%	0%	5%	13%	13%	13%
	Average Financials	**3%**	**0%**	**2%**	**4%**	**1%**	**3%**	**13%**	**13%**	**13%**
ALTRI SGPS	Materials	0%	0%	0%	0%	0%	0%	0%	0%	0%
CORTICEIRA AMORIM	Materials	13%	N/A	13%	0%	N/A	0%	13%	N/A	13%
MOTA ENGIL	Materials	13%	0%	6%	0%	0%	0%	13%	0%	6%
SEMAPA	Materials	13%	0%	6%	0%	0%	0%	13%	13%	13%
THE NAVIGATOR	Materials	0%	0%	0%	0%	0%	0%	13%	13%	13%
	Average Materials	**8%**	**0%**	**5%**	**0%**	**0%**	**0%**	**10%**	**6%**	**9%**
	Total	**7%**	**2%**	**5%**	**1%**	**0%**	**0%**	**8%**	**5%**	**7%**

Reconciliations

Similar to the studies carried out in Ireland and Norway by their respective regulators, this study also identified shortcomings in the compliance of issuers with the principle included in the Guidelines concerning reconciliations. Very often reconciliations were not provided for a significant number of APMs (e.g. REN, Altri, Sonae, and SonaeCapital) or these were not effective. For instance, very often reconciliations were not given in relation to ratios (identifying both the numerator and denominator), which was a common practice amongst some banks in the sample.[53]

Additionally, in some cases the tables provided in press releases or MD&As did not identify all reconciling items of a given APM or did not identify when these were not extracted from financial statements. For instance, in some case the reconciliation referred to non-recurring items without specifying the respective amounts and their respective comparatives or without including the most directly reconcilable line item included in financial statements (e.g. The Navigator, NOS).

The level of compliance with the reconciliation principle included in the Guidelines significantly decreased from MD&As to press releases. It is important to highlight that when APMs were simultaneously included inside and outside financial statements this

[53] BPI and BCP.

principle was not applicable and thus it was considered that issuers complied with the requirement for the purpose of the scoring.

Studies conducted have demonstrated the importance of providing reconciliations, for instance, Elliott (2006), Marques (2010), Zhang and Zheng, (2011) concluded that a mandated reconciliation provides valuable information for capital markets.

Reconciliations are key to ensure that issuers understand the links between the figures presented inside financial statements with APMs. It is important to highlight that annual financial statements are subject to audit and follow the principles concerning presentation, recognition, measurement and disclosure included in the applicable financial reporting framework. Financial statements are also subjected to enforcement by securities regulators. Therefore, based in all of the above, where reconciliations are provided there should be reassurance regarding the basis upon which these measures are calculated.

Explanations

Except in the case of CEMG,[54] explanations were generally not given by issuers, neither in press releases nor in MD&As. Although some of the measures used are of common knowledge (e.g. EBITDA, EBIT) it is still relevant for investors to understand why and how a given measure is used by the management when they run their business.

The lack of explanations and/or poor disclosure in this area is consistent with studies carried out by European Regulators[55] who have encouraged issuers to provide explanations or to improve the usefulness of the information contained in the explanations given.

The more the APMs used are entity or sector specific the more relevant it is for retail investors to understand their usefulness. For instance, GALP describes its performance using a different measurement basis for their inventory than the one used for the purpose of their financial statements (E.g. RCA EBITDA, RCA Net Income). It is,

[54] In the case of CEMG these explanations were given as of H1 2016 onwards.

[55] Financial Reporting Council. 2016. Corporate Reporting Thematic Review. Alternative Performance Measures. Financial Reporting Council. 2017. Corporate Reporting Thematic Review. Alternative Performance Measures.

therefore, key to understand how these measures are used by the management and why these are relevant for investors and what information they add on to GAAP figures. The same analogy is given to some of measures reported by REN such as “Average Rate of Regulated Asset Base”.

Prominence

The Guidelines require issuers to present APMs with no more prominence that GAAP figures. While the concept of prominence is intrinsically subjective, ESMA has developed a Q&A on this matter and it was based on this Q&A that compliance with the Guidelines was determined. In this respect, compliance of issuers with this principle was assessed taking into account the full content of the press release. If this assessment was made only on the basis of the first page or the main highlights, the level of prominence of APMs compared with GAAP figures would most likely decrease.

The prominence principle was less complied with by issuers in press releases than in MD&As. This conclusion is consistent with the study developed by Mazars in 2017 which also addressed the application of the prominence principle in press releases, MD&As and analysts’ presentations.[56]

While generally issuers complied with the principle of prominence in MD&As, some exceptions were detected. For instance, in the case of JM, REN, CTT, Sonae, Sonacapital, GALP and Altri the description of the performance in MD&As focused on APMs. In the case of REN, CTT, GALP or Sonae performance is assessed based on Adjusted APMs[57] (e.g. Underlying EBITDA/EBIT - Sonae, RCA EBITDA/EBIT – Galp, Recurring EBITDA - CTT).

In the case of JM, Altri, SonaeCapital the analysis of the performance is based on APMs that are not included inside financial statements. The latter is explained in the case of JM by the fact that JM presents the statement of profit or loss by function. Therefore, presenting measures such as EBITDA or EBIT on the face of the primary financial statements would be an infringement to the applicable financial reporting framework.

[56] Mazars. 2017.

[57] Includes the cases where the labels used point to non-adjusted measures such as EBITDA but based on the definitions or the adjustments made these measures are in fact adjusted.

Apart for Net Profit (which in the case of JM is also presented as adjusted) and Turnover/Sales, very few figures directly extracted from financial statements are used to explain its performance or when they are presented they are not given at least equal prominence.

In press releases, the use of APMs was more prominent and prevalent in almost all issuers. Exceptions to this conclusion are Group EDP,[58] Group Semapa,[59] and the three banks.[60] Most of the reasons for this conclusion relate to the fact that APMs reported in press releases are also included inside financial statements and therefore the prominence principle does not apply.[61] In the case of banks, the analysis is focused not only on the profit or loss statement but also on the figures extracted from the statement of financial position (such as Total Loans, Customers, etc).

Non-compliant issuers with this principle presented different practices such as including in the highlights of the press release or the immediate subsequent pages, only APMs, or presenting GAAP figures with less prominence in terms of the font, size or adjectives used. Not describing/analysing with similar emphasis GAAP figures when compared with APMs.

[58] EDP and EDPR.

[59] Semapa and Navigator.

[60] BPI, BCP, Caixa Economica Montepio Geral.

[61] Paragraphs 35 and 36 of the APM Guidelines make a distinction between APMs and measures directly stemming from financial statements which may be themselves APMs as well.

Table X. Compliance with APM Guidelines by category of principles, by issuer, sector and type of document (part 3)

Companies	Sector	Comparatives			Consistency			Issuer Score
		MD&A	Press releases	Average	MD&A	Press releases	Average	
NOS	Communications	13%	13%	13%	13%	13%	13%	61%
PHAROL	Communications	13%	N/A	13%	11%	N/A	11%	86%
	Average Communications	**13%**	**13%**	**13%**	**12%**	**13%**	**12%**	**73%**
CTT	Consumer Discretionary	13%	13%	13%	11%	10%	11%	61%
SONAE CAPITAL	Consumer Discretionary	13%	13%	13%	13%	13%	13%	56%
	Average Consumer Discretionary	**13%**	**13%**	**13%**	**12%**	**11%**	**12%**	**58%**
J.MARTINS	Consumer Staples	13%	13%	13%	13%	13%	13%	48%
SONAE	Consumer Staples	13%	13%	13%	13%	13%	13%	56%
	Average Consumer Staples	**13%**	**13%**	**13%**	**13%**	**13%**	**13%**	**52%**
GALP ENERGIA	Energy	13%	13%	13%	12%	13%	12%	65%
EDP	Energy	13%	13%	13%	13%	13%	13%	80%
EDP RENOVAVEIS	Energy	13%	13%	13%	13%	13%	13%	77%
REN	Energy	13%	13%	13%	13%	13%	13%	44%
	Average Energy	**13%**	**13%**	**13%**	**12%**	**13%**	**12%**	**67%**
B.COM.PORTUGUES	Financials	13%	13%	13%	13%	13%	13%	71%
BPI	Financials	13%	13%	13%	9%	9%	9%	66%
MONTEPIO GERAL	Financials	13%	13%	13%	12%	13%	12%	76%
	Average Financials	**13%**	**13%**	**13%**	**11%**	**11%**	**11%**	**71%**
ALTRI SGPS	Materials	13%	13%	13%	13%	13%	13%	50%
CORTICEIRA AMORIM	Materials	13%	N/A	13%	13%	N/A	13%	81%
MOTA ENGIL	Materials	13%	13%	13%	13%	13%	13%	69%
SEMAPA	Materials	13%	13%	13%	13%	13%	13%	81%
THE NAVIGATOR	Materials	13%	13%	13%	13%	13%	13%	75%
	Average Materials	**13%**	**13%**	**13%**	**13%**	**13%**	**13%**	**71%**
	Total	**13%**	**13%**	**13%**	**12%**	**12%**	**12%**	**67%**

<u>Comparatives</u>

All issuers in the sample complied with the principle included in the Guidelines concerning comparatives because comparatives to all APMs used were provided, even in cases where new APMs were added to a document during that reporting period (i.e. the APM was not included in the equivalent document of the previous reporting period). Nevertheless, it is important to highlight often annual reports start with key messages from the management describing the performance of an issuer. In these key messages usually APMs are included without comparatives. While this introductory part is followed by detailed information and in some cases there are references to variations of these APMs between periods (e.g. an increase of 20% of EBITDA compared with last year), this is not fully compliance with the Guidelines. In this study, the existence of comparatives was assessed *vis a vis* the information disclosed in the MD&A related to financial performance (e.g. excluding this introductory section).

<u>Consistency</u>

Overall the APMs used were consistent across periods and documents. In this respect, to assess the level the compliance by issuers with the Guidelines. In respect of this principle the number, the APM used and the components of these APMs across periods were analysed.

Apart from some exceptions such as BPI or Pharol, issuers in the sample presented APMs consistently. The referred issuers added or excluded some APMs across the periods in the analysis and did not provide information on why these measures were added or excluded. While some additions are self-explanatory such as in the case of Pharol where the APMs used related to deconsolidation,[62] in the case of BPI it was not evident. BPI included ratios in the 2017 press releases and MD&A (which were not reported in 2016). While the labels used in those ratios indicate that these were consistent with ratios used and determined by its major shareholder (Caixabank), the reasons for such inclusions and why such ratios are relevant were not disclosed.[63]

[62] In the case of Pharol, the investment in the associate Oi accounted for as equity method was discontinued in 2017 following the loss of significant influence under IAS 28 *Investments in Associates and Joint Ventures*.

[63] Paragraph 42 and 43 of the Guideline on APMs.

5. Conclusions

The ESMA Guidelines on APMs entered into force in 2016 and currently constitute the framework that guide the disclosure of financial measures in documents published by European issuers admitted to trading on regulated markets. The ESMA Guidelines are almost akin to a binding regulation that all listed issuers should comply with when presenting APMs in press releases, MD&As or prospectuses.

While the use of APMs has been addressed several times in the past by academics, consultancy firms or regulators, most studies have focused on the effects that the presentation of such measures have in the decision making process of investors or in the share prices of issuers. Few empirical studies have focused on the transparency and quality of the information regarding APMs that issuers publish to the market and the compliance of issuers with the guidance issued (in most of the case by regulators) on these matters.

Although the use of APMs has been, over the years, one of the most relevant enforcement topics in the US, only recently have European regulators started widely assessing the quality of the information attached to APMs. Issuers have increasingly become more scrutinised with respect to the use of APMs and there is a strong demand from analysts and associations of investors for a heavy and co-ordinated action from regulators against issuers when this quality does not meet expected standards and/or is misleading. In addition, internationally there is increased attention from the accounting standard setter with respect to measures presented inside and outside financial statements.

In the aftermath of several financial scandals which occurred in Portugal over the past few years, which led certain relevant players previously trading on regulated markets to bankruptcy, it is key to assess the use of APMs and the level of compliance of issuers within the PSI 20 Index with the recently issued Guidelines in MD&As and press releases. The study aimed at understanding how and to which extent issuers included in PSI 20 Index used such measures, identifying similarities by sectors on the measures reported, adjustments made and labels used. The study also intended to provide an overview of practices that should be improved towards compliance and to contribute to the debate on the use of such measures and on the most recurring adjustments made.

This study demonstrated that, as is the case in other countries, the use of APMs is widespread amongst PSI 20 Index issuers, their use is cross sectorial and throughout all documents published to the market with financial information. All issuers in the sample make use of APMs both inside and outside financial statements in order to better depict their performance. Amongst sectors, issuers in the financial sector, followed by issuers in the energy and consumer stables sectors, publish the most APMs.

Although most of the APMs used are generally known, frequently Portuguese issuers adjust such measures to exclude items from their financial performance. Most items which are excluded relate to what issuers' label as "non-recurring" items such as restructuring and litigation costs and/or impacts related to disposals and acquisition of companies. These adjustments showed that, on average, adjusted APMs outperformed the equivalent GAAP or non-adjusted figure, demonstrating a tendency confirmed by other studies to present a more optimistic or rosier portrayal of the issuer's performance.

Among the measures most commonly used, EBT, EBIT, EBITDA and Financial Results are the most frequently used by industrial companies, while Operating Results, Total operating income and costs and prudential ratios are the most common used in the financial sector. This should provide an indication to the IASB which APMs they should define inside financial statements and also, taking into account the differences identified in the use of APMs in both the financial and the industrial sectors, whether separate measures should be defined based on the differences noted in these two main sectors of activity.

With respect to the level of compliance of Portuguese issuers with the ESMA Guidelines on APMs, it was concluded that there is significant room for improvement. Overall the compliance level of Portuguese issuers reached around 67% and it was higher in the MD&As (71%) than in press releases (61%). Sectors wise, communication, material and financials presented the highest scores and consumer staples the lowest.

Very seldom did Portuguese issuers comply in full with the explanations, reconciliations and prominence principles in the Guidelines (the latter ones mainly in press releases). Those principles with which a higher level of compliance was demonstrated which could still be improved are the principles concerning definitions and labels. Overall, a good level of compliance was observed in relation to comparatives, consistency and neutrality of the measures reported. The study included insights concerning the compliance of individual issuers with the Guidelines, providing them, and other issuers not included in the sample, with the opportunity to improve their practices in a way which will facilitate improvements towards compliance and consequently will aide in avoiding enforcement actions.

In the context of a market where confidence is low due to the recent financial scandals and where issuers continue to prefer to obtain finance from banks than listing on the regulated market, transparency and enforcement of financial information is paramount to bring back investors to the Portuguese financial market. In this respect, there is a role to play for all market participants: issuers to provide transparent information; auditors and regulators to ensure that compliance with the standards and regulations is effective; analysts and investors to demand for quality and apply pressure on the management of issuers to continuously improve their financial reporting.

The study has to be interpreted in light of several limitations. The first relates to the sample characteristics. It focuses on the PSI 20 Index and, as such no direct statistical inferences may be drawn in relation to the other companies listed in the Portuguese regulated market or non-listed companies without further corroborating evidence. Taking also into consideration the known differences between financial culture and enforcement systems in Europe, even if most of the conclusions are consistent with studies conducted in other European countries, it is difficult to extrapolate to other jurisdictions. The compliance index was self-constructed, based on the ESMA Guidelines and Q&As. Taking into consideration that quality remains an abstract construct, other quality or compliance disclosures and indexes as well as other approaches to measure the compliance of issuers with the Guidelines or the quality level of APMs disclosures may be justifiable and may lead to different outcomes.

This study provided an overview on the use of APMs in the PSI 20 Index and the compliance of issuers with the ESMA Guidelines, other suggestions related to the use of APM and the adequacy of the ESMA Guidelines for research may be envisaged. For instance, taking into account the findings of this study and the work ongoing by the IASB, it would be relevant to study at European Level, the APMs used, the nature and extent of the adjustments made to GAAP figures or to non-adjusted APMs by sector of activity. This would provide for an understanding of the main drivers for the use of APMs and if adjustments in the accounting standards are needed. In this respect, it is important to emphasise that the sectors represented in the PSI 20 index are very limited and composed of few companies, therefore it is difficult to extrapolate conclusions regarding the use of APMs by sectors to other countries.

When it comes to the application of the Guidelines, it is suggested to study the level of compliance of issuers outside the PSI 20 index in Portugal to understand if the size of a company influences the level of compliance or the quality of disclosures. In addition, a study focused on the application of the Guidelines in prospectuses in Europe, before and after the Guidelines entered into force could also be envisaged in order to understand if differences in reporting are observed. It might be also relevant to extend the sample of this study to other European countries and compare the compliance of European issuers with the Guidelines on APMs with the compliance of the US issuers with their respective regulation. Finally, as previous studies in the US have demonstrated, the introduction of legal requirements on the use of APMs and their effective enforcement had a positive effect on the quality of the information disclosed to the market, a similar study could be developed at the European level.

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APPENDICES

APPENDIX I – Composition of Sectors

INDEX METHODOLOGY- Global Fixed Income- Bloomberg

TABLE 3 – BICS CLASSIFICATION HIERARCHY

SECTOR (LEVEL 1)	INDUSTRY GROUP (LEVEL 2)
Communications	Cable & Satellite
	Entertainment
	Media Non-Cable
	Wireless Telecom Services
	Wireline Telecom Services
Consumer Discretionary	Airlines
	Apparal & Textile Products
	Automotive
	Casinos & Gaming
	Consumer Services
	Distributors
	Educational Services
	Entertainment Resources
	Home & Office Products
	Home Builders
	Home Improvements
	Leisure Products
	Restaurants
	Travel & Lodging
Consumer Staples	Consumer Products
	Food & Beverage
	Retail Staples Supermarkets
	Tobacco
Energy	Exploration & Production
	Integrated Oils
	Oil & Gas Services
	Pipeline
	Refining & Marketing
	Renewable Energy
Financials	Banking
	Commercial Finance
	Consumer Finance
	Financial Services
	Life Insurance
	Property & Casualty
	Real Estate

SECTOR (LEVEL 1)	INDUSTRY GROUP (LEVEL 2)
Health Care	Health Care Facilities & Services
	Managed Care
	Medical Equipment & Devices
	Pharmaceuticals
Industrials	Aerospace & Defense
	Electrical Equipment
	Industrial Other
	Machinery
	Manufactured Goods
	Railroad
	Transportation & Logistics
	Waste & Environment Services Equipment & Facilities
Materials	Chemicals
	Construction Materials
	Construction & Packaging
	Forest & Paper Products
	Metals & Mining
Technology	Communications Equipment
	Hardware
	Software & Services
Utilities	Utilities
Government	Sovereign
	Government Agency
	Government Regional/Local
	Supranational
	Development Bank
	Winding Up Agency

APPENDIX II Non-Adjusted Measures according to EFFAS Guide

EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES - EFFAS Definition Guide

Sales:	Published consolidated net sales, excluding other revenues
Gross Profit	Sales minus Cost of Goods sold (for manufacturing companies) or Cost of Services provided (for service companies), before Personnel Expenses.
Cost of Sales and Operating Costs (including Personnel Expenses)	This item includes the company's main operative costs including Personnel Expenses (shown separately below) such as: cost of sales, selling expenses, general and administrative expenses, research and development expenses, service costs and all the other recurrent operating costs.
Personnel Expenses	Wages and salaries, social security contributions, severance pay costs, costs related to other defined benefit plans, costs related to defined benefit plans, employee disputes, reorganisation costs, other costs
EBITDA (Reported)	EBITDA = Earnings Before Interest, Tax, Depreciation & Amortisation. EBITDA is defined as operating result after non-recurring operating items (e.g. restructuring costs, start-up costs, etc.), before Depreciation, Amortisation & Write Downs, before Interest (also on pension provision for Germany), Associates & Tax. EBITDA = Sales - Cost of Sales and Operating Costs (including Personnel Expenses) -/+ Non Recurrent Expenses (Income).

EBIT (Reported)	EBIT = Earnings Before Interest and Tax. EBIT is defined as operating result after Depreciation, Amortisation, Provisions, Write Downs and Impairments, before Interest (also on pension provision for Germany), Associates & Tax. EBIT (Reported) = Sales - Cost of Sales and Operating Costs (including Personnel Expenses) -/+ Non Recurrent Expenses (Income) - Depreciation – Amortisation – Provisions, Write Downs and Impairments
Earnings Before Tax (EBT) Earnings Before Tax or Pre-Tax Profit.	EBT = EBIT – Net Financial Interest -/+ Other Financials +/- Associates +/- Other Non Recurrent Items
Net Profit (reported)	Net Profit (reported) = reported earnings after Discontinued Operations, after Tax but before Minorities.
Capex (Gross Capex)	Total Capital Expenditure sum of Maintenance Capex and New Investments Capex (or growth Capex).
Free Cash Flow (FCF) or Cash Flow to Equity	FCF = OpFCF – Net Financial Interest – Growth Capex +/- Net Financial Investments/Divestments (+ Divestments – Financial Investments).
Net Working Capital (NWC) – Detailed definition	Inventories + Trade Receivables + Other Receivables and other Current Assets - Current Liabilities - Provisions and Deferred Taxes.
Net Debt (Net Financial Debt) - Reported	Long-term financial debt + short-term financial debt - cash - cash equivalents.
Net Capital Employed (CE) or Net Total Assets	CE = Net Fixed Tangible Assets + Net Fixed Intangible Assets (excluding Goodwill) + Goodwill + Net Financial Assets + Net Working Capital.

Net Capital Invested (CI) or Net Total Liabilities	CI = Shareholders' Equity+ Minorities Equity + Provisions + Net Debt + Other Net Liabilities (or - Other Net Assets).
Net Capital Employed (CE) = Net Capital Invested (CI)	
Earnings Per Shares	Calculated in accordance with IAS 33 Earnings per share
EBITDA Margin or EBIT margin (%)	EBITDA or EBIT divided by Sales.
ROE (adj.) (%)	Net Profit (adj.) divided by Shareholders' Equity (end period).
ROCE (adj.) (%)	ROCE (adj.) = NOPLAT / (CE – Net Financial Assets) = [EBIT (adj.) *(1-Normative Tax Rate)] / (Capital Employed – Net Financial Assets)
Gearing (%)	[D/(D+E)] Debt divided by the sum of Equity and Net Debt.
Net Debt / EBITDA	Net Debt divided by EBITDA.
Net Interest income	Difference between interest payments received on loans outstanding and interest payments made to customers on their deposits.
Commissions	Difference between commission received and commission paid on banking fees, dealing fees, fees on assets under management etc.
Operating Costs	Sum of personnel costs, general & administrative expenses and amortization and depreciation on tangible and intangible assets. It may also include integration costs. It also includes the IFRS "Non-Operating Provisions" made for risks, not related to the loan book.
Operating Profit (OP)	Operating Profit = Pre-Provision Profit – Loan Impairment Charges

Earnings Before Tax (EBT)	Earnings Before Tax = Operating profit + Other Income/Loss (Non Recurring Items) + Results from Financial Investments + Associates.
Customer Deposits	These include only the deposits from customers (excluding banks).
Assets Under Management	Off-balance assets managed by the company for third parties. The value of those assets is based on market prices.
Cost/Income	Cost/Income is total Operating Costs divided by total Banking Revenues.
Loans/Deposit Ratio	Customer Loans divided by Customer Deposits.
ROTE % (Return on Tangible Equity)	Net Profit (adj.) divided by the two-year (according to fiscal year end) average of Tangible Book Value (Goodwill adj.).

APPENDIX III – Number of APMs identified by Issuer, Period and Type of Document

	Issuers																	
Documents	**Altri**	**BCP**	**BPI**	**CEMG**	**CA**	**CTT**	**EDP**	**EDPR**	**Galp**	**JM**	**ME**	**Navigator**	**NOS**	**Pharol**	**REN**	**Semapa**	**Sonae**	**SonaeCapital**
Annual 2016	9	30	36	22	12	21	17	19	14	14	10	17	16	3	17	8	21	15
Annual 2017	9	32	36	25	11	15	19	19	18	15	10	17	16	4	17	9	23	14
Half 2016	9	31	29	20	11	14	15	16	14	14	10	11	16	3	15	8	23	15
Half 2017	9	28	29	24	10	13	13	16	15	13	10	12	16	3	15	8	21	15
Average MD&A	**9**	**30**	**33**	**23**	**11**	**16**	**16**	**18**	**15**	**14**	**10**	**14**	**16**	**3**	**16**	**8**	**22**	**15**
PR Annual 2016	11	28	21	16	-	19	17	17	15	17	16	12	16	-	22	8	23	15
PR Annual 2017	11	27	24	15	-	12	17	20	14	17	15	12	16	-	22	9	23	14
PR Half 2016	8	30	18	17	-	16	18	16	14	18	16	20	16	-	22	8	23	15
PR Half 2017	10	28	27	14	-	12	18	16	15	19	15	12	16	-	22	8	22	15
Average Press Releases	**10**	**28**	**23**	**16**	**-**	**15**	**18**	**17**	**15**	**18**	**16**	**14**	**16**	**-**	**22**	**8**	**23**	**15**
Average issuer	**10**	**29**	**27**	**19**	**11**	**15**	**17**	**17**	**15**	**16**	**13**	**14**	**16**	**3**	**19**	**8**	**22**	**15**

APPENDIX IV – Total of different APMs identified (Part 1)

APMs	N. of Issuers
EBT	18
Net Debt	14
EBIT	13
EBITDA	13
Capex	13
Financial results	13
Net Debt/EBITDA	11
Free cash-flow	10
Adjusted Operating costs	9
Adjusted EBITDA	8
Gross profit/ Trading margin	8
EBITDA Margin	8
Operating Costs	8
Adjusted net profit	8
Market Ratios	6
Invested Capital	6
Gross Debt	6
Other (please provide details)	5
Gearing	5
Non- recurring items	4
Adjusted EBITDA Margin	4
Adjusted Cash-flow	4
Adjusted EBIT	4
ROE	4
Off-Balance sheet resources	3
Net interest margin %	3
ROCE	3
EBIT Margin	3
Net operating Revenue	3
Adjusted Capex	3
Other Asset quality APMs	3
Cost of credit risk	3
Net commissions	3
Equity/Assets	3
Net operating income before impairment	3
Funds from operations	3
Cost to income	3
Adjusted Net Debt	3
Credit at risk coverage ratio	3
Working Capital	3
ROA	3
Loans to customers /Customer Deposits	3
Adjusted cost to income	3
Adjusted Net Debt /EBITDA	3
Liquidity ratio	3
Loans to customers (gross)	3
Operating Profit as % of Turnover	2
Adjusted EBIT Margin	2
Total Customer Resources	2
Economic Value Generated	2
Operating earnings/income/ Results of operating activities	2
Adjusted EBT	2
Overdue loans ratio	2
% EBITDA Regulated /LT Contracted	2
Adjusted Net Debt /GOP	2
Impairment Losses/ Total loans	2
EBITDA/Interest	2
Balance sheet customer funds	2

APPENDIX IV – Total of different APMs identified (Part 2)

APMs	N. of Issuers
Operating Income	2
LFL	2
Other efficiency ratios	2
Adjusted Operating income	2
ROIC	2
Loan-to-value	2
Total interest bearing liabilities	2
Capital employed	2
Adjusted ROA	2
Overhead costs	1
Intermediation margin	1
Business turnover	1
Assets under management	1
Debt/Equity	1
Adjusted EPS	1
Liquidity	1
Capex/total assets	1
Loans to customers (net)	1
NAV	1
OPEX/Gross operating profit	1
Backlog	1
Other profitability ratios	1
Funds from Operations/ Netdebt	1
Adjusted Solvency Ratio	1
Net Debt/ Invested capital	1
ROTE	1
Adjusted net income	1
Total Interest earning assets	1
Net income on financial operations	1
Average RAB (at reference costs)	1
EBITDA/Share	1
OPEX/Gross Margin	1
ARPU	1
Adjusted ROTE	1
Earnings on construction (excl. own works capitalised in investment- concessi	1
FFO/interest coverage	1
Adjusted Free Cash-flows	1
Financial leverage	1
Coverage of NPL By impairments	1
Revenues from Opex	1
NPE Coverage ratio	1
Adjusted Turnover	1
NPE Ratio	1
RoR is equal to the specific asset remuneration,divided by the average RAB	1
NPL Ratio	1
Solvency ratio	1
Coverage ratio (overdue loans>90 days)	1
Adjusted Cost of credit risk	1
Open Market Value	1
Transfers to RAB (at historic costs)	1
Adjusted net interest margin %	1
Adjusted Gearing	1
Construction Costs - Concession Assets	1
Net operating income	1
Own works (capitalised in investment)	1
Adjusted ROE	1
Coverage NPL	1
Total of Diferent APMs	**358**

APPENDIX V – Total Non-Adjusted APMs Identified (Part 1)

Non Adjusted APMs	N. Issuers
EBT	18
Net Debt	14
EBITDA	13
Capex	13
EBIT	13
Financial results	13
Net Debt/EBITDA	11
Free cash-flow	10
EBITDA Margin	8
Operating Costs	8
Gross profit/ Trading margin	8
Market Ratios	6
Gross Debt	6
Invested Capital	6
Gearing	5
Other (please provide details)	5
ROE	4
Non- recurring items	4
Net interest margin %	3
ROA	3
Liquidity ratio	3
Credit at risk coverage ratio	3
Working Capital	3
Net operating Revenue	3
Net operating income before impairment	3
Off-Balance sheet resources	3
Cost of credit risk	3
Loans to customers /Customer Deposits	3
Funds from operations	3
Equity/Assets	3
Other Asset quality APMs	3
Net commissions	3
ROCE	3
EBIT Margin	3
Cost to income	3
Loans to customers (gross)	3
Economic Value Generated	2
ROIC	2
Capital employed	2
LFL	2
Total interest bearing liabilities	2
Operating earnings/income/ Results of operating activities	2
Overdue loans ratio	2
Operating Income	2

APPENDIX V – Total Non-Adjusted APMs Identified (Part 2)

Non Adjusted APMs	N. Issuers
% EBITDA Regulated /LT Contracted	2
Operating Profit as % of Turnover	2
Total Customer Resources	2
Balance sheet customer funds	2
Impairment Losses/ Total loans	2
EBITDA/Interest	2
Other efficiency ratios	2
Loan-to-value	2
Total Interest earning assets	1
Business turnover	1
Other profitability ratios	1
Net operating income	1
ROTE	1
Average RAB (at reference costs)	1
Construction Costs - Concession Assets	1
Backlog	1
Overhead costs	1
ARPU	1
Debt/Equity	1
NPE Coverage ratio	1
Assets under management	1
NPE Ratio	1
Funds from Operations/ Netdebt	1
NPL Ratio	1
Own works (capitalised in investment)	1
Intermediation margin	1
Financial leverage	1
Open Market Value	1
Revenues from Opex	1
EBITDA/Share	1
NAV	1
Coverage NPL	1
RoR is equal to the specific asset remuneration,divided by the average RAB	1
Liquidity	1
Solvency ratio	1
Coverage of NPL By impairments	1
Net Debt/ Invested capital	1
OPEX/Gross Margin	1
Transfers to RAB (at historic costs)	1
OPEX/Gross operating profit	1
Net income on financial operations	1
Coverage ratio (overdue loans>90 days)	1
Earnings on construction (excl. own works capitalised in investment- concession assets)	1
Loans to customers (net)	1
Capex/total assets	1
FFO/interest coverage	1
Total	**289**

APPENDIX VI – Total Adjusted APMs Identified

Adjusted APMs	N. Issuers
Adjusted Operating costs	9
Adjusted net profit	8
Adjusted EBITDA	8
Adjusted Cash-flow	4
Adjusted EBIT	4
Adjusted EBITDA Margin	4
Adjusted Capex	3
Adjusted cost to income	3
Adjusted Net Debt /EBITDA	3
Adjusted Net Debt	3
Adjusted Operating income	2
Adjusted Net Debt /GOP	2
Adjusted ROA	2
Adjusted EBIT Margin	2
Adjusted EBT	2
Adjusted ROTE	1
Adjusted Cost of credit risk	1
Adjusted Turnover	1
Adjusted net interest margin %	1
Adjusted ROE	1
Adjusted Free Cash-flows	1
Adjusted Solvency Ratio	1
Adjusted EPS	1
Adjusted net income	1
Adjusted Gearing	1
Total	**69**

APPENDIX VII – APMs included on the face of the primary financial statements

Labels of APMs in Financial Statements	Type of APM	Issuer
NET INTEREST INCOME,	Gross Margin	BCP
TOTAL OPERATING INCOME	Total Operating income	BCP
TOTAL OPERATING EXPENSES	Total Operating Expenses	BCP
OPERATING NET INCOME BEFORE PROVISIONS AND I	Operating results before provisions and impairmen	BCP
NET OPERATING INCOME / (LOSS)	Operating results	BCP
NET INCOME / (LOSS) BEFORE INCOME TAXE	EBT	BCP
Profit before income tax	EBT	Altri
Financial margin (narrow sense)	Gross Margin	BPI
Financial margin	Financial margin	BPI
Net commission income	Net commission income	BPI
Net income on financial operations	Net income on financial operations	BPI
Operating income and expenses	Operating income and expenses	BPI
Operating income from banking	Total Operating income	BPI
Overhead costs	Total Operating Expenses	BPI
Net income before income tax	EBT	BPI
Net interest income	Gross Margin	CEMG
Total operating income	Total Operating income	CEMG
Operating profit	Operating results	CEMG
Total Operating Expenses	Total Operating Expenses	CEMG
Profit before income tax	EBT	CEMG
Current EBITDA	Adjusted EBITDA	CA
Current EBIT	Adjusted EBIT	CA
Profit before income tax	EBT	CA
Operating costs	Total operating costs	CTT
Total Revenues	Total Operating income	CTT
Earnings before financial income and taxes	EBIT	CTT
Earnings before taxes	EBT	CTT
N/A	EBITDA	EDP
EBIT	EBIT	EDP
Profit before income tax and CESE	EBT	EDP
N/A	Total Operating Expenses	EDP
N/A	Gross margin	EDP
N/A	EBITDA	EDPR
EBIT	EBIT	EDPR
Profit before income tax and CESE	EBT	EDPR
N/A	Total Operating Expenses	EDPR
N/A	Gross margin	EDPR
Total operating income	Total operating income	GALP
Total operating costs	Total operating costs	GALP
Operating income	EBIT	GALP
Income before taxes	EBT	GALP
Gross profit	Gross Margin	JM
Operating profit	EBIT	JM
Profit before taxes	EBT	JM
Income before taxes	EBT	ME
Operating results	EBIT	Navigator
Net financial results	Financial Results	Navigator
Profit before taxes	EBT	Navigator
Income (loss) before financial results and taxes	EBIT	Pharol
FINANCIAL LOSSES AND (GAINS)	Financial Results	Pharol
Income (loss) before taxes	EBT	Pharol
Total Operating income	Total Operating income	NOS
INCOME BEFORE FINANCIAL RESULTS AND TAXES	EBIT	NOS
Financial Results	Financial Results	NOS
INCOME BEFORE TAXES	EBT	NOS
Total operating costs	Total operating costs	NOS
Operating income	Total Operating income	REN
Operating costs	Total operating costs	REN
Operating results	EBIT	REN
Profit before income tax	EBT	REN
Financial results	Financial results	REN
Operating results	EBIT	Semapa
Net financial results	Financial Results	Semapa
Profit before taxes	EBT	Semapa
Profit/(Loss) before taxation from continuing operations	EBT	Sonae
Operational profit/(loss)	EBIT	SonaeCapital
Profit/(Loss) before taxation	EBT	SonaeCapital
Net financial income / (expenses)	Financial Results	SonaeCapital

APPENDIX VIII – Adjusted Measures – Main Adjustments Made & Impact of such Adjustments Made (part 1)

Company	Type of APMs	Labels	2017 Annual Management Report				Descriptions Adjustements			
			GAAP Figure	APM	Difference	%	Main Adjustment 1	Main Adjustment 2	Main Adjustment 3	Main Adjustment 4
Corticeira Amorim	Adjusted EBITDA	recurrent EBITDA	130,681	133,594	2,913	2%	Litigation Costs	Restructuring Costs		
CTT	Adjusted EBITDA	Recurrent EBITDA	81,138	89,906	8,768	11%	Restructuring Costs	Consultancy fees	Share Base payments	
EDP	Adjusted EBITDA	Recurring EBITDA	3,990	3,523	-467	-12%	Restructuring Costs	Disposal/ Aquisition of subsidiaries		
EDPR	Adjusted EBITDA	Recurring EBITDA	1,366	1,339	-27	-2%				
Galp	Adjusted EBITDA	RCA EBITDA	1,980	1,869	-111	-6%	Restructuring costs	Inventory effect	Litigation costs	Disposal/ Aquisition of subsidiaries
Sonae	Adjusted EBITDA	Underlying EBITDA	396	336	-60	-15%	Equity results			
Sonae Capital	Adjusted EBITDA	EBITDA, excluding guaranteed income Provisions (1)	21	21	0	2%	Other(Provisions with real state costs)			
Corticeira Amorim	Adjusted EBITDA	Recurrent EBITDA	118	122	4	4%	Litigation Costs	Restructuring Costs		
CTT	Adjusted EBITDA	Recurrent EBITDA	102,053	119,499	17,446	17%	Restructuring Costs	Share Base Payments	Impairment/ unusual depreciation tangible assets	Consultancy fees
EDPR	Adjusted EBITDA	Recurring EBITDA	1,171	1,184	13	1%				
Galp	Adjusted EBITDA	RCA EBITDA	1,489	1,411	-78	-5%	Restructuring Costs	Inventory effect	Litigation costs	Restructuring Costs
Sonae	Adjusted EBITDA	Underlying EBITDA	409	315	-94	-23%	Equity results	Lease back transactions		Other (Tax previous)
Sonae Capital	Adjusted EBITDA	EBITDA, excluding guaranteed income Provisions (1)	31	31	0	0%				
BPI	Adjusted net profit	Net income excluding non-recurring items	10	399	389	3890%	Restructuring Costs	Disposal/ Aquisition of subsidiaries		
EDP	Adjusted net profit	Adjusted net profit	1,113	845	-268	-24%	Restructuring Costs	Disposal/ Aquisition of subsidiaries		
EDPR	Adjusted net profit	Adjusted Net Profit	276	226	-50	-18%	Impairment/ unusual depreciation tangible assets	Other (tax)		
Galp	Adjusted net profit	RCA net income	614	602	-12	-2%	Inventory effect	Gain and losses in financial instruments	Gain and losses in financial instruments	
Pharol	Adjusted net profit	Recurrent net profit	-807	-14	793	-98%	Gain and losses in financial instruments	Other (Impact of IAS 29)		
REN	Adjusted net profit	Recurring Net income	126	155	29	23%	Energy Levy	Disposal/ Aquisition of subsidiaries		
Sonae	Adjusted net profit	Direct Results	174	132	-42	-24%	Impairment/ unusual depreciation tangible assets	Equity Results		
JM	Adjusted net profit	Net Atributable results excluding non current	385	394	9	2%	Impairment/ unusual depreciation tangible assets	Impairment/ unusual depreciation tangible assets	Restructuring Costs	
BPI	Adjusted net profit	Net income excluding non-recurring items	313	325	12	4%	Restructuring Costs			
EDP	Adjusted net profit	Adjusted Net profit	961	919	-42	-4%	Disposal/ Aquisition of subsidiaries	Energy Levy	Gain and losses in financial instruments	Impairment/ unusual depreciation tangible assets
EDPR	Adjusted net profit	Adjusted Net Profit	56	166	110	196%	Depreciation adjustments			
Galp	Adjusted net profit	RCA net income	179	483	304	170%	Inventory effect	Gain and losses in financial instruments	Gains and losses financial instruments	
REN	Adjusted net profit	Recurring Net income	100	126	26	26%	Energy Levy	Disposal/ Aquisition of subsidiaries		
Sonae	Adjusted net profit	Direct Results	229	156	-74	-32%	Equity results	Lease back transactions		Gain and losses in financial instruments
JM	Adjusted net profit	Net Atributable results excluding non current	593	393	-200	-34%	Disposal/ Aquisition of subsidiaries			
		Impact 2016 + 2017 Adjustments on average				**107%**				

APPENDIX VIII – Adjusted Measures – Main Adjustments Made & Impact of such Adjustments Made (part 2)

Company	Type of APMs	Labels	2016 Annual Management Report				Descriptions Adjustments				
			GAAP Figure	Ajusted Measure	Difference	%	Main Adjustment 1	Main Adjustment 2	Main Adjustment 3	Main Adjustment 4	Main Adjustment 5
CA	Adjusted EBITDA	recurrent EBITDA	118	122	4	4%	Litigation Costs	Restructuring Costs			
CTT	Adjusted EBITDA	Recurrent EBITDA	102,053	119,499	17,446	17%	Restructuring Costs	Share base payments	Impairment/ unusual depreciation tangible assets	Consultancy fees	
EDP	Adjusted EBITDA	Recurring EBITDA			0						
EDPR	Adjusted EBITDA	Recurring EBITDA	1,171	1,184	13	1%					
Galp	Adjusted EBITDA	RCA EBITDA	1,489	1,411	-78	-5%	Restructuring Costs	Inventory effect	Litigation costs	Restructuring Costs	Other (Tax)
Sonae	Adjusted EBITDA	Underlying EBITDA	409	315	-94	-23%	Equity results	Lease back transactions			
Sonae Capital	Adjusted EBITDA	EBITDA, excluding guaranteed income Provisions (1)	31	31	0	0%					
CA	Adjusted EBITDA	Recurrent EBITDA									
CTT	Adjusted EBITDA	Recurrent EBITDA									
EDPR	Adjusted EBITDA	Recurring EBITDA									
Galp	Adjusted EBITDA	RCA EBITDA									
Sonae	Adjusted EBITDA	Underlying EBITDA									
Sonae Capital	Adjusted EBITDA	EBITDA, excluding guaranteed income Provisions (1)									
BPI	Adjusted net profit	Net income excluding non-recurring items	313	325	12	4%	Restructuring Costs				
EDP	Adjusted net profit	Adjusted net profit	961	919	-42	-4%	Disposal/ Aquisition of subsidiaries	Energy Levy	Gains and losses financial instruments	Impairment/ unusual depreciation tangible assets	
EDPR	Adjusted net profit	Adjusted Net Profit	56	166	110	196%	Impairment/ unusual depreciation tangible assets				
Galp	Adjusted net profit	RCA net income	179	483	304	170%	Inventory effect	Gains and losses financial instruments			
Pharol	Adjusted net profit	Recurrent net profit			0						
REN	Adjusted net profit	Recurring Net income	100	126	26	26%	Energy Levy	Disposal/ Aquisition of subsidiaries			
Sonae	Adjusted net profit	Direct Results	229	156	-74	-32%	Equity results	Lease back transactions	Gains and losses financial instruments		
JM	Adjusted net profit	Net Atributable results excluding non current	593	393	-200	-34%	Disposal/ Aquisition of subsidiaries				
BPI	Adjusted net profit	Net income excluding non-recurring items									
EDP	Adjusted net profit	Adjusted Net profit									
EDPR	Adjusted net profit	Adjusted Net Profit									
Galp	Adjusted net profit	RCA net income									
REN	Adjusted net profit	Recurring Net income									
Sonae	Adjusted net profit	Direct Results									
JM	Adjusted net profit	Net Atributable results excluding non current									

APPENDIX IX – Compliance Checklist

Question		Reference	Weight
Name of the issuer			
Sector of the issuer		**Bloomberg INDEX Methodology**	
YEAR			
Document:			
APMs Used			
1a)	Does the issuer include APMs in the MD&A?		
1b)	Does the issuer include APMs in the Press-releases?		
2a)	How many?		
2b)	If the answer to Q1a) or Q1b) is yes, are those APMs also presented on the face of Financial Statements?		
	a) Definitions		**12.50%**
3a)	Does the issuer present definitions for the APM used?	APM guidelines, paragraph 21 Q&A#15	6.25%
3b)	If the answer to Q3a) is yes, is the definition disclosed in a clear and readable way?	APM guidelines, paragraph 21 Q&A#15	6.25%
	b) Biased/ Neutral		**12.50%**
4a)	Is the APM biased (e.g. adjusted to exclude only one-off losses but including, where applicable, one-off gains of the same nature and occurring during the same period)?	APM Guidelines, paragraph 8 Q&A#17	12.50%
	c) Labels		**12.50%**
5a)	Does the issuer use labels reflecting the content and basis of calculation of the APMs used ?	APM guidelines, paragraph 22 Q&A#6	6.25%
5b)	Are labels used misleading?	APM guidelines, paragraph 22	6.25%
	If the answer to Q 5b) is yes:		
'5c)	Does the issuer use overly optimistic or positive labels such as ‘guaranteed profit’ or ‘protected returns’?	APM guidelines, paragraph 23	
5d)	Does the issuer use labels, titles or descriptions of measures defined in the applicable financial reporting framework that are the same or confusingly similar when referring to APM?	APM guidelines, paragraph 24	
5e)	Does the issuer mislabel items as nonrecurring, infrequent or unusual (such as restructuring costs or impairment losses)?	APM guidelines, paragraph 25	
	d) Reconciliations		**12.50%**
6a)	Does the issuer disclose a reconciliation of the APM to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period separately?	APM guidelines, paragraph 26 to 32 and Q&A #16	4.50%
	If the answer to Q 6a) is yes:		
6b)	Does the Issuer present the most directly reconcilable line item, subtotal or total presented in the financial statements relevant for that specific APM?	APM guidelines, paragraph 27	2%
6c)	Does the issuer identifies and explains the material reconciling items?	APM guidelines, paragraph 26	2%
6d)	Where a reconciling item cannot be extracted directly from the financial statements, does the issuer include a reconciliation showing how the figure is calculated?	APM guidelines, paragraph 28	2%
6e)	Does the issuer present reconciliations for all comparatives presented?	APM guidelines, paragraph 38	2%
	e) Explanation on the use of APMs		**12.50%**
7a)	Does the issuer explain the use of APM?	APM guidelines, paragraph 33 to 34	6.25%
7b)	If the answer to Q 6a) is yes, is the explanation informative (e.g. not boiler plate)?	APM guidelines, paragraph 33 to 34	6.25%
	f) Prominence and presentation of APMs		**12.50%**
8a)	Does the issuer present APMs with less or equal prominence, emphasis or authority than measures directly stemming from financial statements?	Paragraph 35 and 36 and Q&A #9	12.50%
	g) Comparatives		**12.50%**
9a)	Does the issuer include comparatives for the corresponding previous periods for the APMs used?	APM guidelines, paragraph 37 and Q&A #7	12.50%
	h) Consistency		**12.50%**
10a)	Does the issuer presents APMs consistently between periods?	APM guidelines, paragraph 41	3%
10b)	Does the issuer presents APMs consistently between documents (e.g. management report, press-releases)?	APM guidelines, paragraph 41	3%
	If the answer to 10a) or 10b) is no, does the issuer:		
10c)	i. Explain the changes;	APM guidelines, paragraph 41	2%
10d)	ii. explain the reasons why these changes result in reliable and more relevant information on the financial performance, and	APM guidelines, paragraph 41	2%
10e)	iii. provide restated comparative figures.	APM guidelines, paragraph 41	2%
10f)	If an issuer stops disclosing an APM, does the issuer explain the reason for considering that this APM no longer provides relevant information?	APM guidelines, paragraph 42	2%
	Compliance by reference		
11a)	Does the issuer use the compliance by reference mechanism?	APM guidelines, paragraph 45 to 46	
11b)	Does the issuer comply with Q&A 10?	Q&A 10	
Total ∑ a+b+c+d+e+f+g+h			

APPENDIX X – Compliance Index by issuer, period and type of document

Companies	Sector	Management Reports					Press releases- Earnings results					Issuer's average
		Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**	Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**	
PSI 20												
NOS, SGPS	Communications	67%	67%	67%	67%	**67%**	54%	54%	54%	54%	**54%**	**61%**
PHAROL	Communications	88%	88%	88%	81%	**86%**	-	-	-	-	**0%**	**86%**
Average Communications		77%	77%	77%	74%	**76%**	54%	54%	54%	54%	**54%**	**73%**
CTT CORREIOS PORT	Consumer Discretionary	63%	63%	63%	58%	**61%**	63%	58%	63%	58%	**60%**	**61%**
SONAE CAPITAL	Consumer Discretionary	56%	56%	56%	56%	**56%**	56%	56%	56%	56%	**56%**	**56%**
Average Consumer Discretionary		59%	59%	59%	57%	**59%**	59%	57%	59%	57%	**58%**	**58%**
J.MARTINS,SGPS	Consumer Staples	63%	63%	44%	44%	**53%**	44%	44%	44%	44%	**44%**	**48%**
SONAE	Consumer Staples	56%	56%	56%	56%	**56%**	56%	56%	56%	56%	**56%**	**56%**
Average Consumer Staples		59%	59%	50%	50%	**55%**	50%	50%	50%	50%	**50%**	**52%**
GALP ENERGIA-NOM	Energy	69%	69%	69%	66%	**68%**	63%	63%	63%	63%	**63%**	**65%**
EDP	Energy	86%	86%	86%	86%	**86%**	75%	75%	75%	75%	**75%**	**80%**
EDP RENOVAVEIS	Energy	86%	86%	86%	86%	**86%**	69%	69%	69%	69%	**69%**	**77%**
REN	Energy	44%	44%	44%	44%	**44%**	44%	44%	44%	44%	**44%**	**44%**
Average Energy		71%	71%	71%	70%	**71%**	63%	63%	63%	63%	**63%**	**67%**
B.COM.PORTUGUES	Financials	69%	75%	69%	75%	**72%**	69%	69%	69%	75%	**70%**	**71%**
BPI,SA	Financials	56%	63%	81%	63%	**66%**	56%	63%	81%	63%	**66%**	**66%**
MONTEPIO GERAL	Financials	63%	100%	100%	99%	**90%**	63%	63%	63%	63%	**63%**	**76%**
Average Financials		63%	79%	83%	79%	**76%**	63%	65%	71%	67%	**66%**	**71%**
ALTRI SGPS	Materials	50%	50%	50%	50%	**50%**	50%	50%	50%	50%	**50%**	**50%**
CORTICEIRA AMORIM	Materials	81%	81%	81%	81%	**81%**	-	-	-	-	-	**81%**
MOTA ENGIL	Materials	88%	88%	88%	88%	**88%**	50%	50%	50%	50%	**50%**	**69%**
SEMAPA	Materials	88%	88%	88%	88%	**88%**	75%	75%	75%	75%	**75%**	**81%**
THE NAVIGATOR COMP	Materials	75%	75%	75%	75%	**75%**	75%	75%	75%	75%	**75%**	**75%**
Average Materials		76%	76%	76%	76%	**76%**	63%	63%	63%	63%	**63%**	**71%**
Average PSI 20		**69%**	**72%**	**72%**	**70%**	**71%**	**60%**	**60%**	**62%**	**61%**	**61%**	**67%**

APPENDIX XI – Compliance Index By issuer and Category of Principles in MD&A (part 1)

Companies	Sector	Definitions					Biased/Neutral					Labels				
		Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**	Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**	Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**
NOS, SGPS	Communications	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
PHAROL	Communications	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
Average Communications		6%	6%	6%	6%	**6%**	13%	13%	13%	13%	**13%**	9%	9%	9%	9%	**9%**
CTT CORREIOS PORT	Consumer Discretionary	6%	6%	6%	6%	**6%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
SONAE CAPITAL	Consumer Discretionary	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
Average Consumer Discretionary		9%	9%	9%	9%	**9%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
J.MARTINS,SGPS	Consumer Staples	6%	6%	0%	0%	**3%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
SONAE	Consumer Staples	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
Average Consumer Staples		9%	9%	6%	6%	**8%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
GALP ENERGIA-NOM	Energy	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
EDP	Energy	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
EDP RENOVAVEIS	Energy	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
REN	Energy	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
Average Energy		9%	9%	9%	9%	**9%**	13%	13%	13%	13%	**13%**	9%	9%	9%	9%	**9%**
B.COM.PORTUGUES	Financials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	6%	13%	6%	13%	**9%**
BPI,SA	Financials	0%	13%	13%	13%	**9%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
MONTEPIO GERAL	Financials	0%	13%	13%	13%	**9%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
Average Financials		4%	13%	13%	13%	**10%**	13%	13%	13%	13%	**13%**	8%	10%	8%	10%	**9%**
ALTRI SGPS	Materials	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
CORTICEIRA AMORIM	Materials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
MOTA ENGIL	Materials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
SEMAPA	Materials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
THE NAVIGATOR COMP	Materials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
Average Materials		10%	10%	10%	10%	**10%**	13%	13%	13%	13%	**13%**	11%	11%	11%	11%	**11%**
Total		**7%**	**8%**	**8%**	**8%**	**8%**	**11%**	**11%**	**11%**	**11%**	**11%**	**8%**	**8%**	**8%**	**8%**	**8%**

APPENDIX XI – Compliance Index By issuer and Category of Principles in MD&A (part 2)

Companies	Sector	Reconciliations					Explanations					Prominence				
		Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**	Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**	Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**
NOS, SGPS	Communications	11%	11%	11%	11%	**11%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
PHAROL	Communications	13%	13%	13%	13%	**13%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
Average Communications		12%	12%	12%	12%	**12%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
CTT CORREIOS PORT	Consumer Discretionary	13%	13%	13%	13%	**13%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
SONAE CAPITAL	Consumer Discretionary	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
Average Consumer Discretionary		6%	6%	6%	6%	**6%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
J.MARTINS,SGPS	Consumer Staples	13%	13%	0%	0%	**6%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
SONAE	Consumer Staples	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
Average Consumer Staples		6%	6%	0%	0%	**3%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
GALP ENERGIA-NOM	Energy	13%	13%	13%	13%	**13%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
EDP	Energy	11%	11%	11%	11%	**11%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
EDP RENOVAVEIS	Energy	11%	11%	11%	11%	**11%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
REN	Energy	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
Average Energy		8%	8%	8%	8%	**8%**	0%	0%	0%	0%	**0%**	6%	6%	6%	6%	**6%**
B.COM.PORTUGUES	Financials	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
BPI,SA	Financials	0%	0%	0%	0%	**0%**	0%	0%	13%	0%	**3%**	13%	13%	13%	13%	**13%**
MONTEPIO GERAL	Financials	0%	13%	13%	13%	**9%**	0%	13%	13%	13%	**9%**	13%	13%	13%	13%	**13%**
Average Financials		0%	4%	4%	4%	**3%**	0%	4%	8%	4%	**4%**	13%	13%	13%	13%	**13%**
ALTRI SGPS	Materials	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
CORTICEIRA AMORIM	Materials	13%	13%	13%	13%	**13%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
MOTA ENGIL	Materials	13%	13%	13%	13%	**13%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
SEMAPA	Materials	13%	13%	13%	13%	**13%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
THE NAVIGATOR COMP	Materials	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
Average Materials		8%	8%	8%	8%	**8%**	0%	0%	0%	0%	**0%**	10%	10%	10%	10%	**10%**
Total		**6%**	**6%**	**6%**	**6%**	**6%**	**0%**	**1%**	**1%**	**1%**	**1%**	**7%**	**7%**	**7%**	**7%**	**7%**

APPENDIX XI – Compliance Index By issuer and Category of Principles in MD&A (part 3)

Companies	Sector	Comparatives					Consistency					Issuer Score
		Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**	Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**	
NOS, SGPS	Communications	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**67%**
PHAROL	Communications	13%	13%	13%	13%	**13%**	13%	13%	13%	6%	**11%**	**86%**
Average Communications		13%	13%	13%	13%	**13%**	13%	13%	13%	9%	**12%**	**76%**
CTT CORREIOS PORT	Consumer Discretionary	13%	13%	13%	13%	**13%**	13%	13%	13%	8%	**11%**	**61%**
SONAE CAPITAL	Consumer Discretionary	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**56%**
Average Consumer Discretionary		13%	13%	13%	13%	**13%**	13%	13%	13%	10%	**12%**	**59%**
J.MARTINS,SGPS	Consumer Staples	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**53%**
SONAE	Consumer Staples	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**56%**
Average Consumer Staples		13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**55%**
GALP ENERGIA-NOM	Energy	13%	13%	13%	13%	**13%**	13%	13%	13%	9%	**12%**	**68%**
EDP	Energy	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**86%**
EDP RENOVAVEIS	Energy	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**86%**
REN	Energy	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**44%**
Average Energy		13%	13%	13%	13%	**13%**	13%	13%	13%	12%	**12%**	**65%**
B.COM.PORTUGUES	Financials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**72%**
BPI,SA	Financials	13%	13%	13%	13%	**13%**	13%	6%	13%	6%	**9%**	**66%**
MONTEPIO GERAL	Financials	13%	13%	13%	13%	**13%**	13%	13%	13%	11%	**12%**	**90%**
Average Financials		13%	13%	13%	13%	**13%**	13%	10%	13%	10%	**11%**	**78%**
ALTRI SGPS	Materials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**50%**
CORTICEIRA AMORIM	Materials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**81%**
MOTA ENGIL	Materials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**88%**
SEMAPA	Materials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**88%**
THE NAVIGATOR COMP	Materials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**75%**
Average Materials		13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**81%**
Total		**11%**	**11%**	**11%**	**11%**	**11%**	**11%**	**10%**	**11%**	**10%**	**10%**	**71%**

APPENDIX XII – Compliance Index By issuer and Category of Principles in Press Releases (part 1)

Companies	Sector	Definitions					Biased/Neutral					Labels				
		Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**	Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**	Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**
NOS, SGPS	Communications	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
PHAROL	Communications	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Average Communications	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
CTT CORREIOS PORT	Consumer Discretionary	6%	6%	6%	6%	**6%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
SONAE CAPITAL	Consumer Discretionary	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
	Average Consumer Discretionary	9%	9%	9%	9%	**9%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
J.MARTINS,SGPS	Consumer Staples	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
SONAE	Consumer Staples	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
	Average Consumer Staples	6%	6%	6%	6%	**6%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
GALP ENERGIA-NOM	Energy	6%	6%	6%	6%	**6%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
EDP	Energy	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
EDP RENOVAVEIS	Energy	6%	6%	6%	6%	**6%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
REN	Energy	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
	Average Energy	6%	6%	6%	6%	**6%**	13%	13%	13%	13%	**13%**	9%	9%	9%	9%	**9%**
B.COM.PORTUGUES	Financials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	6%	6%	6%	13%	**8%**
BPI,SA	Financials	0%	13%	13%	13%	**9%**	13%	13%	13%	13%	**13%**	6%	6%	6%	6%	**6%**
MONTEPIO GERAL	Financials	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
	Average Financials	4%	8%	8%	8%	**7%**	13%	13%	13%	13%	**13%**	8%	8%	8%	10%	**9%**
ALTRI SGPS	Materials	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
CORTICEIRA AMORIM	Materials	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MOTA ENGIL	Materials	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
SEMAPA	Materials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
THE NAVIGATOR COMP	Materials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
	Average Materials	6%	6%	6%	6%	**6%**	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**
	Total	**6%**	**7%**	**7%**	**7%**	**6%**	**13%**	**13%**	**13%**	**13%**	**13%**	**9%**	**9%**	**9%**	**10%**	**9%**

APPENDIX XII – Compliance Index By issuer and Category of Principles in Press Releases (part 2)

Companies	Sector	Reconciliations					Explanations					Prominence				
		Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**	Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**	Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**
NOS, SGPS	Communications	11%	11%	11%	11%	**11%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
PHAROL	Communications	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Average Communications	11%	11%	11%	11%	**11%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
CTT CORREIOS PORT	Consumer Discretionary	13%	13%	13%	13%	**13%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
SONAE CAPITAL	Consumer Discretionary	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
	Average Consumer Discretionary	6%	6%	6%	6%	**6%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
J.MARTINS,SGPS	Consumer Staples	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
SONAE	Consumer Staples	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
	Average Consumer Staples	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
GALP ENERGIA-NOM	Energy	13%	13%	13%	13%	**13%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
EDP	Energy	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
EDP RENOVAVEIS	Energy	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
REN	Energy	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
	Average Energy	3%	3%	3%	3%	**3%**	0%	0%	0%	0%	**0%**	6%	6%	6%	6%	**6%**
B.COM.PORTUGUES	Financials	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
BPI,SA	Financials	0%	0%	0%	0%	**0%**	0%	0%	13%	0%	**3%**	13%	13%	13%	13%	**13%**
MONTEPIO GERAL	Financials	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
	Average Financials	0%	0%	0%	0%	**0%**	0%	0%	4%	0%	**1%**	13%	13%	13%	13%	**13%**
ALTRI SGPS	Materials	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
CORTICEIRA AMORIM	Materials	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MOTA ENGIL	Materials	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**
SEMAPA	Materials	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
THE NAVIGATOR COMP	Materials	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	13%	13%	13%	13%	**13%**
	Average Materials	0%	0%	0%	0%	**0%**	0%	0%	0%	0%	**0%**	6%	6%	6%	6%	**6%**
	Total	**2%**	**2%**	**2%**	**2%**	**2%**	**0%**	**0%**	**1%**	**0%**	**0%**	**6%**	**6%**	**6%**	**6%**	**6%**

APPENDIX XII – Compliance Index By issuer and Category of Principles in Press Releases (part 3)

Companies	Sector	Comparatives					Consistency					Issuer Score
		Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**	Half 2016	Half 2017	Annual 2016	Annual 2017	**Average**	
NOS, SGPS	Communications	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**54%**
PHAROL	Communications	-	-	-	-	-	-	-	-	-	-	-
Average Communications		13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**54%**
CTT CORREIOS PORT	Consumer Discretionary	13%	13%	13%	13%	**13%**	13%	8%	13%	8%	**10%**	**60%**
SONAE CAPITAL	Consumer Discretionary	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**56%**
Average Consumer Discretionary		13%	13%	13%	13%	**13%**	13%	10%	13%	10%	**11%**	**58%**
J.MARTINS,SGPS	Consumer Staples	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**44%**
SONAE	Consumer Staples	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**56%**
Average Consumer Staples		13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**50%**
GALP ENERGIA-NOM	Energy	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**63%**
EDP	Energy	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**75%**
EDP RENOVAVEIS	Energy	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**69%**
REN	Energy	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**44%**
Average Energy		13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**63%**
B.COM.PORTUGUES	Financials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**70%**
BPI,SA	Financials	13%	13%	13%	13%	**13%**	13%	6%	13%	6%	**9%**	**66%**
MONTEPIO GERAL	Financials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**63%**
Average Financials		13%	13%	13%	13%	**13%**	13%	10%	13%	10%	**11%**	**66%**
ALTRI SGPS	Materials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**50%**
CORTICEIRA AMORIM	Materials	-	-	-	-	-	-	-	-	-	-	-
MOTA ENGIL	Materials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**50%**
SEMAPA	Materials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**75%**
THE NAVIGATOR COMP	Materials	13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**75%**
Average Materials		13%	13%	13%	13%	**13%**	13%	13%	13%	13%	**13%**	**63%**
Total		**13%**	**13%**	**13%**	**13%**	**13%**	**13%**	**12%**	**13%**	**12%**	**12%**	**61%**