

risicorapportering door belgische beursgenoteerde bedrijven

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## Inhoud nummer 4

Accountancy

### **Risicorapportering door Belgische beursgenoteerde bedrijven**

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De laatste jaren is de noodzaak voor effectief risicomanagement, interne controle en transparante risicorapportering erg toegenomen. Voor ondernemingen kan risicorapportering leiden tot een meer accurate kapitaalkost en tot een verminderde kans op falen. Het kan eveneens de efficiëntie, de kwaliteit en het imago naar kredietanalisten, aandeelhouders en klanten toe verbeteren. Ondanks deze groeiende aandacht voor risico's en onzekerheden, zijn er weinig studies beschikbaar over risicorapportering en implicaties ervan. Het doel van deze studie is om profielen te bepalen van risicorapporterende ondernemingen op basis van een steekproef van grote en middelgrote Belgische beursgenoteerde ondernemingen.

### **The Use of Alternative Earnings Per Share in the Annual Reports of European Listed Companies since the 2005 Introduction of IFRS**

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*M. TR. HAMILL and J. BRANSON*

Een van de doelstellingen van de invoering van de IFRS-standaarden voor beursgenoteerde vennootschappen in de Europese Unie vanaf 2005 was een verbeterde vergelijkbaarheid tussen de jaarrekeningen van verschillende ondernemingen, sectoren en landen. Onder IFRS blijft het mogelijk dat ondernemingen aanvullende inlichtingen opnemen in hun jaarrekening om de gebruikers degelijk te informeren over hun financiële toestand en hun financiële prestaties. Dit betreft onder meer de vermelding van alternatieve prestatiemaatstaven (APM's). Het aangetaste vertrouwen van de markt in jaarrekeninginformatie naar aanleiding van diverse boekhoudschandalen heeft een debat op gang gebracht over het gebruik en de bruikbaarheid van APM's in Europa. Europese overkoepelende toezichthouders zoals CESR hebben als reactie hierop aanbevelingen geformuleerd, in het bijzonder om misleiding van niet-professionele beleggers door het gebruik van APM's tegen te gaan.

Het in dit artikel beschreven onderzoek heeft als belangrijkste doelstelling na te gaan wat de aard en de omvang zijn van het gebruik van alternatieve Earnings Per Share (EPS)-waarden in de jaarrekeningen van Europese beursgenoteerde vennootschappen, en zo inzicht te verwerven in de drijfveren van ondernemingen om APM's te gebruiken. Drie onderzoeksvragen komen aan bod: (1) Is het aantal ondernemingen dat alternatieve EPS-waarden vermeld toegenomen in de periode van drie jaar sinds de invoering van IFRS? (2) Welke alternatieve EPS-waarden gebruiken ondernemingen en hoe stellen ze die voor in hun jaarrekening? (3) Zijn alternatieve EPS-waarden hoger of lager dan GAAP EPS-waarden en heeft dit een invloed op de aard of de omvang van voorstelling?

Het onderzoek heeft betrekking op de jaarrekeningen van 31 Europese beursgenoteerde vennootschappen voor de jaren 2005, 2006 en 2007. Uit de resultaten blijkt een gestage toename van het aantal ondernemingen dat alternatieve EPS-waarden rapporteert. De meeste ondernemingen gebruiken voor hun alternatieve EPS zeer algemene termen zoals «Adjusted EPS» en «Underlying EPS». Achter die begrippen gaat een grote variëteit schuil van uitsluitingen van rubrieken en effecten op het resultaat (resultaatverhogend of -verlagend). In overeenstemming met bestaand onderzoek zijn de alternatieve EPS-waarden meestal hoger dan de GAAP EPS-waarden. Opmerkenswaard is dat wanneer ondernemingen nog tweede of derde alternatieve EPS-waarden vermelden, deze meestal lager zijn dan de GAAP EPS-waarden. Ten slotte blijkt uit de onderzoeksresultaten dat ondernemingen verkiezen om de EPS-waarde die het hoogste resultaat oplevert eerst te vermelden.



# Risicorapportering door Belgische beursgenoteerde bedrijven

ANNELEEN MICHIELS, SIGRID VANDEMAELE en PHILIP VERGAUWEN

## 1. Inleiding

De laatste jaren is de noodzaak voor effectief risicomanagement, interne controle en transparante risicorapportering erg toegenomen. Reeds in 1987 vermeldde het AICPA-rapport<sup>1</sup> dat aandeelhouders steeds meer informatie over de risico's en onzekerheden in het jaarverslag wensten te zien (SCHRAND en ELLIOTT, 1998). Abraham en Cox (2007) beweren dat deze informatie beleggers kan helpen om het risico-profiel en de marktwaarde van een onderneming te schatten. Dit is meer dan ooit belangrijk in deze tijden van financiële crisis.

Voor ondernemingen kan risicorapportering leiden tot een meer accurate kapitaalkost (LINSLEY en SHRIVES, 2006; ABRAHAM en COX, 2007; ICAEW<sup>2</sup>, 1999a) en tot een verminderde kans op falen (BERETTA en BOZZOLAN, 2004; SOLOMON, SOLOMON, NORTN en JOSEPH, 2000). Het kan eveneens de efficiëntie, de kwaliteit en het imago naar kredietanalisten, aandeelhouders en klanten toe verbeteren (DE RIDDER, 2007).

De *Turnbull Guidance* in het VK (ICAEW, 1999b) en het *Jenkins Committee Report* in de VS (AICPA, 1994) hebben het debat over de kwaliteit en de effectiviteit van risicorapportering versneld. Raden van bestuur en beleggers geven aan dat de *Turnbull Guidance* heeft geleid tot een verbetering in de algemene standaard van risicomanagement sinds 1999 (FRC<sup>3</sup>, 2005). Als antwoord op de ontwikkelingen in het VK en de VS hebben een aantal autoriteiten wereldwijd de voorschriften in verband met de rapportering van relevante, verstaanbare en toekomstgerichte risico-informatie herbekeken. Als gevolg hiervan is risicorapportering tegenwoordig meer en meer een vereiste in kwartaal- en jaarverslagen.

Ondanks deze groeiende aandacht voor risico's en onzekerheden zijn er weinig studies beschikbaar omtrent risicorapportering en implicaties ervan. Verschillende auteurs formuleerden reeds eerder de vraag naar meer empirisch onderzoek naar risicorapportering (LINSLEY en SHRIVES, 2006; BERETTA en BOZZOLAN, 2004; SOLOMON *et al.*, 2000; ICAEW, 1999a; SCHRAND en ELLIOTT, 1998).

Het doel van deze studie is om profielen te bepalen van risicorapporterende ondernemingen op basis van een steekproef van grote en middelgrote Belgische beursgeno-

teerde ondernemingen. De volgende paragraaf bespreekt risico in zijn verschillende vormen. De hypothesen worden geformuleerd in paragraaf 3 en in paragraaf 4 komen de empirische resultaten aan bod. Paragraaf 5 vat de belangrijkste conclusies samen.

## 2. Theoretische achtergrond

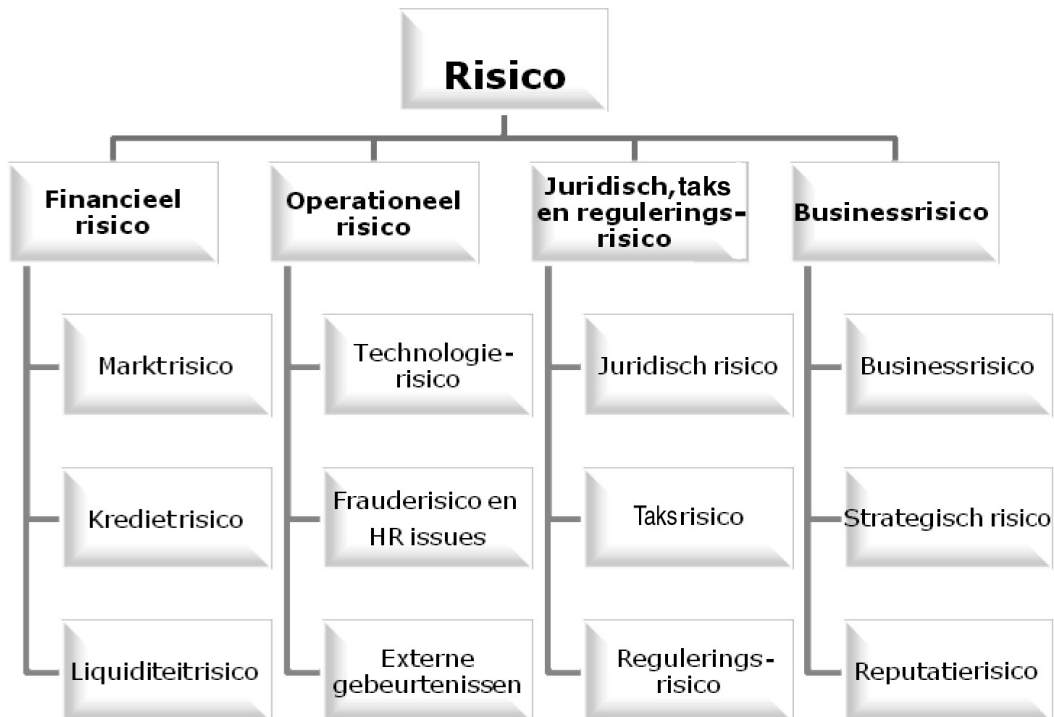
### 2.1 Definiëring van het begrip «risico»

Het woord «risico» is afgeleid van het Italiaanse «risicare», wat «durven» betekent. De wortels van het moderne risico-concept gaan achthonderd jaar terug, toen het nummersysteem het Westen bereikte. Vanaf dat moment begonnen wetenschappers zoals Fibonacci, Paccioli, Galileo en Cardano methodes te ontwikkelen om te kunnen omgaan met het onbekende met behulp van metingen, kansen en waarschijnlijkheden. Linsley en Shives (2006) vermelden dat in het premoderne tijdperk risico's gemeten werden in termen van negatieve uitkomsten, terwijl het huidige risicoconcept zowel negatieve als positieve uitkomsten in rekening neemt.

Over het algemeen wordt risico beschouwd als een synoniem van onzekerheid. Echter, in de vroege jaren 1920 introduceerde Frank Knight een belangrijk onderscheid tussen deze twee concepten. Hij definieert «risico» als de variabiliteit die gekwantificeerd kan worden in termen van waarschijnlijkheden, terwijl variabiliteit die niet te meten valt best omschreven wordt als «onzekerheid». In deze context vermeldt Miller (1992) dat onzekerheid de voorspelbaarheid doet dalen en daardoor het risico doet stijgen. Crouhy, Galai en Mark (2006, p. 25) definiëren risico als «the volatility of returns leading to unexpected losses, with higher volatility indicating higher risk».

In deze paper baseren we ons op de risico-indeling van Crouhy *et al.* (2006). Deze auteurs groeperen risicofactoren in acht categorieën: marktrisico, kredietrisico, liquiditeitsrisico, operationeel risico, wettelijk en reguleringsrisico, businessrisico, strategisch risico en reputatierisico. In navolging van Linsley en Shives (2006) hergroeperen we bovenstaande categorieën en verkrijgen we vier risicotypes: 1) financieel risico; 2) operationeel risico; 3) juridisch, taks- en reguleringsrisico en 4) businessrisico (figuur 1).

Figuur 1. Risico-indeling



#### Financieel risico

Financieel risico is een brede en welbekende risicocategorie. Deze categorie omvat marktrisico, kredietrisico en liquiditeitsrisico.

*Marktrisico* is gerelateerd aan prijsveranderingen in financiële markten (SERVAES en TUFANO, 2006). Crouhy *et al.* (2006, p. 27) definiëren marktrisico als «the risk that changes in financial market prices and rates will reduce the value of a security or portfolio». Marktrisico kan ontstaan ten gevolge van verschillende factoren zoals blootstelling aan rentevoeten, wisselkoersen, prijsgevoelige inkomsten of uitgaven, het bestaan van aandelenopties of pensioenfondsen.

*Kredietrisico* is de kans dat de betaling van contractuele verplichtingen niet uitgevoerd wordt door de tegenpartij (CABEDO en TIRADO, 2004). Giesecke (2004, p. 3) definieert kredietrisico als «the distribution of financial losses due to unexpected changes in the credit quality of a counterparty in a financial agreement». Voorbeelden van kredietrisico zijn: verlaging van een creditrating of faillissement.

Wanneer een onderneming niet kan voldoen aan de gemaakte betalingsverplichtingen, ontstaat er een *liquiditeitsrisico* (CABEDO en TIRADO, 2004).

#### Operationeel risico

Volgens De Ridder (2007) is operationeel risico gerelateerd aan potentiële verliezen ten gevolge van inadequate of falende interne processen, mensen en systemen of resulterend uit externe gebeurtenissen. We onderscheiden vier types operationele risico's. Het eerste type is *technologisch risico*, dat door Álvarez (2001, p. 5) omschreven wordt als «loss events due to piracy, theft, failure, breakdown, or other disruption technology, data or information». Het tweede type is *frauderisico* door het management of personeelsleden. Het derde type operationeel risico is gerelateerd aan potentiële verliezen ten gevolge van menselijke fouten (bv. per ongeluk een computerbestand verwijderen). Ten slotte voegt Álvarez (2001) een vierde type toe: *externe schade* (bv. ten gevolge van een natuurramp).

#### Juridisch, taks- en reguleringsrisico

Deze risico's ontstaan omwille van heel diverse redenen. Een voorbeeld van juridisch risico is de betrokkenheid in rechtszaken of de overtreding van wetten. Een ander voorbeeld is de verandering van een belastingwet die verre gaande implicaties heeft voor een onderneming.

#### Business-, strategisch en reputatierisico

Businessrisico, strategisch risico en reputatierisico worden samengevoegd onder de noemer «businessrisico». *Businessrisico* verwijst naar de typische risico's waar een

onderneming mee te maken heeft: onzekerheid over de vraag naar producten, de prijsonzekerheid met betrekking tot producten, de kost van productie, opslag en levering (CROUHY *et al.*, 2006). Het risico verbonden aan acties van concurrenten (SERVAES en TUFANO, 2006) en het potentiële verlies van competitieve voordelen (CABEDO en TIRADO, 2004) zijn andere voorbeelden van businessrisico. *Strategisch risico* verwijst naar het risico dat geassocieerd wordt met investeringen met een onzeker succes of onzekere winstgevendheid (CROUHY *et al.*, 2006). Bijvoorbeeld, een onderneming die investeert in onderzoek en ontwikkeling (O&O) ondervindt onzekerheid over de relatie tussen de investering in O&O en output onder de vorm van nieuwe producten of processen (MILLER, 1992). *Reputatierisico* is het risico dat een goede reputatie, die kan leiden tot waardecreatie, verandert in een slechte reputatie en resulteert in waardevernietiging.

## 2.2 Definiëring van het begrip «risico-rapportering»

De laatste jaren is de focus verschoven van het rapporteren van puur financiële resultaten naar het informeren van de aandeelhouders over een hele waaier van topics. Een van deze topics is risico. Beleggers weten dat waardecreatie inhoudt dat er risico's genomen moeten worden. Ze wensen daarom op de hoogte te zijn over het soort van risico's waarmee de onderneming te maken heeft en hoe deze risico's worden (of zullen worden) beheerst. Als gevolg hiervan wordt de vraag naar transparante risicorapportering steeds groter. Beretta en Bozzolan (2004, p. 269) definiëren risicorapportering als «de communicatie van informatie over de strategie, karakteristieken en andere externe factoren die de verwachte resultaten zouden kunnen beïnvloeden».

## 3. Onderzoekshypothesen en -methode

### 3.1 Onderzoekshypothesen

Gebaseerd op het bovenstaande theoretische raamwerk, worden in deze paragraaf de hypothesen opgesteld. Het doel van deze studie is om te onderzoeken of er een relatie bestaat tussen de mate van risicorapportering en bedrijfs-economische en governancekarakteristieken. Dit zal worden getest met behulp van een steekproef van Belgische beursgenoteerde bedrijven.

Grote ondernemingen zijn vaak meer complex dan kleine ondernemingen. Omdat complexiteit het inherente risico verhoogt, zouden managers meer risico-informatie kunnen vrijgeven (DEUMES en KNECHEL, 2008). Verder argumenteert Cooke (1989) dat adequate financiële communicatie een grote diversiteit aan hooggeschoolde werknemers vereist. Aangezien grote ondernemingen meer mogelijkheden hebben om dit soort mensen aan te trekken, zou hun rapportering uitgebreider kunnen zijn. Gebaseerd op bovenstaande argumenten en voorgaand onderzoek door o.a. Linsley en Shrivs (2006a), Abraham en Cox (2007) en Deumes en

Knechel (2008) wordt de eerste hypothese geformuleerd als volgt:

*H1: Er bestaat een positieve relatie tussen bedrijfs grootte en de mate van risicorapportering.*

Wanneer een onderneming goed presteert, kan de vraag naar uitgebreide risicorapportering afnemen. Anderzijds voelen slecht presterende bedrijven misschien sterker de nood factoren aan te duiden die de slechte prestaties kunnen verklaren. Aan de andere kant hebben winstgevendende bedrijven daarentegen meer middelen om te investeren in risicobeheersing (DEUMES en KNECHEL, 2008). Deze onduidelijke relatie resulteert in volgende hypothese:

*H2: Er bestaat geen relatie tussen winstgevendheid en de mate van risicorapportering.*

Een onderneming met een groter systematisch risico zal meer geneigd zijn te rapporteren over hoe deze risico's worden ingeschat en gemanaged. Deze onderbouwing en de resultaten uit onderzoek van Deumes (2008) en Abraham en Cox (2007), leiden tot de derde hypothese:

*H3: Er bestaat een positieve relatie tussen systematisch risico en de mate van risicorapportering.*

Hoewel het de verantwoordelijkheid is van het management om het jaarverslag voor te bereiden, kan een extern auditbedrijf een grote impact hebben op de inhoud van het jaarverslag (BARAKO *et al.*, 2006). Enerzijds kan een grote kwaliteitsvolle auditor de betrouwbaarheid van de jaarrekeningen naar de aandeelhouders toe verhogen. Een gevolg kan zijn dat aandeelhouders risicorapportering minder noodzakelijk achten in dit geval. Anderzijds kan een kwaliteitsvolle auditor ook het belang van risicorapportering benadrukken, wat resulteert in een uitgebreidere risicorapportering. Wegens deze onduidelijke relatie, formuleren we de vierde hypothese in de nulvorm:

*H4: Er bestaat geen relatie tussen de kwaliteit van de auditor en de mate van risicorapportering.*

Ondernemingen met een risicocomité en/of een risicomanager zullen waarschijnlijk meer belang hechten aan risicorapportering dan ondernemingen zonder een risicocomité of risicomanager. Dit leidt tot de volgende hypothese:

*H5: Er bestaat een positieve relatie tussen de aanwezigheid van een risicocomité en/of een risicomanager en de mate van risicorapportering.*

Het jaarverslag wordt goedgekeurd door de raad van bestuur. De samenstelling van deze raad van bestuur kan dus een impact hebben op het rapporteringsbeleid (ABRAHAM en Cox, 2007). Een aspect van deze samenstelling is het aantal niet-uitvoerende bestuurders in de raad van bestuur in vergelijking met het totale aantal bestuurders in deze raad. Niet-uitvoerende bestuurders zijn buitenstaanders (onafhankelijk) of «grijs» (niet onafhankelijk, maar geen functie uitoefenend binnen de onderneming). Deze be-

stuurders handelen als vertegenwoordigers van de aandeelhouders in de raad van bestuur. De uitvoerende bestuurders, daarentegen, oefenen wel een functie uit binnen de onderneming. Hierdoor kan het voor hen moeilijk zijn om de managers te controleren (ABRAHAM en COX, 2007). Volgens Fama en Jensen (1983) zorgt de aanwezigheid van niet-uitvoerende bestuurders in de raad van bestuur voor verminderde agentschapskosten tussen managers en eigenaars. Barako *et al.* (2006) stellen dat dit gereflecteerd kan worden in een meer uitgebreide rapportering. Naar aanleiding van bovenstaande redenering wordt volgende hypothese opgesteld:

*H6: Er bestaat een positieve relatie tussen de proportie van het aantal niet-uitvoerende bestuurders in de raad van bestuur en de mate van risicorapportering.*

De combinatie van de functies «voorzitter van de raad van bestuur» en «CEO» in één persoon resulteert in een unitaire leiderschapsstructuur. Wanneer deze functies door verschillende personen worden uitgevoerd, spreekt men van een duale leiderschapsstructuur. Volgens de agencytheorie kan een unitaire leiderschapsstructuur de toezichhoudende functie van de raad van bestuur significant verminderen. Fama en Jensen (1983) argumenteren dat er bij deze functiecombinatie geen scheiding meer is tussen beslissingsbevoegdheid en -controle. We formuleren de laatste hypothese als volgt:

*H7: De mate van risicorapportering is hoger voor ondernemingen met een duale leiderschapsstructuur in vergelijking met ondernemingen met een unitaire leiderschapsstructuur.*

### 3.2 Onderzoeksmethode

De steekproef bestaat uit 46 Belgische beursgenoteerde ondernemingen. We opteren om enkel grote (marktkapitalisatie > 1 miljard EUR) en middelgrote (marktkapitalisatie tussen 150 miljoen EUR en 1 miljard EUR) in de steekproef op te nemen aangezien we verwachten dat deze ondernemingen uitgebreider zullen rapporteren over risico's. Zoals bij de meeste studies over risicorapportering, verwijderen we financiële ondernemingen uit de steekproef, omdat deze met significant andere risicofactoren worden geconfronteerd in vergelijking met andere ondernemingen.

Het doel van deze studie is om de rapportering van risicofactoren in de jaarverslagen van de ondernemingen in de steekproef te onderzoeken. Een jaarverslag is niet de enige manier van bedrijfsrapportering, maar CEO's beschouwen jaarverslagen als een zeer belangrijke communicatietool naar zowel interne als externe stakeholders (BOWMAN, 1984).

De gegevens worden verzameld aan de hand van een inhoudsanalyse van de jaarverslagen, een veelgebruikte methode in dit soort onderzoeken. Concreet worden de jaarverslagen van de ondernemingen uit de steekproef gecodeerd op basis van het aantal risicogerelateerde zinnen in het jaarverslag. Op die manier kan aan iedere onderneming uit de steekproef een risicorapporteringsscore worden toegekend. Appendix 1 bevat het gebruikte codeerschema om de risicogerelateerde zinnen in het jaarverslag toe te wijzen aan een bepaalde risicocategorie. Tabel 1 bevat enkele voorbeelden van risicogerelateerde zinnen in jaarverslagen en de manier waarop ze gecodeerd werden.

Tabel 1. Voorbeelden van risicorapportering

Onderneming	Voorbeeld risicorapportering	Risicocategorie
Barco	«Barco incurs foreign currency risk on recognized assets and liabilities when they are denominated in a currency other than the company's local currency.» Barco, 2006, p. 94	Financieel risico
Delhaize	«Delhaize Group's interest rate risk management objective is to achieve an optimal balance between borrowing cost and management of the effect of interest rate changes on earnings and cash flows.» Delhaize, 2006, p. 42	Financieel risico
Recticel	«The Group uses potentially dangerous substances and chemicals in the product development and manufacturing processes. There are risks of accidental pollution.» Recticel, 2006, p. 71	Operationeel risico
Elia	«Defects in the IT system and processes used to manage the electrical system may harm the latter's performance.» Elia, 2006, p. 84	Operationeel risico
Hamon	«The Group believes that it has covered all of its potential litigation risks.» Hamon, 2006, p. 77	Juridisch, taks- en reguleringsrisico
Distrigas	«The evolution in the Belgian and European gas market regulatory framework could have significant impact on the activities of Distrigas and its subsidiaries.» Distrigas, 2006, p. 16	Juridisch, taks- en reguleringsrisico

Onderneming	Voorbeeld risicorapportering	Risicocategorie
VPK	«In addition, there are risks and uncertainties specific to the market, of which the most important is fluctuation in margins resulting from greater or lesser competition.» VPK, 2006, p. 13	Businessrisico
Real Software	«Companies are increasingly competing on a global basis. Increased competition from global or pan-European players could lead to increased margin pressure and lower profitability.» Real Software, 2006, p. 23	Businessrisico

## 4. Empirische resultaten

### 4.1 Beschrijvende statistieken

Tabel 2 bevat de beschrijvende statistieken van de afhankelijke variabelen. Uit een eerste analyse van de data blijkt dat een jaarverslag gemiddeld 88 risicogerelateerde zinnen bevat. De variatie in de risicorapporteringsscore is zeer groot, met een minimum van 17 zinnen, een maximum van 445 zinnen en een standaardafwijking van 76,95. De minimumscore van nul voor elk van de risicocategorieën geeft aan dat er steeds minstens één onderneming is die niet rapporteert over de betreffende categorie. De minimum-

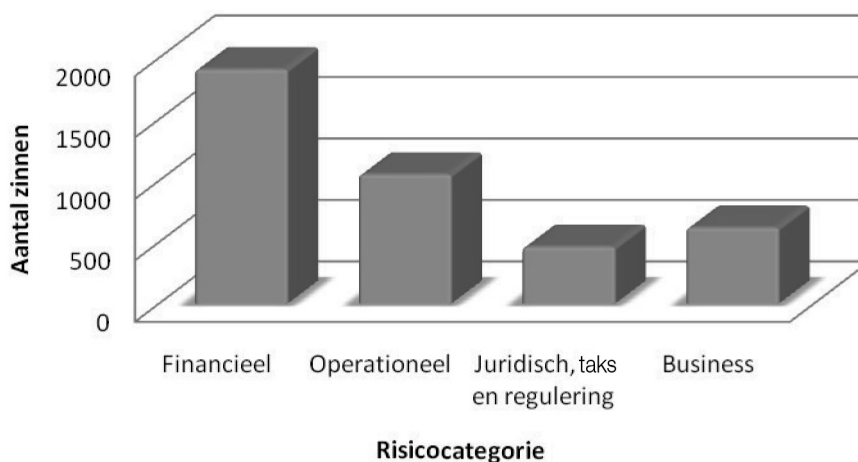
risicorapporteringsscore is 17, waaruit we kunnen afleiden dat iedere onderneming uit de steekproef ten minste een aantal risicofactoren vermeldt. Financiële en operationele risico's worden het vaakst vermeld, met een totaal van 1 907, respectievelijk 1 051, zinnen. Toelichtingen over businessrisico, juridisch, taks- en reguleringsrisico zijn het minst frequent. Figuur 2 geeft het relatieve belang van iedere risicocategorie weer. Tabel 3 geeft aan dat slechts een klein percentage (variërend tussen 2 % en 7 %) ondernemingen niet rapporteert over financieel, operationeel of businessrisico. Een iets groter percentage ondernemingen (11 %) rapporteert niet over juridisch, taks- en reguleringsrisico.

Tabel 2. Beschrijvende statistiek van de afhankelijke variabelen

	N	Minimum	Maximum	Som	Gemiddelde	Standaard afwijking	Mediaan
RDFIN	46	0	139	1 907	41,46	32,05	32,50
RDOP	46	0	189	1 051	22,85	32,52	11,00
RDLEG	46	0	75	461	10,02	14,38	4,00
RDBUS	46	0	94	618	13,43	18,79	6,00
RDSCORE	46	17	445	4 037	87,76	76,95	65,50

Noot: RDFIN is aantal zinnen in het jaarverslag gerelateerd aan financiële risico's; RDOP is het aantal zinnen in het jaarverslag gerelateerd aan operationele risico's; RDLEG is het aantal zinnen in het jaarverslag gerelateerd aan juridisch, taks- en reguleringsrisico; RDBUS is het aantal zinnen in het jaarverslag gerelateerd aan businessrisico; RDSCORE is de som van RDFIN, RDOP, RDLEG en RDBUS.

Figuur 2. Totaal aantal risicogerelateerde zinnen per categorie





Tabel 3. Ondernemingen die niet rapporteren over een risicocategorie

Categorie	Percentage van de totale steekproef (N = 46)
Financieel risico	2,17 %
Operationeel risico	4,35 %
Juridisch, taks- en reguleringsrisico	10,87 %
Businessrisico	6,52 %

Tabel 4 geeft de Pearson-correlatiecoëfficiënten tussen de afhankelijke en de onafhankelijke variabelen weer.

Tabel 4. Pearson-correlaties

	LNSALES	PROFIT	BETA	AUDIT	COMMIT	NONEXEC	LEADER
LNRDScore	,391(**) ,007	-,358(*) ,015(*)	,240 ,108	,093 ,539	,344(*) ,019	,236 ,114	,063 ,679
LNSALES		-,089 ,558	-,164 ,276	,323(*) ,029	,417(**) ,004	,296(*) ,046	-,079 ,602
PROFIT			,001 ,995	,300(*) ,042	-,041 ,786	-,205 ,171	-,045 ,767
BETA				,086 ,571	-,194 ,197	,118 ,433	-,026 ,862
AUDIT					,148 ,326	-,042 ,781	,016 ,918
COMMIT						,169 ,261	,135 ,370
NONEXEC							-,059 ,698

Noot: De eerste rij geeft de correlatiecoëfficiënten weer; p-waarden staan telkens op de tweede rij.  
(\*) betekent significantie op 0,05-niveau; (\*\*) betekent significantie op 0,01-niveau.

Uit bovenstaande tabel kunnen we afleiden dat de mate van risicorapportering (LNRDScore) significant positief gecorreleerd is met de ondernemingsgrootte (LNSALES). Ook is de aanwezigheid van een risicocomité en/of een risicomanager (COMMIT) positief gecorreleerd met de mate van risicorapportering in het jaarverslag. Winstgevendheid (PROFIT) daarentegen is negatief gecorreleerd met de mate van risicorapportering. Verder vinden we een positieve correlatie tussen ondernemingsgrootte en de aanstelling van een big 4-auditor (AUDIT), de aanwezigheid van een risicocomité of -manager, en het percentage niet-uitvoerende bestuurders in de raad van bestuur (NONEXEC).

## 4.2 Multivariabele analyse

Om de hypothesen (opgesteld in paragraaf 3) te testen, stellen we volgend regressiemodel op:

$$\text{LNRDScore} = \beta_0 + \beta_1 \cdot \text{LNSALES} + \beta_2 \cdot \text{PROFIT} + \beta_3 \cdot \text{BETA} + \beta_4 \cdot \text{AUDIT} + \beta_5 \cdot \text{COMMIT} + \beta_6 \cdot \text{NONEXEC} + \beta_7 \cdot \text{LEADER} + \varepsilon$$

De afhankelijke variabele (LNRDScore) is het natuurlijk logaritme van de risicorapporteringsscore. Onderstaande tabel geeft de resultaten van deze regressie weer.

Tabel 5. OLS-regressie die risicorapporteringsscore relateert aan ondernemingskarakteristieken

N=46	Unstandardized Coefficients β	Std. Error	t-statistic	p-value	Collinearity Statistics Tolerance	Statistics VIF
(Constant)	2,664	,649	4,104	,000***		
LNSALES	,144	,069	2,102	,042**	,627	1,596
PROFIT	-,026	,011	-2,477	,018**	,842	1,188
BETA	,469	,259	1,808	,079*	,698	1,432
AUDIT	,078	,295	,265	,792	,741	1,349
COMMIT	,539	,341	1,584	,122	,741	1,349
NONEXEC	,002	,006	0,295	,770	,758	1,320
LEADER	,142	0,281	0,505	,617	,930	1,075
	Sum of Squares	df	F	Sig.	R	R <sup>2</sup> Adj.
Regression	10,640	8	3,470	,004***	,655	,305
Residual	14,182	37				
Total	24,822	45				

Noot: (\*) betekent significantie op 0,05-niveau; (\*\*) betekent significantie op 0,01-niveau.

LNRSCORE is het natuurlijk logaritme van de risicorapporteringsscore, wat de som is van alle risicogerelateerde zinnen in het jaarverslag. LNSALES is het natuurlijk logaritme van de omzet. De winstgevendheid van de onderneming (PROFIT) wordt gemeten door de return on assets. De variabele BETA wordt gemeten aan de hand van het marktmodel gebaseerd op het capital asset pricing model. Auditkwaliteit (AUDIT) wordt gemeten door een dummyvariabele die gelijk is aan één wanneer een onderneming geaudit wordt door een big 4-auditor en nul indien dit niet zo is. De aanwezigheid van een risicocomité of een risicomanager (COMMIT) in de onderneming wordt gemeten door een dummyvariabele die gelijk is aan één wanneer een onderneming een risicocomité en/of een risicomanager heeft, en nul indien dit niet zo is. De verhouding van niet-executieve bestuurders (NONEXEC) wordt gemeten door de ratio van het aantal niet-executieve bestuurders tot de grootte van de raad van bestuur. De leiderschapsstructuur van een onderneming (LEADER) wordt gemeten door een dummyvariabele, die gelijk is aan één wanneer een onderneming een duale leiderschapsstructuur heeft, en nul indien ze een unitaire leiderschapsstructuur bezit.

Bovenstaande tabel geeft aan dat omzet, winstgevendheid en beta-significantie gerelateerd zijn aan de risicorapporteringsscore. De relatie tussen risicorapporteringsscore en ondernemingsgrootte is positief, wat aangeeft dat ondernemingen met een groot verkoopvolume ook meer informatie over risicofactoren vrijgeven. Dit bevestigt hypothese 1 en ook eerdere bevindingen van onder meer Abraham en Cox (2007), Beretta en Bozzolan (2004), Deumes en Knechel (2008) en Linsley en Shrivs (2006). De relatie tussen rapporteringsscore en winstgevendheid is negatief, wat aangeeft dat ondernemingen met een relatief lage winstgevendheid meer risicogerelateerde informatie vrijgeven. Deze bevinding ligt in lijn met eerdere resultaten van Barako *et al.* (2006). De relatie tussen rapporteringsscore en de beta-factor is positief, wat aangeeft dat ondernemingen met een relatief hoog systematisch risico meer rapporteren over de risico's waarmee ze te maken krijgen. Dit bevestigt hypothese 3 en bevestigt eveneens eerder onderzoek van onder andere Deumes (2008) en Abraham en Cox (2007). De andere variabelen in de regressie blijken insignificant te zijn. Met name de positieve relatie tussen risicorapportering en de aanwezigheid van een risicocomité of -manager die tot uiting kwam in de Pearson-correlatiestatistieken, verdwijnt in de multivariabele regressie. Dit geeft aan dat de (univariabele) correlatie tussen risicorap-

portering en risicocomité of -manager gedreven wordt door bedrijfsgrootte. De hoge R<sup>2</sup> Adjusted geeft aan dat bijna 31 % van de variantie in totale risicorapporteringsscore verklaard kan worden door bovenstaand regressiemodel.

## 5. Conclusie, beperkingen en mogelijkheden tot verder onderzoek

Deze studie bestudeert de mate van risicorapportering in Belgische jaarverslagen. De gebruikte data zijn afkomstig van een steekproef van 46 jaarverslagen van Belgische beursgenoteerde ondernemingen. Om iedere onderneming in de steekproef een risicorapporteringsscore toe te kennen, werd een inhoudsanalyse op de jaarverslagen van 2006 uitgevoerd. De verkregen risicorapporteringsscore werd vervolgens gerelateerd aan bedrijfseconomische en corporategovernancekarakteristieken van de ondernemingen.

De relatie tussen ondernemingsgrootte en risicorapporteringsscore is positief en significant, wat bevestigt dat grotere ondernemingen ook meer rapporteren over risico's. De voorspelde negatieve relatie tussen winstgevendheid en

risicorapporteringsscore is eveneens bevestigd. De beta-factor is positief significant gerelateerd aan de mate van risicorapportering. Deze studie onderzoekt ook de impact van een aantal corporategovernancevariabelen. Op basis van de multivariabele regressie blijkt dat geen van deze variabelen een significante invloed uitoefenen op de mate van risicorapportering.

De onderzoeksmethode van deze studie heeft een aantal beperkingen ten gevolge van het gebruik van inhoudsanalyse. Ten eerste kan subjectiviteit niet volledig worden geëlimineerd omdat met slechts één codeerder werd gewerkt. Ten tweede heeft de benadering op basis van zinnen haar beperkingen aangezien dit enkel de kwantiteit, niet de kwaliteit, van risicorapportering meet. Om de subjectiviteit tot een minimum te beperken, werden gedetailleerde beslissingsregels en coderingsprocedures opgesteld. Een andere beperking van deze studie is dat ze focust op de aard van risico's die worden gerapporteerd, en niet op de reden(en) van rapportering (of niet).

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## 7. Appendix: Codeerschema risicocategorieën

Risk category	Subcategory
Financial Risk	interest rate risk equity price risk foreign exchange risk commodity price risk credit risk and credit rating risk pension plan risk liquidity risk
Operational Risk	failing of internal processes failing of people; human error risk failing of systems; information infrastructure and technology risk information access and availability risk fraud risk environmental risk internal control weaknesses product liability safety and health risks related to social actions human resources issues
Legal, Tax and Regulatory Risk	lawsuits, litigation change in tax law change in legislation changes in political environment
Business Risk	demand selling price producing cost competition inventory restructuring strategic risk investments risk of losing market share unpredictable economic cycles product life cycles substitution risk reputation risk

### Voetnoten

- 1 American Institute of Certified Public Accountants.
- 2 Institute of Chartered Accountants in England and Wales.
- 3 Financial Reporting Council.

# The use of alternative earnings per share in the Annual Reports of European listed companies since the 2005 introduction of IFRS

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## 1. Abstract

The introduction of IFRS in 2005 for European publicly listed companies was intended as a step towards the increase in comparability of financial statements between companies, sectors and countries. As such, IFRS permits the use of additional information in the financial statements if it facilitates the user's understanding of the preparer's financial position. Such additional information includes Alternative Performance Measures (APMs). The damage to market confidence following the accounting scandals in the United States has no doubt influenced the debate on the use and usefulness of APMs in Europe. European bodies such as CESR have attempted to address this debate by providing their opinion and recommendations for the use of APMs, with the essential view towards protecting the non-professional investor from being misled by the use of APMs.

The main objective of this study is to determine the nature and extent of presentation of alternative Earnings Per Share (EPS) figures in the financial statements and annual reports of a selection of European listed companies, towards an understanding of the motives for using APMs. Three research questions were posed namely: (1) Has the number of companies reporting an alternative EPS figure increased over the three reporting years since the 2005 introduction of IFRS? (2) What alternative EPS terms are being used and how are they presented in the annual report and financial statements? (3) On average, are alternative EPS prices higher/lower than GAAP EPS prices and does this factor influence the frequency of presentation?

In this study, the annual reports of 31 European listed companies were analyzed for the years 2005, 2006 and 2007. The results show a steady rise in companies reporting alternative EPS from 2005 to 2007. The majority of alternative EPS terms used were such generic terms as «Adjusted EPS» and «Underlying EPS» behind which the variety and type (income-increasing or decreasing) of exclusions was vast. In line with previous research, the results indicate that the total primary alternative EPS prices disclosed tend to be higher than the GAAP EPS price. Interestingly though, when companies report a second or third alternative EPS measure, most presentations show a lower-than-GAAP alternative EPS price. Further, the research results indicate that companies prefer to present first in the document the measure that portrays a better performance.

## 2. Background and objectives

An APM (Alternative Performance Measure), as termed by the CESR (Committee of European Securities Regulators), is «any measure other than a defined measure (...) Defined measures are those included in audited financial statements» (CESR, 2005, 4). APMs are also known as non-GAAP (Generally Accepted Accounting Principles) or non-IFRS (International Financial Reporting Standards) measures and in the United States as *pro forma* earnings information<sup>3</sup>. APMs can be divided into two types: one type are measures of performance used by a company for internal analysis and to report non-financial, business information such as manufacturing levels; the other type are financial measures which use the audited financial statements as their basis, therefore resembling GAAP measures, but are in themselves unaudited. This second type has been further subdivided into two types: «well-defined and commonly used non-GAAP measures» such as EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) and «specifically defined non-GAAP measures» such as an adjusted EPS (Earnings Per Share) figure.

### 2.1 Support for APMs

Supporters of non-IFRS information suggest that APMs provide the user with more relevant, high quality and comparable information. Supporters believe that non-recurring items, excluded in *pro forma* disclosures, have no value in the assessment of the financial position of a company and are not related to the firm's long term performance outlook. They propose that the exclusion of exceptional items allows the firm to present a figure that is more comparable between years and with other firms. Managements want to be able to report additionally to the GAAP figures and highlight factors that are specific to their company and of importance for investors to know about their firm. Further, investors are keen to use APMs, seeking information on how the company uses the APM internally, in addition to consistency and comparability of information (BROUWER *et al.*, 2007).

### 2.2 Criticism of APMs

The fundamental criticism of APMs is that they are used by managements to paint a rosier financial picture than is actually reality (CHOI *et al.*, 2007). Since managers are free to choose what gets excluded from the *pro forma* information they report, they have free reign in how they portray

their company to investors (ENTWHISTLE *et al.*, 2006). Thus the critics are skeptical about the motivations for the use of APMs. Most often the *pro forma* figure presents a higher value than the GAAP figure (BHATTACHARYA *et al.*, 2003; ALLEE *et al.*, 2007; JOHNSON and SCHWARTZ, 2003; LOUGEE and MARQUARDT, 2003). Furthermore, the *pro forma* figure can be found to be composed most often of items that increase income (BHATTACHARYA *et al.*, 2004). Evidence suggests that firms will choose whether to emphasize (in press releases) the GAAP or the *pro forma* number based on which metric will show a better result (BOWEN *et al.*, 2005).

### 2.3 EU Regulation

In the United States, «Regulation G» lays out rules for how APMs can be used in earnings press releases and how to avoid misleading investors (ELLIOTT, 2006; ENTWHISTLE *et al.*, 2006). In Europe there is no specific regulation to instruct or guide preparers of financial statements and annual reports in their presentation of APMs; a matter which accounting and financial bodies have attempted to address by other means.

In November 2006, EFRAG (European Financial Reporting Advisory Group) as part of Europe's PAAinE (Pro-active Accounting Activities in Europe) initiative, published a general discussion paper on performance reporting in which they suggested that inconsistency of managements' approach to APMs in their financial communication to the market is an issue which can only impede comparability for users of financial communication. On the other hand, they acknowledge that non-GAAP information is valued by the users and by the managements for its additional disclosure of entity specifics.

CESR issued a recommendation in October 2005, which had as its inspiration the common consensus among CESR members that APMs could be used by managements to manipulate investor perceptions of the companies' financial position. Thus the «CESR Recommendation on Alternative Performance Measures» attempted to address the application of APMs in order to protect the user and maintain the acknowledged usefulness of the APM as a disclosure tool of additional entity specific information. CESR anticipated in their Recommendation that the use of APMs could increase following the adoption of IFRS in Europe and their concerns primarily focus on the definition, prominence and consistency of APMs. The following is an overview of the main points of the Recommendation (CESR, 2005):

**Definition** – companies should provide a definition of the components of the APM and indicate how this measure is calculated. Furthermore, companies should indicate that the measure is an unaudited, non-IFRS piece of information.

**Presentation and Prominence** – companies should present the APM alongside the defined measure and with less prominence than the defined measure.

**Comparatives and Consistency** – companies should provide comparative year information and present the APM consistently over time.

**Reason for Use** – companies should explain why they choose to present an APM and how they use the APM internally.

Overall, the common concern among these EU regulatory bodies is that the individual and non-professional investor is at risk of being misled by APMs because of the similarity to GAAP measures and the type of presentation given to APMs in annual reports. Such concerns for the non-professional investor's use of APMs have grounds in the research carried out by Bhattacharya *et al.* (2007) who find that *pro forma* information is most relied upon by non-professional investors.

### 2.4 Objectives

Research on the use of *pro forma* information in press releases in the United States is widely available but there has been no focus as yet on the presentation of APMs in the annual report under IFRS in Europe. This study will provide an insight into how European companies choose to report one particular APM, namely, alternative EPS, in their corporate reporting under IFRS. Further, this study provides a view on how a sample of European APM-reporting compares to the recommendations issued by CESR. Two research objectives are outlined below:

*Research Objective 1* – Investigate the nature and extent of presentation of alternative EPS measures in European annual reports and financial statements since the introduction of IFRS in 2005.

*Research Objective 2* – Compare alternative EPS price to GAAP EPS price and the presentation frequency of these measures, to explore a relationship between price difference and presentation frequency.

## 3. Overview of prior research and research questions

This section provides an overview of the research carried out to date on the topic of *pro forma* information in the United States and APMs in Europe. The large majority of prior research has been focused on analyst reported *pro forma* earnings and/or management reported *pro forma* earnings in quarterly press releases in the United States. However, the underlying concerns on use and presentation are equivalent for annual reports and financial statements, as for press releases of financial performance. The effect of the use and prominence of the *pro forma* information/APM on the user has been a particular focus, with an emphasis on the different impact on professional and unsophisticated investors.

### 3.1 APM price

A considerable research has determined that most often the APM presents a higher value than GAAP (BHATTACHARYA *et al.*, 2003; ALLEE *et al.*, 2007; JOHNSON and SCHWARTZ, 2003; LOUGEE and MARQUARDT, 2003) and that the items usually included to arrive at the alternative figure, are those which increase income (BHATTACHARYA *et al.*, 2004). Moreover, Walker and Louvari (2003), in their study of disclosure in annual reports under UK GAAP notice less enthusiasm among companies for disclosing an APM which is lower than the GAAP figure and further, conclude that companies are more likely to report an APM which increases a profit rather than decreases a loss.

### 3.2 Relative position of APM versus GAAP

Evidence assembled from press releases suggests that most firms report the *pro forma* number first (64 %), but that firms will choose whether to emphasize the GAAP or the *pro forma* number based on which measure will show a better result (BOWEN *et al.*, 2005). Bhattacharya *et al.* (2003) find in their sample of press releases that the *pro forma* figure is most often reported first (87 % of the time), of which 25 % had a higher GAAP figure, which goes some way towards supporting the argument that some managements report *pro forma* figures because they find them to be more informative to the user. Walker and Louvari (2003) also provide evidence of a positive correlation between disclosure and the size of difference between the higher alternative EPS figure versus GAAP. Notably, the position of the APM and GAAP measures in relation to each other has been found to play a part in the decision-making of non-professional investors and conversely, to play no part for professional investors (ALLEE *et al.*, 2007; ELLIOTT, 2006).

### 3.3 Subjectivity and inconsistency

One of the main criticisms of APMs is of their prevalence of presentation by companies and use by investors, despite the lack of objectivity in their definition (KOLEV *et al.*, 2008). Companies are free to define an APM as they wish and not only are the variety of possible exclusions myriad but the choices made by firms also vary: «For example, two firms could have identical special items yet one firm could choose to exclude those items in its *pro forma* earnings while another firm does not» (DOYLE *et al.*, 2003, 148). As such, it is anticipated that the comparability between companies is greatly reduced. Further, a lack of consistency between reporting periods for the same firm has been revealed, in which the definition of *pro forma* earnings was found to be different in each case over a three year period (BHATTACHARYA *et al.*, 2004).

### 3.4 Presentation and prominence

Given the information overload society faces today, the resultant limited attention leads to the tendency of people to work with information as it is presented, thus the presentational format can affect the way a piece of information

is processed (HIRSCHLEIFER and TEOH, 2003). In other words, information that is presented in a more visually accessible, concise and prominent format is more likely to be viewed and processed by the reader. In addition, findings that the graphical versus narrative presentation of financial information affects investors' retrieval of information and decision making differently, is further evidence of limited attention (DESANCTIS and JARVENPAA, 1989). Also, financial data in graphical rather than tabular format is thought to be more easily processed (VESSEY and GALLETTA, 1991).

### 3.5 Presence and prominence of APMs – effects on non-professional investors

Research has identified that it is mainly unsophisticated investors, as opposed to professionals and analysts, who rely on non-GAAP information; even when the non-GAAP information is presented with GAAP figures, unsophisticated investors «focus» on the non-GAAP figures (BHATTACHARYA, 2007). Frederickson and Miller (2004) submit that even the presence of a higher than GAAP *pro forma* figure affects the investment judgments of non-professional investors towards a more positive assessment of the firm, whereas professional investors are unaffected.

Furthermore, research has shown that the prominence with which the *pro forma* number is presented in relation to the GAAP number bears an influence on the non-professional investors' judgment, absent among professional investors. Elliott (2006) finds that non-professional investors are more susceptible to managements' efforts to emphasize the *pro forma* figure over the GAAP figure than when the GAAP figure takes precedence over the *pro forma*. Similarly, Allee *et al.* (2007) find evidence of increased trading activity among unsophisticated investors when the *pro forma* number is given more weight in the press release *vis-à-vis* cases where a *pro forma* number is reported but the GAAP number is emphasized.

*Pro forma* emphasis and prominence of presentation versus GAAP information increases the opportunity for the non-professional investor to read the *pro forma* measure (FREDERICKSON and MILLER, 2004). Non-professional investors, due to their inherently lower level of experience, look for cues to help them decide what information is important (MAINES and McDANIEL, 2000). Thus, prominently presented APMs could be taken as such a cue to nonprofessional investors leading them to attach more importance to these measures (FREDERICKSON and MILLER, 2004). Likewise, the influential effects of emphasis and prominence on judgment and decision-making could result in non-professional investors' tendency to rely on prominent information and, further, the conscious decision by managements to pursue the effects of prominence to their own advantage (ELLIOTT, 2006).

### 3.6 Research questions

These considerations on the prevalence, presentation and prominence of APMs lead to the formulation of the following three research questions:

**Research question 1:** Has the number of companies reporting an alternative EPS figure increased over the three reporting years since the 2005 introduction of IFRS?

**Research question 2:** What alternative EPS terms are being used and how are they presented in the annual report and financial statements?

**Research question 3:** On average, are alternative EPS prices higher/lower than GAAP EPS prices and does this factor influence the frequency of presentation?

## 4. Research methodology

This research comprises an analysis of group annual reports and consolidated financial statements published under IFRS. The document title «annual report» seems to be used interchangeably by some companies on Corporate Social Responsibility presentations or presentations of non-financial data. The term annual report, for this purpose, refers to the more commonly thought of definition of a document which presents the consolidated and company financial statements, and contains such sections as Financial Highlights, Operating and Financial Review (OFR), Chairman's and/or Chief Executive's Statement, Remuneration report etc. The financial statements are, in practice, sometimes presented in a separate document<sup>4</sup>.

In total, the annual reports of 72 companies were consulted; this list was compiled from the Dow Jones Euro Stoxx 50 and Dow Jones Stoxx 50 as at July 3, 2008; 28 companies were represented on both index lists therefore duplicates were eliminated. The 2007 annual report documents were retrieved from each company's website, examined to establish reporting under IFRS over the 3 year period, and, subsequently, for the presence of an alternative EPS measure. Owing to the fiscal calendar, some documents bridged two years thus the annual report which broadly covered 2007 was taken e.g. the year ended March 2008 was counted as a 2007 annual report. Of the 72 companies, 6 were excluded because they report under US GAAP and almost exclusively refer to US GAAP figures in the annual report, or they only made the changeover to IFRS in the year 2007 thus comparable years' annual reports under IFRS did not exist, 2 were excluded because the full annual report was not available in English for the complete period. The final list of companies to be analyzed totaled 31, resulting in 93 annual reports.

Each document was scanned, using the «pdf» document search function, for the following terms in order of use: «per share», «earnings per share», «EPS», «per ordinary share», «per common share», «*pro forma/proforma*», «non-GAAP»,

«non-IFRS». Further, a manual search of the initial pages of the document, which contain the «Highlights» section of the report, was carried out due to the very occasional failure of the «pdf» search function on certain graphical presentations.

A framework was constructed, largely adapting the generic annual report sections tabulated by Beattie *et al.* (2008), and used to note the frequency and presentational format of alternative and GAAP EPS measures. The sections analysed for content and presentational format of EPS figures were those in which a company could be expected to promote EPS results e.g. Highlights, OFR, Financial Review, Chairman's and/or Chief Executive's Statement etc. Thus, the exclusion of sections on company remuneration and notes to the financial statements, since it could be argued that such sections are used to present facts without commentary or presentation that promotes the performance of the company. Furthermore, the EPS measure was recorded under the frequency count only if there was mention of the EPS figure, a comment on the figure or a comparison was made to another EPS figure or to another year. References to EPS in the following did not constitute inclusion in the frequency count: forward-looking analysis, calculation of share dividend or remuneration, performance targets, share buybacks, corporate social responsibility, glossary.

The alternative and corresponding GAAP EPS prices were recorded per company. If a second or third alternative EPS measure was presented, the APM title and price was also recorded. The APM recorded as the primary APM is that which is presented most frequently in the document and the first alternative EPS measure presented in the document. The frequency count of EPS measures was recorded per measure and per measures presented together; when both measures are presented together the measure presented first is noted. The definition of «presented together» is either successively in the same narrative or bullet point, in consecutive paragraphs, consecutively or side by side in a bar chart or table, or located on the same page but not necessarily in close proximity. A page count is also employed for the EPS measures presented individually and together. The measure presented first in the document was noted, of which the measure presented first was recorded.

## 5. Research results

In this section, a short description of the sample companies is provided and the research results are presented, per research question, in some cases with a brief comment for ease of drawing conclusions.

### 5.1 Description of the companies reporting alternative EPS

The companies that reported an alternative EPS figure (in the total analysis period 3 years) were from the following countries: United Kingdom (38 %), France (25 %), Switzer-



land (15 %), Germany (9 %), Spain (6 %), Italy (5 %) and the Netherlands (2 %).

The industry sectors<sup>5</sup> represented by these companies were diverse: Financials (35 %), Telecommunications (12 %), Basic Materials (10 %), Oil and Gas (10 %), Healthcare (9 %), Consumer Goods, Consumer Services, Industrials (each 7 %), Utilities (2 %).

## 5.2 Results research question 1

Has the number of companies reporting an alternative EPS figure increased over the three reporting years since the 2005 introduction of IFRS?

Table 1. Breakdown of companies disclosing one or more alternative EPS measures

Number alternative EPS measures	2007		2006		2005	
	Count	%	Count	%	Count	%
One Alternative EPS Measure	25	81 %	22	81 %	19	83 %
Two Alternative EPS Measures	5	16 %	5	19 %	3	13 %
Three Alternative EPS Measures	1	3 %	0	0 %	1	4 %
Total	31	100 %	27	100 %	23	100 %

In 2007, 6 companies chose to report more than one alternative EPS measure; they presented a second and/or third EPS price which was different from the primary APM disclosed. This represents a small increase from 2005 in which 4 companies disclosed supplementary APMs.

Of the total primary APMs disclosed, 59 % were higher than or equal to the GAAP price (52 % higher; 7 % equal).

Of the 66 companies that report their annual figures under IFRS over the three year period studied, 47 % (31 companies) presented an alternative EPS figure in 2007. The analysis of comparative years for these companies revealed that 27 of them reported an alternative EPS figure in 2006 and only 23 companies in 2005. Unusually, one company skipped a year in their reporting using an alternative EPS figure only in 2007 and 2005.

Of the second and third APMs disclosed, only 41 % were higher than or equal to the GAAP price (23 % higher; 18 % equal), thus the GAAP price was higher in 59 % of the cases. In total (98 APMs), 56 % of the alternative EPS prices disclosed were higher than or equal to GAAP (47 % higher; 9 % equal).

Table 2. Total alternative performance measures: higher, lower or equal to the GAAP price

Number alternative EPS measures	Higher		Lower		Equal		Total
	Count	%	Count	%	Count	%	Count
1st alternative EPS measure	42	52 %	33	41 %	6	7 %	<b>81</b>
2nd alternative EPS measure	4	27 %	10	66 %	1	7 %	<b>15</b>
3rd alternative EPS measure	0	0	0	0	2	100 %	<b>2</b>
Total 2nd & 3rd EPS measures	4	23 %	10	59 %	3	18 %	<b>17</b>
Total	46	47 %	43	44 %	9	9 %	<b>98</b>

## 5.3 Results research question 2

What alternative EPS terms are being used and how are they presented in the annual report and financial statements?

### 5.3.1 Alternative EPS terms

A variety of alternative EPS terms were used over the three years which could largely be grouped into three categories: those with generic titles that could potentially cover any

number of exclusions; those with more specific titles listing the type of exclusions; and those with entity specific titles that are individual to each company and require detailed examination of the company's annual report to find the definition. The most common titles used were «Adjusted EPS» and «Underlying EPS», each representing 19 % of the total APM terms used over the three year period examined. These terms were most popular in the UK and France, representing 52 % and 45 % respectively of each country's total alternative EPS titles.

Of the 22 companies that reported alternative EPS in all 3 years, over three-quarters (77 %) used the same title. 5 companies used an APM for the first time in 2006 and continued to use the same title in 2007; 3 companies reported an APM only for the first time in 2007. Thus, there is consistency in the use of APM terms among 81 % of the companies examined (including the 10 % only reporting for the first time in 2007). Of the remaining 19 % (6 companies), 3 companies used a different alternative EPS term each year; another included a new additional alternative EPS measure in 2007 making it the primary APM used; the final 2 changed the APM term in one of the years and continued to use it. Consistency was lacking in one of these companies in terms of both presence and description of the APM: this company reported an alternative EPS measure in 2005 and 2007, each with a different title.

Of the exclusions behind these generic titles, the variety was very high: combinations of depreciation, amortization,

fair value and other remeasurements, various impairments, restructuring and integration costs, gains/losses on sale of investments and subsidiaries. Exclusions were most often income-increasing but there were also instances of combined income-increasing and decreasing items.

A number of companies reported a second alternative EPS figure in addition to the primary: 19 additional alternative EPS figures were reported which largely constituted EPS measures excluding a particular product, EPS over a different timeframe e.g. number of weeks, or EPS calculated as if an acquisition had taken place within a different timeframe e.g. from the beginning of the year. GAAP EPS names largely centered around the term Earnings Per Share with some small variations e.g. the words «reported», «basic» or «net» preceding «Earnings per share», or «Net profit per share» or «Profit per share». One company used «Statutory EPS» in addition to «Earnings per share».

Table 3. Analysis of the alternative EPS terms in use in the sample companies over the 3 year period

Alternative EPS terms	Total	% Total	Alternative EPS terms per country						
			CH	DE	ES	FR	UK	IT	NL
<i>Generic</i>									
Adjusted	15	19 %				9	4	2	
Underlying	15	19 %	3				12		
Core	5	6 %	3	2					
Recurrent / Excluding Non-Recurrent Items	8	10 %		2	2	4			
Before Specific / Extraordinary /Exceptional Items	8	10 %	3				5		
<i>Pro Forma</i>	9	11 %	3	3			2	1	
Ordinary	1	1 %			1				
Comparable Basis	1	1 %					1		
Earnings Per Share	1	1 %			1				
Sub-Total	63	78 %							
<i>Specific</i>									
Earnings Per Share*	3	4 %			1		2		
Before Depreciation, Amortization & Impairments	1	1 %				1			
Before Results on Divestments	2	2 %							2
Excluding Restructuring & Synergy Costs	1	1 %					1		
Before Tax	3	4 %				3			
Excluding Loss on Unauthorized Trading Activities	1	1 %				1			
Excluding Capital Gains	1	1 %				1			
Excluding Sale of Non-Current Assets	1	1 %				1			
Sub-Total	13	15 %							
<i>Entity Specific</i>									
Business Performance EPS	1	1 %					1		
Replacement Cost Profit per Share	3	4 %					3		
Excluding a Transaction or Product	1	1 %						1	
Sub-Total	5	6 %							
TOTAL									
Total per Country	81	100 %	12	7	5	20	31	4	2
Percentage of Total per Country		100 %	15 %	9 %	6 %	25 %	38 %	5 %	2 %
Second & Third Alternative EPS Figures per Country	19			1		5	11	2	

### 5.3.2 Presentation

#### Location in financial statements

Presentation of alternative EPS figures on the face of the Income Statement was not so common, occurring only 15 % of the time over the 3 year period and in the exclusive domain of 2 countries, France and Switzerland. In total 6 companies presented alternative EPS on the face of the Income Statement: 4 companies presented on the Income Statement consistently over the 3 years; 1 presented only in 2005 and 1 reported an alternative EPS measure for the first time in 2007. 5 companies chose to present their alternative EPS figure as the last line item on the Income Statement and, as such, the page. This presentation is consistent with the observation of Walker and Louvari (2003) in their research on UK GAAP in which they suggest that the practice of including an alternative EPS figure as the last line of the Income Statement offers a «bottom line» performance figure.

#### Location in annual report

In 2007, the top 2 sections in which companies chose to present an alternative EPS measure were the Financial Review and Highlights (after contents page), representing 46 % of the frequency count. Presentations of GAAP EPS measures occurred most frequently in the sections OFR and Financial Review, together totaling 48 % of the frequency count. Similarly, when both alternative and GAAP EPS figures are presented together, this simultaneous presentation is found most often in the sections OFR and Financial Review (46 % of total).

#### Presentation format

In general, tabular and narrative formats proved the most popular for presenting EPS figures. In 2007, the use of nar-

rative and tables constituted 71 % of the total presentational format of alternative EPS figures; 85 % of GAAP EPS figures; and 78 % of the cases where both measures were presented together. The use of tables was predominant in the presentation of GAAP EPS: 57 % of GAAP EPS measures were presented in a table compared to only 39 % of alternative EPS measures. Non-narrative formats (that is bar charts, box outs, bullet points, headlines, excluding tables) were twice as likely to be employed to present an alternative EPS figure (29 %) than a GAAP EPS figure (15 %).

#### Location and format combined – Analysis year 2007

Cross-tabulated (Tables 4 & 5) in terms of location and format, the highest percentage frequency of presentation is for alternative EPS measures is Financial Review/Table (10,7 %) followed by narrative and tabular presentations in the OFR, Financial Review and Historical Record. Also of note was the 7,4 % frequency count in Highlights (after contents)/Bar chart. Further analysis of the alternative EPS measures (Table 7) reveals that 64 % of the time, the alternative EPS price is higher than the GAAP EPS price. For GAAP EPS, Historical Record/Table (14,8 %) carries the most weight closely followed by OFR/Narrative (13,9 %). The alternative EPS measure is twice as likely (APM 16,5 % versus GAAP 8,3 %) to be presented in a location and format combination of Highlights (before and after contents pages)/Bar chart, Box out or Bullet point, of which the APM price presented is higher than GAAP 70 % of the time. When both measures were presented together (Table 6), this occurred most frequently in the Financial Review/Table combination (15,3 %), followed by Historical Record/Table (13,6 %).

Tables 4 - 6. Percentage frequency in location & presentation format for year 2007

Table 4: 2007 Alternative EPS frequency	Presentational format						
	Bar chart	Box out	Bullet point	Headline	Narrative	Table	TOTAL
Highlights (before contents page)	1,7 %	0,8 %	0,8 %			3,3 %	6,6 %
Highlights (after contents page)	7,4 %	1,7 %	4,1 %		0,8 %	5,8 %	19,8 %
Chairman's Statement					5,8 %		5,8 %
Chief Executive's Statement		0,8 %			4,1 %	0,8 %	5,8 %
OFR	0,8 %				8,3 %	5,8 %	14,9 %
Operating Review				0,8 %	2,5 %	0,8 %	4,1 %
Financial Review	3,3 %	0,8 %	3,3 %		7,4 %	10,7 %	25,6 %
Directors' Report			0,8 %		3,3 %	1,7 %	5,8 %
Shareholders' Information				0,8 %		1,7 %	2,5 %
Historical Record			0,8 %			8,3 %	9,1 %
<b>TOTAL</b>	13,2 %	3,3 %	10,7 %	1,7 %	32,2 %	38,8 %	100 %

<b>Table 5: 2007 GAAP EPS Frequency</b>	<b>Presentational Format</b>						
<b>Location</b>	<b>Bar chart</b>	<b>Box out</b>	<b>Bullet point</b>	<b>Headline</b>	<b>Narrative</b>	<b>Table</b>	<b>TOTAL</b>
Highlights (before contents page)			0,9 %			7,4 %	8,3 %
Highlights (after contents page)	4,6 %	1,9 %	0,9 %		1,9 %	7,4 %	16,7 %
Chairman's Statement					0,9 %		0,9 %
Chief Executive's Statement					1,9 %		1,9 %
OFR	0,9 %				13,9 %	11,1 %	25,9 %
Operating Review						1,9 %	1,9 %
Financial Review			3,7 %		8,3 %	10,2 %	22,2 %
Directors' Report			0,9 %			1,9 %	2,8 %
Shareholders' Information					0,9 %	2,8 %	3,7 %
Historical Record			0,9 %			14,8 %	15,7 %
<b>TOTAL</b>	5,6 %	1,9 %	7,4 %	0 %	27,8 %	57,4 %	100 %

<b>Table 6: 2007 Frequency both measures presented together</b>	<b>Presentational format</b>							
<b>Location</b>	<b>Bar chart</b>	<b>Box out</b>	<b>Bullet point</b>	<b>Headline</b>	<b>Narrative</b>	<b>Table</b>	<b>Page</b>	<b>TOTAL</b>
Highlights (before contents page)						6,8 %	1,7 %	8,5 %
Highlights (after contents page)	5,1 %	1,7 %				8,5 %	1,7 %	16,9 %
Chairman's Statement						1,7 %		1,7 %
Chief Executive's Statement						1,7 %		1,7 %
OFR					8,5 %	10,2 %		18,6 %
Operating Review						1,7 %	1,7 %	3,4 %
Financial Review			5,1 %		6,8 %	15,3 %		27,1 %
Directors' Report			1,7 %			1,7 %	1,7 %	5,1 %
Shareholders' Information						1,7 %		1,7 %
Historical Record			1,7 %			13,6 %		15,3 %
<b>TOTAL</b>	5,1 %	1,7 %	8,5 %	0 %	15,3 %	62,8 %	6,8 %	100 %

Table 7. Analysis presentation frequency of alternative EPS in terms of APM price (higher/lower than GAAP) for the year 2007

Location	Presentational format – Direction alternative EPS price as compared to GAAP (higher or lower)														
	Bar chart		Box out		Bullet point		Headline		Narrative		Table		TOTAL		
	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Total
Highlights (before contents page)	0,8 %	0,8 %	0,8 %	0,8 %	0,8 %	0,8 %					1,7 %	1,7 %	4,1 %	2,5 %	6,6 %
Highlights (after contents page)	5,0 %	2,5 %	0,8 %	0,8 %	0,8 %				0,8 %		3,3 %	2,5 %	13,2 %	6,6 %	19,8 %
Chairman's Statement									5,0 %	0,8 %			5,0 %	0,8 %	5,8 %
Chief Executive's Statement									1,7 %	2,5 %	0,8 %		2,5 %	3,3 %	5,8 %
OFR									4,1 %	4,1 %	3,3 %	2,5 %	7,4 %	7,4 %	14,9 %
Operating Review							0,8 %		2,5 %		0,8 %		4,1 %	0 %	4,1 %
Financial Review	2,5 %	0,8 %	0,8 %	0,8 %	2,5 %	0,8 %			5,8 %	1,7 %	8,3 %	2,5 %	19,8 %	5,8 %	25,6 %
Directors' Report						0,8 %				3,3 %		1,7 %	0 %	5,8 %	5,8 %
Shareholders' Information												1,7 %	0 %	2,5 %	2,5 %
Historical Record						0,8 %					6,6 %	1,7 %	7,4 %	1,7 %	9,1 %
TOTAL	8,3 %	5,0 %	2,5 %	1,7 %	7,4 %	2,5 %	0,8 %	0,8 %	19,8 %	12,4 %	24,8 %	14,0 %	63,6 %	36,4 %	100 %

Measure presented first in document

The analysis of the year 2007 in Table 8 shows that the alternative EPS measure is presented first in the document 45 % of time (14 annual reports), of which, the alternative EPS price was higher than GAAP 71 % of the time. The GAAP measure was presented first in the document 55 % of the time: the GAAP price was higher than or equal to the APM price 65 % of the time (53 % GAAP higher, 12 % GAAP equal). Thus, this result could be interpreted as an indication that companies prefer to present first in the document the measure that portrays better performance. Of the total results of which measure is presented first in the document, 52 % of the time the alternative EPS prices were higher than GAAP.

The most popular sections in which an EPS measure is first reported in the document are the Highlights (before and after contents page) representing 81 % (39 % APM, 42 % GAAP) of the total first instances of EPS reporting; these sections are typically located within the first 10-20 pages of the annual report document. One company (UK) reported their alternative EPS figure on the cover page of the annual report. The GAAP measure is much more likely to be displayed in tabular format: 88 % of GAAP measures are presented in tables and 12 % in the other formats. In contrast, the APM is more often presented in a bar chart, bullet point, box out or narrative: 64 % of APMs are presented in one of these formats while only 36 % are presented in tables.

An analysis of the 13 instances of simultaneous presentation (Table 9) reveals broadly similar results: alternative EPS is presented first 46 % of the time of which the alternative EPS is higher than GAAP 67 % of the time. GAAP is presented first 54 % of the time, of which, however, the GAAP figure is higher 71 % of the time (as compared to the total 2007n = 31 in which case the GAAP price was higher only 53 % of the time). This result demonstrates a higher instance, not only of presenting the GAAP measure first but also a higher instance of presenting first a GAAP price that exceeds the APM price. Of the total results (n = 13), when both measures are presented together, 53 % of the time the GAAP price was higher than the alternative EPS price. This contrasts with the analysis of the total sample (n = 31) in which the alternative EPS price was found to be higher 52 % of the time.

Table 8. Percentage frequency in location and format of EPS measure first presented in the document

Location	Presentational format: Direction alternative EPS price as compared to GAAP (higher or lower)													
	Bar chart		Box out		Bullet point		Headline		Narrative		Table		TOTAL	
Alternative or GAAP 1st n = 31	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Equal	TOTAL
Alternative														
Cover Page														
Highlights (before contents page)	3,2 %													3,2 %
Highlights (after contents page)	3,2 %	3,2 %			6,5 %	3,2 %								6,5 %
Chairman's Statement							3,2 %							3,2 %
Sub-Total Alternative	6,5 %	3,2 %	6,5 %		6,5 %	3,2 %	3,2 %				9,7 %	6,5 %	0 %	45,2 %
GAAP														
Income Statement														
Highlights (before contents page)												6,5 %		6,5 %
Highlights (after contents page)					3,2 %						3,2 %	9,7 %	6,5 %	22,6 %
OFR	3,2 %										12,9 %	3,2 %		19,4 %
Financial Review												3,2 %		3,2 %
Financial Review												3,2 %		3,2 %
Sub-Total GAAP	3,2 %										16,1 %	25,8 %	6,5 %	54,8 %
TOTAL	9,7 %	3,2 %	6,5 %	0 %	6,5 %	6,5 %	3,2 %	0 %	3,2 %	0 %	25,8 %	32,3 %	6,5 %	100 %

Table 9. Percentage frequency in location and format of the EPS measure presented first in the document – EPS measures presented simultaneously

Location	Presentational format: Direction alternative EPS price as compared to GAAP (higher or lower)													
	Bar chart		Box out		Bullet point		Headline		Narrative		Table		TOTAL	
	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher	Lower	Equal	TOTAL
<b>Presentation simultaneously n = 31</b>														
<i>Alternative 1st</i>														
Highlights (before contents page)														7,7 %
Highlights (after contents page)	7,7 %		7,7 %											38,5 %
<i>Sub-Total Alternative 1st</i>	7,7 %		7,7 %											46,2 %
<i>GAAP 1st</i>														
Income Statement														7,7 %
Highlights (before contents page)					7,7 %									23,1 %
Highlights (after contents page)														15,4 %
Financial Review														7,7 %
<i>Sub-Total GAAP</i>														53,8 %
<b>TOTAL</b>	7,7 %	0 %	7,7 %	0 %	0 %	15,4 %	0 %	0 %	0 %	0 %	30,8 %	38,5 %	0 %	100 %

### 5.3.3 Additional Information (Table 10)

#### Non-IFRS Label

For the total period examined, only 26 % of the annual reports contained alternative EPS measures which were clearly identified as being non-IFRS and/or unaudited information. This figure represents only 4 of the total 7 countries; over 50 % of the total identifications were made by UK companies. In the vast majority of cases this identification was done by means of a footnote or a label.

#### Comparative Years

In 97,5 % of the annual reports, the alternative EPS measure was presented along with comparative years. Of the 2 annual reports in which comparative years were not provided, both were from the year 2007. For one company it was the first time they reported an APM and it represented an exclusion of the loss on unauthorized trading activities, therefore highly exceptional and not very relevant to include the comparative years. The second was the company that used a different APM in each of its reporting years (2007 & 2005) and indeed, comparative years should have been calculated.

#### GAAP Reconciliation

A reconciliation of the alternative EPS figures back to the GAAP EPS figures is submitted in 41 % of the cases. The UK has by far the highest proportion of companies that include a reconciliation in their annual report: 59 % of the total reconciliations were provided by UK companies, followed at a distance by France with 18 %. These reconciliations are for the large part provided in the notes to the financial statements and on occasion the reconciliation is a general reconciliation of, for example, adjusted or underlying profit rather than EPS specifically.

#### Reason for Use

A reason for the use of the alternative EPS figure is provided in 31 % of the annual reports. Once again, the UK leads the way with 68 % of the total and doubling its count from 4 annual reports in 2005 to 8 in 2007. This could indicate a trend towards promoting the image of increased transparency among UK companies. «Comparability» was the most common reason cited (40 %), followed by «Primary Internal Performance Measure» (24 %). No company explained both why they present the APM and how the APM is used internally, as per the CESR Recommendation; instead, the fact that the APM is used internally was cited as a reason for publishing the APM in the annual report.

Table 10. Frequency count additional information

Reason for APM	Is a reason for the use of alternative EPS provided?	Yes	12	8	5	25	30,9 %
		No	19	19	18	56	69,1 %
	Total	31	27	23	81	100 %	
Which countries?	DE	1	1	0	2	8,0 %	
	FR	1	1	1	3	12,0 %	
	IT	2	1	0	3	12,0 %	
	UK	8	5	4	17	68,0 %	
What reason is given?	Primary Internal Performance Measure	3	2	1	6	24,0 %	
	Comparability	4	4	2	10	40,0 %	
	More Meaningful Analysis	1		1	1	4,0 %	
	Useful Additional Information	2	1	1	4	16,0 %	
	Better Illustration of Performance	2	1	1	4	16,0 %	
	Total	12	8	5	25	100 %	
Non-GAAP Label	Is the alternative EPS measure identified as a non-GAAP measure?	Yes	8	6	7	21	25,9 %
		No	23	21	16	60	74,1 %
	Total	31	27	23	81	100 %	
Which countries?	CH	1	1	1	3	14,3 %	
	DE	2	2	1	5	23,8 %	
	FR	1	0	1	2	9,5 %	
	UK	4	3	4	11	52,4 %	



Reconciliation	Is GAAP reconciliation for the APM provided?	Yes	11	11	11	33	40,7 %
		No	20	16	12	48	59,3 %
		Total	31	27	23	81	100 %
	Which countries?	CH	1	1	1	3	8,8 %
		DE	1	1	0	2	5,9 %
FR		1	2	3	6	17,6 %	
IT		1	1	1	3	8,8 %	
UK		7	6	7	20	58,8 %	
Comparatives	Are comparative years provided?	Yes	29	27	23	79	97,5 %
		No	2	0	0	2	2,5 %
		Total	31	27	23	81	100 %

### 5.4 Results: research question 3

On average, are alternative EPS prices significantly higher/lower than GAAP EPS prices and does this factor influence the frequency of presentation?

#### EPS Price

Overall, the average alternative EPS figure ( $M = 27,075$ ) presented by the companies is below the average GAAP EPS figure ( $M = 27,679$ ) presented, but these results are not statistically significant ( $t = -1,358$ ). However, when isolating the cases of average Alternative EPS price  $\geq$  GAAP EPS price, the difference between the means (alternative EPS  $M = 20,973$ ; GAAP EPS  $M = 20,205$ ) is significant ( $t = 2,840$ ;  $p < 0,05$ ). The converse, alternative EPS price  $<$  GAAP EPS PRICE, is also statistically significant ( $t = -2,722$ ;  $p < 0,01$ ).

#### Frequency of Presentation and Page Count

The frequency count for the presentation of these figures reveals a higher instance of presentation of GAAP EPS ( $M = 4,309$ ) compared to the Alternative EPS ( $M = 4,049$ ),

however, these mean presentation counts are not significantly different from each other ( $t = -0,786$ ). Based on these mean presentation counts, even when the alternative EPS price is higher than GAAP, the GAAP figure is presented more often. Although this result is not scientifically significant ( $t = -1,017$ ), it is an indication that companies present the GAAP figure more often than the alternative figure. The page count for the presentation of these figures is closer to a significant result ( $t = -1,914$ ) (Alternative EPS  $M = 3,420$ ; GAAP EPS  $M = 3,963$ ) and similarly, indicates the higher instance of presentation of the GAAP figure, also when the alternative EPS price is higher than GAAP.

#### Frequency of Presentation Together

When both the Alternative and GAAP EPS figures are presented simultaneously, most often, the GAAP figure is presented first (Alternative  $M = 0,597$ ; GAAP  $M = 1,985$ ;  $t = -6,806$ ;  $p < 0,01$ ). This result stands also when the adjusted figure is higher than the GAAP figure (Alternative  $M = 0,500$ ; GAAP  $M = 2,105$ ;  $t = -5,563$ ;  $p < 0,01$ ).

Table 11. Results of statistical analysis: Paired sample t-test (including Income Statement presentation)

		EPS PRICE		FREQUENCY OF PRESENTATION		PAGE COUNT		FREQUENCY OF PRESENTATION TOGETHER					
n	Alternative EPS	Mean GAAP EPS	t	Alternative EPS	Mean GAAP EPS	t	Alternative EPS Presented 1st	Mean GAAP EPS Presented 1st	t				
<b>All Cases</b>													
2007	26,178	26,164	0,019	4,065	4,484	-0,739	3,290	4,000	-1,432	26	0,692	1,769	-3,333**
2006	30,019	30,695	-1,266	4,111	4,444	-0,537	3,556	4,222	-1,255	23	0,565	2,043	-4,165**
2005	24,828	26,182	-1,316	3,957	3,913	0,085	3,435	3,609	-0,409	18	0,500	2,222	-4,366**
Total	27,075	27,679	-1,358	4,049	4,309	-0,786	3,420	3,963	-1,914	67	0,597	1,985	-6,806**
<b>Price Alternative EPS &gt;= GAAP EPS</b>													
2007	38,801	37,420	2,076	4,444	4,722	-0,344	3,500	4,222	-1,069	15	0,800	2,067	-2,523*
2006	14,164	13,676	<b>2,525*</b>	3,143	4,214	-1,293	2,786	4,000	-1,652	12	0,083	2,000	-5,702**
2005	5,935	5,641	2,005	4,133	4,200	-0,105	3,533	3,867	-0,649	11	0,545	2,273	-2,666*
Total	20,973	20,205	<b>2,840**</b>	3,957	4,404	-1,017	3,298	4,043	-2,003	38	0,500	2,105	-5,563**
<b>Price Alternative EPS &lt; GAAP EPS</b>													
2007	8,701	10,579	-1,341	3,538	4,154	-0,772	3,000	3,692	-0,918	11	0,545	1,364	-2,324*
2006	47,095	49,022	-1,941	5,154	4,692	0,507	4,385	4,462	-0,101	11	1,091	2,091	-1,581
2005	60,252	64,695	-1,635	3,625	3,375	0,271	3,250	3,125	0,158	7	0,429	2,143	-9,295**
Total	35,511	38,011	<b>-2,722**</b>	4,176	4,176	0,000	3,588	3,853	-0,600	29	0,724	1,828	-3,971**

\*:p < 0,05

\*\* :p < 0,01

## 6. Conclusions

### 6.1 Findings

The steady rise in companies reporting alternative EPS from 2005 to 2007 supports the expectation of CESR that the use of APMs would increase with the introduction of IFRS. Furthermore, as the number of companies reporting more than one alternative EPS measure per document has risen from 2005, so too has the total number of APMs presented per annual report. The reasons behind these increases could simply lie in a trend that has caught on among companies or industries and within countries. Surveys published by the large accounting firms and public relations initiatives such as «Report Leadership<sup>6</sup>» in the UK, advocate the responsible use of APMs in good corporate reporting and this has undoubtedly had a degree of influence on the APM trend.

Of course, the interests of managements and the desire to report the best performance figures could also be a strong motivator for the increases. In line with the results of Bhattacharya *et al.* (2003), Allee *et al.* (2007), Johnson and Schwartz (2003), Lougee and Marquardt (2003), in which the *pro forma* figure was found most often to present a higher value than the GAAP figure, the results of this study indicate that 52 % of the total primary alternative EPS prices disclosed were higher than the GAAP EPS price (7 % were equal). In each year, as the number of reporting companies increased, the higher-than-GAAP alternative EPS prices were always in the majority indicating that the increase in reporting could be linked to managements wanting to present the best performance figure. However, the slight increase in the number of companies reporting more than one alternative EPS figure, of which only 23 % of the total are presentations of a higher-than-GAAP alternative EPS price, leans more towards the idea that the disclosure of APMs is an unselfish act of managements to offer their most relevant measure of performance. Interestingly, though, the companies that report a second and third alternative EPS measure are almost exclusively from the UK, thus this notion may have more to do with national disclosure trends.

If annual reports are largely read sequentially, one could draw the conclusion that the sections at the beginning of the document, particularly the Highlights sections, are more likely to be read by the user. By extension, the information presented in these sections is more likely to be used by the companies to disclose measures and figures they consider important for the user to know and/or want the user to see. Furthermore, given, as an example, that the average number of pages per the 2007 annual reports of this sample was 259, it may be a fair assumption that the document is not read thoroughly and completely. Thus, one could surmise that information presented in a more prominent format such as a bar chart, is more likely to stand out on the page and therefore be examined by the user. Further, the combination of a prominent presentational format in a non-narrative section at the beginning of the

document, is likely to stand out in the hundreds of pages of the document.

Based on this study, the alternative EPS measure was more likely to be presented in the Highlights (after contents page), in format a primarily graphical and non-narrative section located within the first 20 pages of the document, and the Financial Review, a largely narrative section. GAAP EPS was more likely to be presented in the OFR or Financial Review sections, both of which are largely narrative based sections. Alternative EPS was twice as likely than GAAP to be presented in a graphical (bar chart) or non-narrative (box out, bullet point, headline) format. GAAP EPS (57 %) was presented more often in a table than alternative EPS (39 %). Thus alternative EPS tends to be presented in a format more easily processed by the user.

An indication exists that companies prefer to present first in the document, the measure that portrays a better performance. This is further evidenced in the instances when both measures are presented together and indicates a degree of opportunism and impression management in presentation.

In total, although the mean GAAP presentation count and page count was higher than the APM, the results were not statistically different, even in the instances of the APM price higher than the GAAP. However, when both measures were presented together the mean presentation of the GAAP measure before the APM was statistically higher. Thus, the CESR Recommendation that APMs should be not be presented with more prominence than the GAAP measure is generally upheld, based on this sample.

The majority of alternative EPS terms used were such generic terms as «Adjusted EPS» and «Underlying EPS» behind which the variety and type (income-increasing or decreasing) of exclusions was vast. Whether the use of such terms improves comparability with other companies and industries and helps investors in acquiring information is difficult to ascertain from this study and open to considerable further debate.

### 6.2 Recommendations

Many critics of APMs may propose it would help investors to have standard definitions of APMs and on the face of it, it would seem sensible given the myriad of variations in exclusions even observed in this study. However, as the nature of an APM is that it allows the company to present entity-specific information, these competing intentions are difficult to reconcile simultaneously. The CESR recommendations regarding additional information could be followed more rigorously, given that so few companies chose to label their alternative EPS presentations as non-IFRS information, provide a reconciliation back to the GAAP figures or explain why they present the APM and how it is used by management to run the business.

### 6.3 Limitations

The countries represented in this study may not be entirely reflective of the EU as a whole; the UK was most heavily represented in the sample and clearly is different in its disclosure practices from other countries. Perhaps, further research could address this by selecting the number of companies represented from each country, thereby offering a more comprehensive view of the EU.

The choice of the measure EPS as the APM to be scrutinized may be a measure used by certain industries more than others and the results for this APM could be affected by the disclosure practices of these industries. Further research could address this clustering to ensure a more representative sample of industry.

Further, the consistency of APM terms and their exclusions per year could have been analyzed further to judge comparability between years, companies, industries and countries. Further, an analysis that was beyond the scope of this study, it could be interesting to examine the APM and exclusions in terms of their increased regularity: at what point (after how many years) does an item excluded from income in an APM become regular to the company's income?

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## 8. Annexes

### 8.1 Annex 1: Count alternative EPS measures per year: Price higher, lower or equal to GAAP

	2007				2006				2005			
	Higher	Lower	Equal	Total	Higher	Lower	Equal	Total	Higher	Lower	Equal	Total
<b>1st APM</b>	16	13	2	31	13	12	2	27	13	8	2	23
<b>2nd APM</b>	2	4	0	6	1	4	0	5	1	2	1	4
<b>3rd APM</b>	0	0	1	1	0	0	0	0	0	0	1	1
<b>Total</b>	18	17	3	38	14	16	2	32	14	10	4	28

### 8.2 Annex 2: Frequency count EPS measures presented together: Alternative or GAAP first (excluding Income Statement presentation)

Presentation together			2007	2006	2005	Total
Alternative & GAAP EPS together	Which measure is presented first?	Alternative EPS	17	13	9	39
		GAAP EPS	42	43	35	120
		Total	59	56	44	159

### 8.3 Annex 3: Frequency count EPS measures per location (excluding Income Statement presentation)

LOCATION		Location	Frequency Count			
			2007	2006	2005	Total
Alternative EPS	In which part of the document is alternative EPS presented?	Highlights (before contents page)	8	10	6	24
		Highlights (after contents page)	24	19	21	64
		Chairman's Statement	7	6	1	14
		Chief Executive's Statement	7	2	2	11
		OFR	18	35	27	80
		Operating Review	5	0	1	6
		Financial Review	31	18	13	62
		Directors' Report	7	4	5	16
		Shareholders' Information	3	4	2	9
		Historical Record	11	9	8	28
		<b>TOTAL</b>		121	107	86
GAAP EPS	In which part of the document is GAAP EPS presented ?	Highlights (before contents page)	9	11	5	25
		Highlights (after contents page)	18	15	12	45
		Chairman's Statement	1	2	1	4
		Chief Executive's Statement	2	1	3	6
		OFR	28	31	23	82
		Operating Review	2	0	0	2
		Financial Review	24	13	9	46
		Directors' Report	3	1	0	4
		Shareholders' Information	4	5	4	13
		Historical Record	17	14	10	41
		<b>TOTAL</b>		108	93	67
Alternative & GAAP EPS Together	In which part of the document are both alternative and GAAP EPS presented simultaneously?	Highlights (before contents page)	5	8	3	16
		Highlights (after contents page)	10	8	9	27
		Chairman's Statement	1	0	0	1
		Chief Executive's Statement	1	1	2	4
		OFR	11	15	10	36
		Operating Review	2	0	3	5
		Financial Review	16	13	8	37
		Directors' Report	3	1	0	4
		Shareholders' Information	1	2	2	5
		Historical Record	9	8	7	24
		<b>TOTAL</b>		59	56	44

**8.4 Annex 4: Frequency count EPS measures per format  
(excluding Income Statement presentation)**

PRESENTATION FORMAT		Format	2007	2006	2005	Total
Alternative EPS	Which presentation format is employed for the presentation of alternative EPS figures?	Bar chart	16	17	13	46
		Box out	5	3	2	10
		Bullet point	12	7	10	29
		Graph	0	0	0	0
		Headline	2	2	1	5
		Narrative	39	32	23	94
		Table	47	46	37	130
		Total	121	107	86	314
GAAP EPS	Which presentation format is employed for the presentation of GAAP EPS figures?	Bar chart	6	9	6	21
		Box out	2	3	1	6
		Bullet point	8	3	2	13
		Graph	0	0	0	0
		Headline	0	0	0	0
		Narrative	30	23	17	70
		Table	62	55	41	158
		Total	108	93	67	268
Alternative & GAAP EPS Together	Which presentation format is employed for alternative & GAAP EPS figures presented simultaneously?	Bar chart	3	5	6	14
		Box out	1	1	1	3
		Bullet point	5	0	1	6
		Graph	0	0	0	0
		Headline	0	0	0	0
		Narrative	11	14	7	32
		Table	35	32	27	94
		Same Page	4	4	2	10
		Total	59	56	44	159

## 8.5 Annex 5: Frequency count EPS presented first in document

			2007	2006	2005	Total	%
Prominence	Which EPS measure is presented first in the document?	Alternative	14	12	11	37	45,7 %
		GAAP	17	15	12	44	54,3 %
		Total	31	27	23	81	100 %
	How many of these first presentation are made simultaneously?	Together	13	13	10	36	44,4 %
		Separately	18	14	13	45	55,6 %
		Total	31	27	23	81	100 %
	Where is the measure presented first in the document located?	<i>Alternative</i>					
		Cover Page	1	1	1	3	3,7 %
		Highlights (before contents page)	2	2	2	6	7,4 %
		Highlights (after contents page)	10	8	8	26	32,1 %
		Chairman's Statement	1	0	0	1	1,2 %
		Chief Executive's Statement	0	1	0	1	1,2 %
		<i>GAAP</i>					
		Income Statement	2	0	0	2	2,5 %
		Highlights (before contents page)	7	8	3	18	22,2 %
		Highlights (after contents page)	6	6	6	18	22,2 %
		OFR	1	0	1	2	2,5 %
		Financial Review	1	1	0	2	2,5 %
		Chairman's Statement	0	0	1	1	1,2 %
Shareholder's Information	0	0	1	1	1,2 %		
	Which format is employed for the measure presented first in the document?	<i>Alternative</i>					
		Bar chart	3	5	3	11	13,6 %
		Box out	2	2	2	6	7,4 %
		Bullet point	3	1	2	6	7,4 %
		Narrative	1	1	0	2	2,5 %
		Table	5	3	4	12	14,8 %
		<i>GAAP</i>					
		Bar chart	1	0	1	2	2,5 %
		Box out	0	1	0	1	1,2 %
		Bullet point	1	2	1	4	4,9 %
		Narrative	0	0	1	1	1,2 %
		Table	15	12	9	36	44,4 %



## 8.6. Annex 6: Overview of companies in sample presenting alternative EPS

Index	Country	Company Name	Industry	Supersector
DJ Euro Stoxx 50	FR	Axa	Financials	Insurance
DJ Euro Stoxx 50	DE	Bayer	Basic Materials	Chemicals
DJ Euro Stoxx 50	ES	BBVA	Financials	Banks
DJ Euro Stoxx 50	ES	BCO Santander	Financials	Banks
DJ Euro Stoxx 50	DE	Deutsche Telekom	Telecommunications	Telecommunications
DJ Euro Stoxx 50	IT	ENI	Oil & Gas	Oil & Gas
DJ Euro Stoxx 50	FR	France Telecom	Telecommunications	Telecommunications
DJ Euro Stoxx 50	NL	Fortis	Financials	Banks
DJ Euro Stoxx 50	FR	L'Oreal	Consumer Goods	Personal & Household Goods
DJ Euro Stoxx 50	DE	RWE	Utilities	Utilities
DJ Euro Stoxx 50	FR	Saint Gobain	Industrials	Construction & Materials
DJ Euro Stoxx 50	FR	Schneider Electric	Industrials	Industrial Goods & Services
DJ Euro Stoxx 50	FR	GRP Societe Generale	Financials	Banks
DJ Euro Stoxx 50	FR	Total	Oil & Gas	Oil & Gas
DJ Euro Stoxx 50	IT	Unicredit	Financials	Banks
DJ Euro Stoxx 50	FR	Vivendi	Consumer Services	Media
DJ Stoxx 50	GB	Anglo American	Basic Materials	Basic Resources
DJ Stoxx 50	GB	Astrazeneca	Healthcare	Health Care
DJ Stoxx 50	GB	BP	Oil & Gas	Oil & Gas
DJ Stoxx 50	GB	BT Group	Telecommunications	Telecommunications
DJ Stoxx 50	CH	Credit Suisse	Financials	Banks
DJ Stoxx 50	GB	Glaxosmithkline	Healthcare	Health Care
DJ Stoxx 50	GB	HBOS	Financials	Banks
DJ Stoxx 50	GB	Lloyds TSB	Financials	Banks
DJ Stoxx 50	CH	Nestle	Consumer Goods	Food & Beverages
DJ Stoxx 50	GB	Rio Tinto	Basic Materials	Basic Resources
DJ Stoxx 50	CH	Roche Holdings	Healthcare	Health Care
DJ Stoxx 50	GB	Royal Bank of Scotland GRP	Financials	Banks
DJ Stoxx 50	GB	Tesco	Consumer Services	Retail
DJ Stoxx 50	CH	UBS	Financials	Banks
DJ Stoxx 50	GB	Vodafone	Telecommunications	Telecommunications

### Voetnoten

1. Professor Accountancy from the Vrije Universiteit Brussel and auditor at PKF Bedrijfsrevisoren.
2. Master of Management from the Vrije Universiteit Brussel (2009) and currently working as a Research Associate for a medical data resources company in Brussels.
3. The terms APM, *pro forma*, non-IFRS and non-GAAP are used interchangeably in this study.
4. Over the 3 year analysis period, 16 % of the annual reports examined presented the financial statements in a separate document.
5. As categorized by STOXX Ltd. [www.stoxx.com](http://www.stoxx.com).
6. An initiative by several accounting firms and public relations firms in the UK e.g. PWC.