IAASA
Irish Auditing & Accounting Supervisory Authority
Willow House, Millennium Park, Naas, Co Kildare, Ireland.
Tel +353 (0)45 983600 Fax +353 (0)45 983601
info@iaasa.ie
www.iaasa.ie

Mr Steven Maijoor, Chairman
European Securities and Markets Authority
CS 60747
Rue de Grenelle, 103
75345 Paris
Cedex 07
France

30 April 2014

Re: Consultation Paper – ESMA Guidelines on Alternative Performance Measures ESMA/2014/175

Dear Mr Maijoor,

We welcome the opportunity to respond to ESMA's Consultation Paper ("CP") – *Guidelines on Alternative Performance Measures* ("APMs").

The Irish Auditing and Accounting Supervisory Authority ("IAASA") is the designated body responsible for examining whether the annual and half-yearly financial reports of issuers coming within scope of the EU Transparency Directive[1] ("the Directive"), have been drawn up in accordance with the relevant reporting framework. While not being a member of ESMA, (which developed this CP), IAASA is a participant at ESMA's EECS (European Enforcers Co-ordination Sessions). As the accounting enforcer for Ireland, IAASA has engaged with issuers on their use of APMs and has received undertakings from issuers in this regard. It is in this context that we are responding to the CP.

In 2012, IAASA undertook a Survey on the use of APMs by selected Irish equity issuers. That Survey was based on a desk-top review of 20 equity issuers with financial year ends occurring mainly during the calendar year ending 31 December 2011. The results of the Survey were included in our publication "*Alternative Performance Measures – A survey of their use together with key recommendations*" (copy attached for ease of reference). The purpose of the Paper was to identify and describe the most common financial APMs presented in equity issuers' annual reports and to identify key recommendations which, if applied, should enhance users' understanding of the performance, financial position and cash flows and enable better comparability across issuers.

It is our view that, when appropriately used, APMs can supplement the information provided by the financial statements and add quality and depth to users' understanding of the performance, financial position and cash flows of issuers.

[1] EU Directive 2004/109/EC

However, where APMs are improperly used they may:

- inhibit users' ability to interpret the issuer's results;
- present an unbalanced assessment of the performance, financial position or cash flows (e.g. focussing on the positive with insufficient reference to the bad news);
- confuse the message reported by the financial statements; and
- mislead users as to the performance, financial position or cash flows arising.

We set out in Appendix I to this letter our responses to the questions posed in the CP.

Should you wish to discuss any aspect of this letter please contact me or my colleague, Mr. Michael Kavanagh, Head of IAASA's Financial Reporting Supervision Unit (direct telephone: + 353 45 983625, Email: michael_kavanagh@iaasa.ie).

Yours sincerely,

Helen Hall
Chief Executive

Email: helen_hall@iaasa.ie
Telephone (direct line): +353-45-983636

APPENDIX I – RESPONSES TO QUESTIONS POSED IN CONSULTATION PAPER

No.	Question	IAASA's response
1.	Do you agree that the ESMA [draft] guidelines should apply to all issuers defined as a legal entity governed by private or public law, other than Members State or Member State's regional or local authorities, whose securities are admitted to trading on a regulated market, the issuer being, in the case of depository receipts representing securities, the issuer of the securities represented regardless of the financial reporting framework they use to report? If not, why?	Yes. The same requirements should apply to all issuers irrespective of the financial reporting framework adopted. Application of the same requirements should reduce regulatory arbitrage by issuers in their selection of the financial reporting framework.
2.	Do you agree that the ESMA [draft] guidelines should apply to APMs included in: a) financial statements prepared in accordance with the applicable financial reporting framework, that are made publicly available, and b) all other issued documents containing regulated information that are made publicly available? If not, why?	The ESMA [draft] Guidelines ("Guidelines") should apply to APMs included in the annual and half-yearly financial reports of issuers with securities listed on a regulated market. However, we are less convinced that the scope should be widened to all other documents containing regulated information that are made publicly available. Such an extension would, for example, include slide presentations made by issuers and potentially any other document which uses an APM as broadly defined in the Guidelines. This may lead to a lot of explanatory information being given in short documents which may have the undesired effect of not aiding users' understanding of same. See also answer to question 3 on which National Competent Authority ("NCA") will be responsible for enforcing same.
3.	Do you believe that the ESMA [draft] guidelines should also be applicable to prospectuses and other related documents, which include APMs (except for pro-forma information, profits forecasts or other measures which have specific requirements set out in the Prospectus Directive or Prospectus Directive implementing regulation)? Please provide your reasons	IAASA has no remit over prospectuses and other related documents and does not propose to comment in any detail. However, we note that much of the language used seems more relevant to APMs that appear in the front end of annual and half-yearly financial reports. We, therefore, have a general concern about the relevance of some of the requirements for "*other related documents*" and would urge ESMA to give specific examples and elaboration on what they have in mind. Of more concern to IAASA is whether ESMA has fully thought out which NCAs will enforce these measures for the wide scope of documents which it is proposed would come within the remit of the Guidelines.

No.	Question	IAASA's response
		Paragraph 9 of the Guidelines clearly states that the Guidelines apply to NCAs and to issuers. Paragraph 19 outlines that NCAs must *"make every effort to comply with the [draft] guidelines"*. This would mean that an NCA would operate a "comply or explain" regime and report to ESMA if it has not complied. Paragraph 19 further states that *"NCAs are expected to incorporate the [draft] guidelines into their supervisory procedures and practices and monitor whether issuers comply with them."* Given that the Guidelines will apply to APMs which are included in all issued documents containing regulated information that are made publicly available, the question arises as to which NCA will be responsible for which documents and who will set the new rules in a national context. In this regard the Guidelines mention that they will apply to the financial statements and management reports issued under the Transparency Directive, documents issued under the Prospectus Directive, public disclosures issued under the requirements of the Market Abuse Directive and other documents. As ESMA is aware, there are a number of jurisdictions where there are different NCAs responsible for enforcement of various aspects of the Transparency Directive, Prospectus Directive and other publications required under local legislation which may fall under these Guidelines. We would encourage ESMA to give further thought to this prior to finalising the Guidelines.
4.	Do you believe that issuing ESMA guidelines constitute a useful tool for dealing with the issues encountered with the use of APMs? If not, why?	We believe that Guidelines would be a useful tool for accounting enforcers in challenging issuers' financial reporting treatments. However, as elaborated above, we have reservations as to whether they would be useful in the context of publications other than annual and half-yearly financial reports. Application of the Guidelines for annual and half-yearly financial reports should result in consistent application and reduce the extent of inconsistencies between issuers.
5.	Do you agree with the suggested scope of the term APM as used in the [draft] guidelines? If not, why?	We don't fully agree with the scope of the term APM as used in the Guidelines. As set out above, we consider that further elaboration and thought is required as to what is exactly envisaged in the proposed scope of the term APM as defined. It appears to us that the scope is too broad. In particular, by referring to "*all documents containing regulated information made publicly available*" implies that the Guidelines would apply to any publication that extracts financial information from regulated documents. This would seem to include slide presentations made by issuers and potentially any other document which uses an APM as broadly defined in the Guidelines. This may lead to a lot of explanatory information being

No.	Question	IAASA's response
		given in short documents which may have the undesired effect of not aiding users understanding of same. We consider that there are some anomalies in the definition of an APM in Paragraph 15 of the Guidelines. The definition states that it includes: "*... any numerical measure of historical, current or future financial performance, which relates to the financial position, comprehensive income or cash flows, other than a measure defined by the applicable financial reporting framework.*" • This definition appears to restrict APMs to "*numerical*" measures. However, Paragraph 23 on page 12 of the Consultation paper indicates that "*the term APM as used in the Guidelines is intended to include most measures, including those presented in graphs or tables ...*". As such it would appear that the intention of the Guidelines is that APMs may include pictorial, as well as numerical measures. • The definition also appears to restrict APMs to measures of "*financial performance*". However, Paragraph 17 of the Guidelines states that "*An APM can also be based on other sources or calculated using alternative methodologies to conventional accounting and representing additional performance indicators reflecting business activity (e.g. production or activity levels) ...*" • A narrow interpretation of the Paragraph 15 definition of an APM could exclude non-financial measures such as number of units sold, passengers carried, and tons manufactured. It may be the case that there is a conflict between the Paragraph15 definition and the Paragraph17 explanation of that definition. We note the wording in Paragraph 23 of the CP where it is stated that "... *When in doubt, issuers should assume a particular measure is included in this definition. ESMA has taken this inclusive approach, and has not chosen to limit APMs in order to avoid controversy over which measures should be included or not.* " However, we would suggest that the definition itself could be refined further to avoid any implementation issues.
6.	Do you believe that issuers should disclose in an appendix to the publication a list giving definitions of all APMs used? If not, why?	One of IAASA's recommendations in our publication was that all APMs used should be disclosed within a single location in the annual report where possible, making it easier for users to assess the performance measures as a whole. Where this is done, it is preferable that the list of definitions is included along side the APM. Where all APMs used are not included in a single location, our preference would be that issuers be required to provide

No.	Question	IAASA's response
		definitions of all APMs used but that the form in which such definitions are provided be left to the discretion of individual issuers. We envisage instances where the definition of an APM might best be provided alongside the APM itself rather than having the reader refer to a separate appendix.
7.	Do you agree that issuers should disclose a reconciliation of an APM to the most relevant amount presented in the financial statements? If not, why?	We agree with the ESMA proposals but only in the context of annual and half-yearly financial reports. Included as part of IAASA's recommendations in our publication was that financial reports should: • provide an explanation of the basis for the calculation of each APM including details as to why selected APMs exclude certain items. The reasons for the adjustments should be clearly explained (i.e. how the underlying residual figure is key to understanding the performance or financial position or cash flows); and • provide a reconciliation of each APM to the relevant IFRS data, where applicable.
8.	Do you agree that issuers should explain the use of APMs? If not, why?	We agree and refer to the recommendation made in our publication as mentioned in our response to question 7. In the absence of such a requirement there may be an inclination for issuers to select and present APMs which reflect the entity's performance in a favourable light and to omit those which may reflect poor performance.
9.	Do you agree that APMs presented outside financial statements should be displayed with less prominence, emphasis or authority than measures directly stemming from financial statements prepared in accordance with the applicable financial reporting framework? If not, why?	We agree and one of IAASA's recommendations in our publication was that financial reports should avoid the presentation of APMs in a manner that gives them inappropriate prominence over the IFRS measures. Specifically, we recommended that, where APMs are presented, an issuer should: • avoid the preparation and presentation of APMs in a manner that has the potential to detract from, or conflict with, the information provided in the financial statements; and • avoid the presentation of APMs in a manner that gives them inappropriate prominence over the IFRS measures.
10.	Do you agree that issuers should explain the reasons for changing the definition and/or calculation of an APM? If not, why?	Yes. We support this approach as it places the onus on the issuer to provide users with explanations and should enable trends over longer periods of time to be calculated.

No.	Question	IAASA's response
11.	Do you believe that issuers should provide comparatives and / or restatements when an APM changes? If not, why?	Yes but in the context of annual and financial reports only.
12.	Do you believe that issuers should provide explanations when they no longer use an APM? If not, why?	Yes but in the context of annual and financial reports only.
13.	Do you agree that the [draft] guidelines will improve transparency, neutrality and comparability on financial performance measures to users? If not, please provide suggestions.	Existing practices by issuers indicate the use of differing APM measures (e.g.: • in respect of the EBITDA earnings measure, there is variation across issuers in respect of the items included or excluded from the earnings component, without, in most cases, an explanation as to why adjustment was considered necessary. A majority of issuers we surveyed did not reconcile the IFRS earnings line item to the earnings used in the EBITDA measure. A majority of the items for which earnings are adjusted were expenditure, rather than income items; • with regard to the "net debt" and "free cash flow" measures, the APM measure are frequently not explained and the basis of calculation includes different combinations of a range of items. Similarly, in the case of adjusted EPS, a majority of issuers do not disclose the reasons for the adjustments; and • in respect of return on capital employed, there are a variety of interpretations regarding both the components of the profit measure and the measure of capital employed used to calculate the percentage.) The Guidelines should improve transparency in annual and half-yearly financial reporting and should result in enhanced comparability between issuers in that issuers will have to reconcile their APMs to the amount appearing in the financial statements in some instances. However, given the wide discretion available to issuers as to which APMs to present(which is, correctly, a matter for the directors' judgement) , we are not convinced that the Guidelines will impact the neutrality of the APMs used (paragraph QC 14 of the IASB's *Conceptual Framework* refers).
14.	Do you agree with the analysis of the cost and benefit impact of the [draft] guidelines? Please provide any	We believe that the benefits outweigh the costs in relation to the use of APMs for annual and half-yearly financial reports. As set out above, we are less convinced that they are as useful

No.	Question	IAASA's response
	evidence or data that would further inform the analysis of the likely cost and benefits impacts of the proposals.	for users in relation to the broader publications envisaged in the scope of the Guidelines.

APPENDIX II

IAASA

Irish Auditing & Accounting Supervisory Authority

Alternative Performance Measures – A survey of their use together with key recommendations

November 2012

CONTENTS

1. Introduction

The financial statement review remit of the Irish Auditing and Accounting Supervisory Authority ('IAASA') derives from the Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. No. 277 of 2007) (as amended) ('the Regulations')[1]. Under the Regulations, IAASA examines the annual and half-yearly financial reports of certain equity, debt and fund issuers with securities admitted to trading on a regulated market within the European Union.

Most equity issuers within IAASA's financial reporting review remit[2] choose to present alternative performance measures ('APMs')[3] in their annual reports. APMs are used to analyse the performance, financial position and cash flows of a business and to highlight the key components of an issuer's results for users of financial statements.

APMs can be derived from the financial statements prepared under IFRS[4] (the statutory financial statements) or other sources and typically use alternative methodologies to those that are required to be used under IFRS. Furthermore, some issuers report non-financial key performance measures, such as production or activity levels. For the purpose of this document, APMs are limited to measures which are derived from items reported in the financial statements.

Typically, though not exclusively, APMs are to be found in sections of the annual report outside of the financial statements, such as in the Chairman's Statement, Operating and Financial Review, Directors' Report or other similar reports. APMs are often quoted in preliminary results and other market and press announcements and attract significant attention from users.

When appropriately used, APMs can supplement the information provided by the financial statements and add quality and depth to users' understanding of the performance, financial position and cash flows of issuers. However, where APMs are improperly used they may:

(a) inhibit users' ability to interpret the issuer's results;

(b) present an unbalanced assessment of the performance, financial position or cash flows (e.g. focussing on the positive with insufficient reference to the bad news);

(c) confuse the message reported by the financial statements; and

(d) mislead users as to the performance, financial position or cash flows arising.

2. Purpose of this document

This survey focuses on the use of APMs in annual reports. The findings are based on a desk top review of 20 equity issuers with financial year ends occurring mainly during the calendar year ending December 2011. The purpose of this paper is to identify and describe the most common financial APMs presented in equity issuers' annual reports and to identify key recommendations which, if applied, should enhance users' understanding of the performance, financial position and cash flows and enable better comparability across issuers.

---

[1] The Transparency (Directive 2004/109/EC) Regulations 2007 (S.I. No. 277 of 2007) has subsequently been amended by the Transparency (Directive 2004/109/EC) (Amendment) Regulations 2010 (S.I. No. 102 of 2010), the Transparency (Directive 2004/109/EC) (Amendment) Regulations 2012 (S.I. No. 238 of 2012), and the Transparency (Directive 2004/109/EC) (Amendment) (No. 2) Regulations 2012 (S.I. No. 316 of 2012). Each of these Statutory Instruments is available at http://www.iaasa.ie/legislation/index.htm#Other_Relevant_Statutory_Instruments

[2] For the purposes of this document, reference to equity issuers is a reference to issuers applying IFRS as endorsed by the EU and falling within the scope of the EU Transparency Directive (EU Directive 2004/109/EC).

[3] Also referred to as non-GAAP financial measures or key performance indicators ('KPIs')

[4] International Financial Reporting Standards

3. Summary findings

The following are a summary of the findings of this survey:

- The most common APMs presented by the equity issuers included in the survey were:

  (a) EBITDA and other variations of earnings;

  (b) Operating profit/results of operating activities;

  (c) Free cash flow;

  (d) Net debt/gross debt;

  (e) Adjusted earnings per share ('adjusted EPS');

  (f) Return on capital employed; and

  (g) Revenue growth.

- In respect of the EBITDA earnings measure, there was variation across issuers in respect of the items included or excluded from the earnings component, although there was, in most cases, no explanation as to why adjustment was considered necessary. A majority of issuers did not reconcile the IFRS earnings line item to the earnings used in the EBITDA measure. A majority of the items for which earnings were adjusted were expenditure, rather than income items.

- All of the issuers surveyed reported some form of 'operating profit' as an APM. Net debt was a popular APM, with 80% of the issuers surveyed reporting the measure. Free cash flow was a less used, although still popular, APM. With regard to the latter two APMs, it was found that the measure was often not explained and that the basis of calculation included different combinations of a range of items. Similarly, in the case of adjusted EPS, most issuers did not disclose the reasons for the adjustments.

- In respect of return on capital employed, there were a variety of interpretations regarding both the components of the profit measure and the measure of capital employed used to calculate the percentage.

- Only a minority of issuers surveyed identified the various different components of revenue growth, including volume increases, price growth, acquisition related revenue growth and the effects of currency movements.

More detail on the findings can be found in the Appendix.

4. Key recommendations

In preparing future annual reports, directors are encouraged to give further consideration to their judgements concerning the preparation and presentation of APMs given the attention these command from users. Specifically, where APMs are presented, the directors are strongly encouraged to ensure their appropriate selection, preparation and presentation and to apply the following recommendations:

(a) explain the reason for the presentation of each APM;

(b) provide a clear definition of each APM used;

(c) provide an explanation of the basis for the calculation of each APM including details as to why selected APMs exclude certain items. The reasons for the adjustments should be clearly explained (i.e. how the underlying residual figure is key to understanding the performance or financial position or cash flows);

(d) provide a reconciliation of each APM to the relevant IFRS data, where applicable;

(e) include a comparative measure for all reported APMs;

(f) disclose all APMs used within a single location in the annual report where possible, making it easier for users to assess the performance measures as a whole;

(g) avoid the preparation and presentation of APMs in a manner that has the potential to detract from, or conflict with, the information provided in the financial statements; and

(h) avoid the presentation of APMs in a manner that gives them inappropriate prominence over the IFRS measures.

5. Relevant sources of information regarding the use of APMs

The following documents provide information of relevance to the use of APMs in annual reports and readers may find them a useful source of reference in this context.

5.1 CESR Recommendation on Alternative Performance Measures

A Paper entitled *CESR Recommendation on Alternative Performance Measures*'[5] (published in October 2005) provides non-mandatory guidance on the use of APMs. It encourages issuers that provide APMs to do so in a manner that is appropriate and useful for investors' decision making and provides eight specific recommendations for their presentation. While at the time of publishing this survey, ESMA (successor to CESR) had not published an update to this Recommendation, IAASA understands that an updated Paper will be published before year end.

5.2 Content of the management report

Transparency Rule 6.1[6] and Section 13 of the Companies (Amendment) Act, 1986 require the management report (directors' report in respect of the 1986 Act) to contain a fair review of the development, performance and financial position of the business using key performance indicators where necessary, both financial and non-financial.

5.3 IASB Practice Statement: Management Commentary (issued December 2010)[7]

The IASB Practice Statement provides a broad, non-binding framework for the presentation of management commentary that relates to financial statements and sets out the principles, qualitative characteristics and elements of management commentary that are necessary to provide users of annual reports with useful information.

IRISH AUDITING & ACCOUNTING SUPERVISORY AUTHORITY
NOVEMBER, 2012

---

[5] Reference CESR/05-178b and available at http://www.esma.europa.eu/system/files/05_178b.pdf

[6] The Transparency Rules (September 2009) are issued by the Central Bank and are available via the web at http://www.centralbank.ie/regulation/securities-markets/transparency/Documents/Transparency%20Rules.pdf

[7] The IASB Practice Statement: *Management Commentary* is available *via* the IASB website at: http://www.ifrs.org/NR/rdonlyres/9EA9F29A-3F34-4E39-9388-989B07563D4E/0/Managementcommentarypracticestatement8December.pdf

Appendix - Detailed findings on issuers' use of APMs

EBITDA and other variations of earnings
Earnings before Interest, Tax, Depreciation and Amortisation ('EBITDA') is a measure of the operational profitability of the business. EBITDA (and variations thereof) is a commonly understood performance measure and for this reason is favoured by many issuers.

80% of the issuers surveyed reported EBITDA or earnings linked APMs in their annual reports. In many instances 'earnings' was adjusted, often resulting in the 'earnings' measure differing significantly from the earnings amount reported in the financial statements. Furthermore, there was variation as to which items were included or excluded from the APM earnings measure, with one or more of the following items often being excluded:

(a) exceptional items;

(b) share based payment expense;

(c) lease rentals;

(d) contributions from associates and joint ventures;

(e) non-recurring items including related tax credits;

(f) asset impairment charges;

(g) profits on disposals and group share of associates profit after tax;

(h) past service gain/charges on retirement obligations;

(i) restructuring costs; and

(j) annualised EDITDA of companies acquired during the year.

The reported APM earnings included some, or a combination, of the following items:

(a) discontinued operations;

(b) share based payment compensation; and

(c) gain/loss on the divestment of a business.

It was noted from the examination of the selected issuers' annual reports that:

(a) the majority did not provide a reconciliation of earnings used for APM purposes to earnings reported in the financial statements;

(b) a majority did not explain the rationale for excluding selected charges, which are outlined above, from earnings;

(c) a number of issuers did not explain why the adjusted earnings figure was considered to be a more relevant reflection of the underlying earnings;

(d) the majority of excluded items were expenditures rather than income; and

(e) the significant adjustments to EBITDA reported by many equity issuers can also have a consequential effect on other earnings linked APMs (e.g. EBITDA to net debt or interest cover to EBITDA).

Operating profit/results of operating activities
Operating profit is a widely used APM and is scrutinised by many users of annual reports. It usually appears in the Income Statement and, therefore, differs from many other APMs as it is included as part of a primary statement contained in the financial statements.

While operating profit is not defined in IFRS, it is noted that IAS 1.BC56 states that entities should ensure that amounts classified as operating are representative of activities that would normally be considered to be operating. IAS 1.BC56 further states that it is misleading and would impair the comparability of financial statements if items of an operating nature were excluded from the results of operating activities.

All of the issuers surveyed reported some form of 'operating profit' as an APM. It was noted that in a number of cases, operating profit was presented before:

(a) exceptional items (which vary from issuer to issuer); and

(b) amortisation of intangibles.

Net debt/gross debt
80% of the issuers surveyed disclosed *'net debt'*, *'gross debt'* or both as an APM.

'Net debt' was described by issuers as being comprised of various combinations of:

(a) cash and cash equivalents;

(b) liquid investments;

(c) derivative financial assets and liabilities;

(d) interest bearing loans and borrowings; and

(e) in one instance, excluding net debt of an associate investment.

In a majority of the cases, issuers explained the basis for the calculation.

'Net debt to EBITDA' was a financial measure presented by 50% of issuers in the survey. However, the significance of the measure was not explained in the majority of instances.

Free cash flow
Free cash flow represents an entity's ability to generate cash after deducting the funds necessary to maintain or expand its current asset base. Its focus on cash in the current environment where access to funds is limited has resulted in this measure being the subject of heightened attention and comparison amongst issuers and across industries.

50% of the issuers surveyed presented free cash flow as an APM although most of those did not provide an explanation as to the reason for their specific definition and presentation of *'free cash flow'*. 60% of issuers that reported free cash flow as an APM did not provide a description of what was included in and omitted from *'free cash flow'*. It was described as *'net cash flow from operating activities'* adjusted for capital expenditure and various issuer specific combinations of:

(a) interest paid;

(b) tax paid; and

(c) pension deficit funding.

Adjusted earnings per share ('Adjusted EPS')
In addition to the basic and diluted EPS calculations required by IFRS, 60% of the issuers surveyed disclosed an adjusted EPS measure as an APM.

Adjusted EPS measures were entity specific and variations included EPS measures adjusted for combinations of the following:

(a) exceptional items;

(b) movement of fair value on derivatives;

(c) amortisation of intangible assets including acquisition related intangibles;

(d) after tax impact of one-off gains;

(e) results of discontinued operations;

(f) pension interest;

(g) non trading items;

(h) onerous lease provisions;

(i) impairment charges; and

(j) net restructuring costs.

Most issuers who disclosed *'adjusted'* EPS measures did not disclose the reasons for the adjustment to EPS or the significance of the *'adjusted'* EPS measures to financial performance.

Return on capital employed ('ROCE')
Return on capital employed is a measure that indicates the profitability of an issuer's business relative to the amount of capital investment, e.g. ROCE may be expressed as:

$$\frac{\text{Operating profit measure}}{\text{Capital employed measure}} \quad \text{X } 100 = \quad x\%$$

40% of the issuers surveyed reported a ROCE measure as an APM. It was noted that there was a variety of interpretations regarding the determination of both the profit measure and the measure of capital employed.

The profit measure consisted of 'operating profit' adjusted for variations of:

(a) exceptional items;

(b) amortisation of intangibles;

(c) share of profit of joint venture and associates;

(d) interest; and

(e) tax paid.

'Capital employed' measures consisted of variations of:

(a) the sum of total equity plus net debt at year end;

(b) the book value of equity and net debt excluding investment property and pension scheme assets/deficits;

(c) average of opening and closing equity/capital employed; and

(d) consolidated net assets excluding net debt and pension assets/liabilities.

Revenue growth
85% of issuers reported a measure of revenue growth. There was a noted variety in the manner that revenue growth was presented as an APM.

The level of disaggregation of the significant components of revenue growth was varied across issuers with some describing revenue growth as made up of combinations of:

(a) underlying growth;

(b) acquisition growth;

(c) volume growth;

(d) price growth; and

(e) currency effects.

Some issuers excluded items such as disposals made during the year or other returns from investments from the revenue growth APM.