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

AS OF 31 DECEMBER 2016

MAZARS

MAZARS study on APMs: second edition

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

The relevance of this topic is confirmed by the entry into force of ESMA's guidelines in July 2016, aimed at promoting the usefulness and transparency of APMs included in prospectuses or regulated information.

Adherence to the guidelines is one of the ESMA enforcement priorities for the supervisory activity on 2017 annual financial reports

In 2016 Mazars presented in Milan the first international study on the use of Alternative Performance Measures (APMs) in the financial reporting of the main European listed companies. The study highlighted the presence of different practices that exist even after the first application of the ESMA guidelines.

The results of the study were commented by representatives of ESMA, CONSOB, EFFAS, AIAF, IASB, EFRAG and OIC in a roundtable organised on 29 November. The following main messages resulted from the roundtable debate:

- Investors want to measure companies' performance and have requested that companies present APMs they could use in the absence of a standardised income statement, be it under IFRS or US GAAP;
- Investors are open to flexibility but need consistency, quality, comparability and balanced disclosures;
- Enhanced consistency in the labelling and definition of concepts is crucial, although a thorough analysis of components of indicators will persist to ensure better understanding of the indicator and comparability;

- Mazars' report confirms that subtotals such as EBIT and net debt are predominantly used by industrial companies which may indicate that it would be relevant to include them in the primary financial statements;
- The topic of non-recurring or one-off items needs to be looked at also;
- Collaboration is key for the improvement of financial reporting and investors are ready to play their part in this;
- Analysts welcome the IASB's work and its propensity to be much more open and inclusive of external opinions. They are keen on collaborating with the IASB;
- Even if a more standardised income statement were to be defined, APMs would still continue to exist as the financial statements cannot capture all the specific and relevant information about companies;
- Adjustments to financial statements will persist. Adjustments as such are not a problem, but the quantity of adjustments made based on current standards is.

The first edition of Mazars study and the Roundtable Report can be downloaded at the following link:
https://www.mazars.com/Home/News/Latest-News3/The-use-of-APM-in-financial-information

Mazars is pleased to present in this Report the results of the second study on APMs

The first edition was focused on issuers belonging to the Eurostoxx 50. In order to ensure a more representative result with reference to issuers of smaller size – albeit with limitations, this second study covers not only on Eurostoxx 50 but also:

- a sample of 20 issuers belonging to the Eurostoxx 200 (Mid & Small Cap): for these samples we chose the top 5 as well as the bottom 5 of each index by market capitalisation;
- as well as the large UK issuers present in the STOXX Europe 50 index.

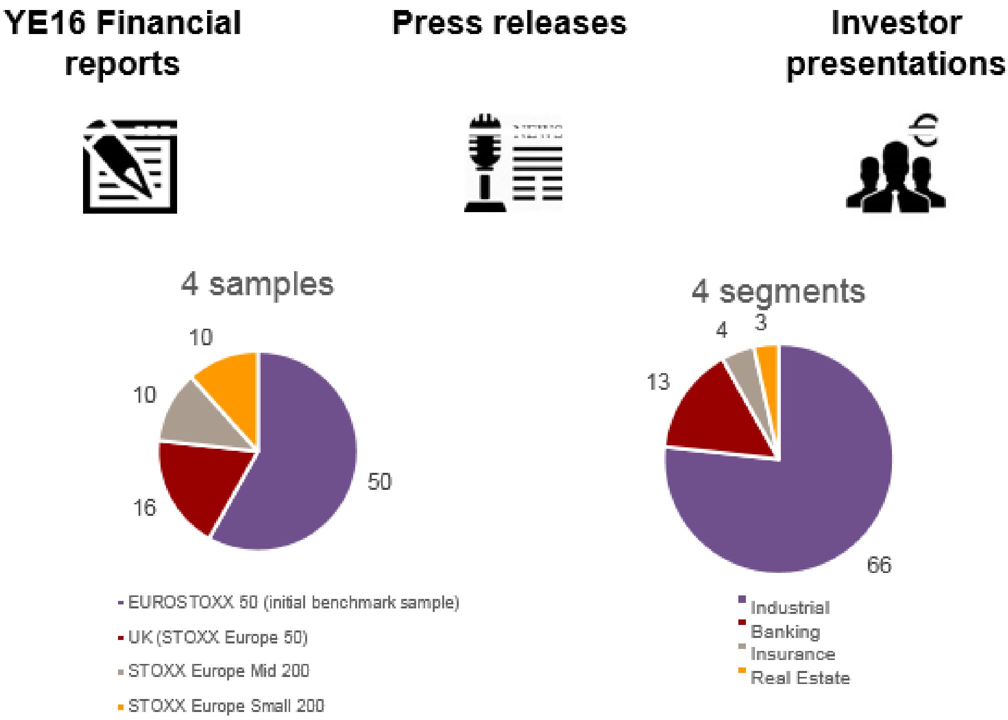
The analysis was conducted by dividing the population of entities into four segments respectively:

- Industrial (66 entities);
- Banking (13 entities);
- Insurance (4 entities);
- Real Estate (3 entities).

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

- Annual report for YE16, with particular focus on primary financial statements and other indicators presented in the Management Commentary;
- Press releases announcing the annual results for 2016;
- Presentation to the analysts illustrating the annual results for 2016.

For the original sample, consistency over time was assessed to prior year documentation and findings.



The analysis consisted in:

(i) the identification of the indicators frequently used by the entities in the sample in illustrating their financial performance and

(ii) the assessment of their content and the level of disclosure provided about their definition and reconciliation, in the case of non-GAAP indicators, with the most reconcilable item.

Similarly, to last year, the purpose of the analysis was to:

- identify commonalities at segment level, as indicators of common knowledge would generally require a lower level of disclosures in order to be understood by users of the financial information;

- classify indicators according to their degree of reconcilability with GAAP measures, differentiating between indicators presented directly on the face of the primary statements and indicators presented in the rest of the financial information analysed (i.e. management commentary, press release, investor presentation);
- detect key divergences across entities belonging to the same segment in the labelling and calculation of the same or similar indicators;
- illustrate the adjustments made to GAAP measures and assess the quality of the related disclosures, if any.

Key findings

Industrial segment

With reference to issuers belonging to the Eurostoxx 50, the findings are consistent with the prior year findings: no significant changes were observed in comparison with last year

- **Divergences were observed in the presentation of the most-frequently used indicators** (presented by more than 50% of the companies in the sample). The same indicator is presented on the face of primary financial statements by some issuers and elsewhere in the financial report/press release/presentation to analysts by other issuers.

Number of indicators

- The average number of APMs as well as the range in the amount of APMs used by industrial companies in the various segments is quite variable, as illustrated in the table below:

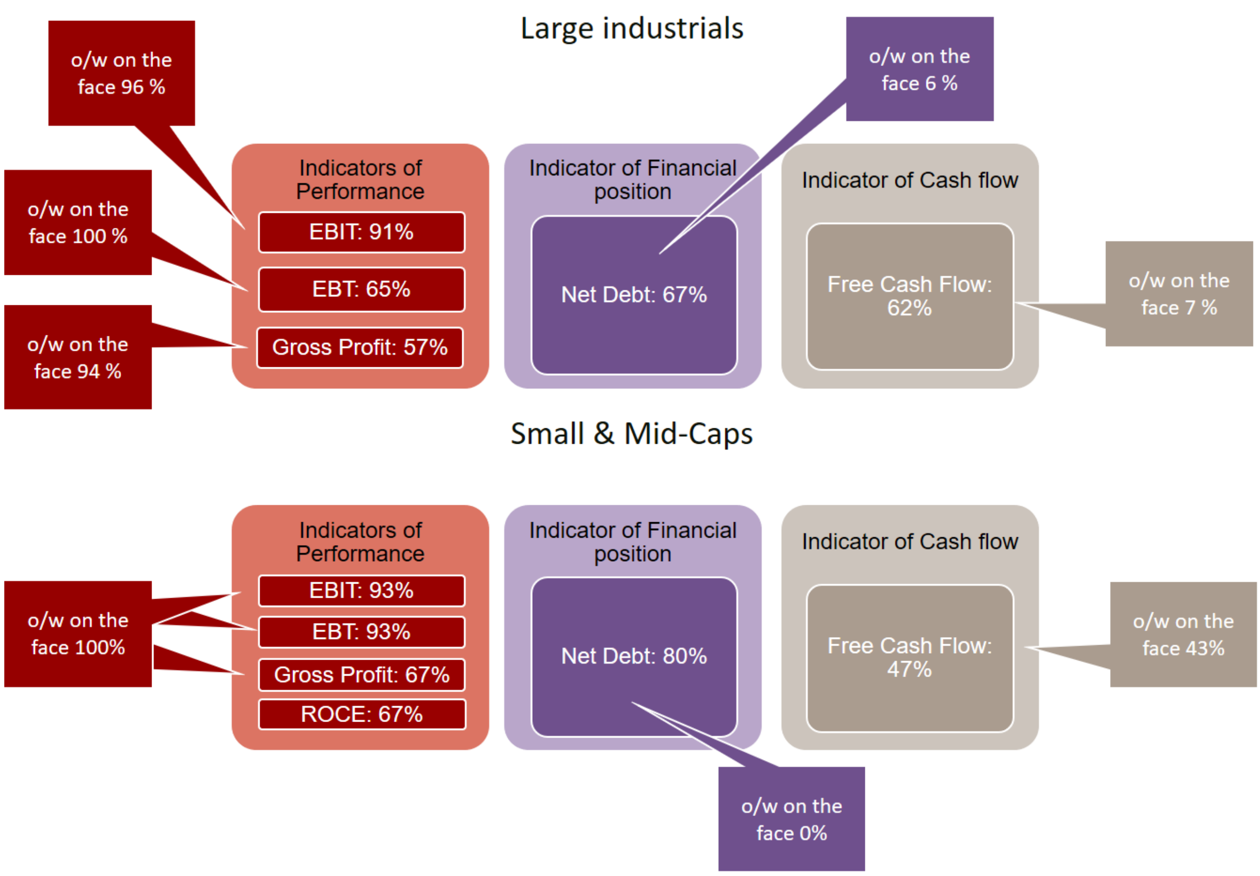
	Eurostoxx 50	UK	Small & Mid-Caps
Average number of APMs	17.1	10.7	17.3
Range	7 – 37	7 – 15	8 – 19

Direct indicators

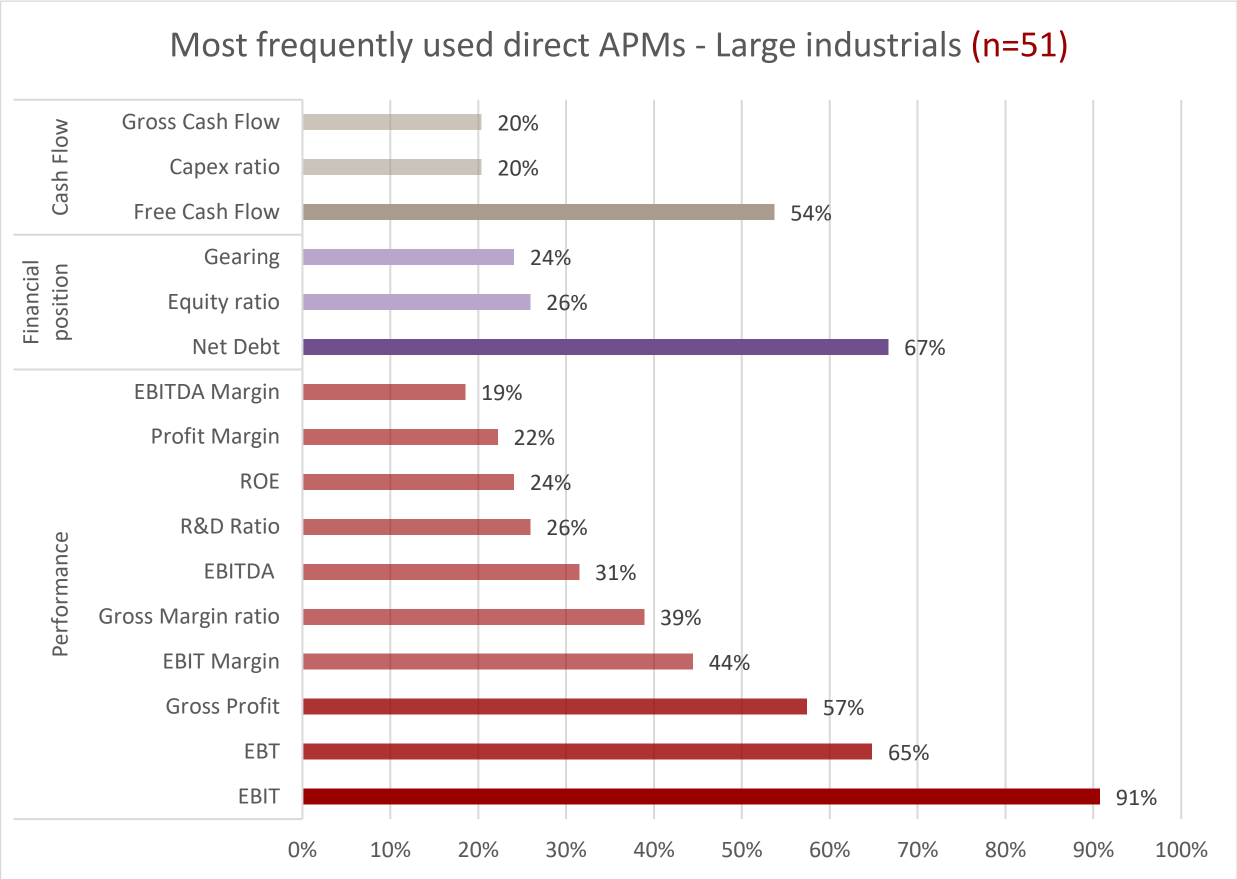
Direct indicators are those which can be derived directly from the financial statements.

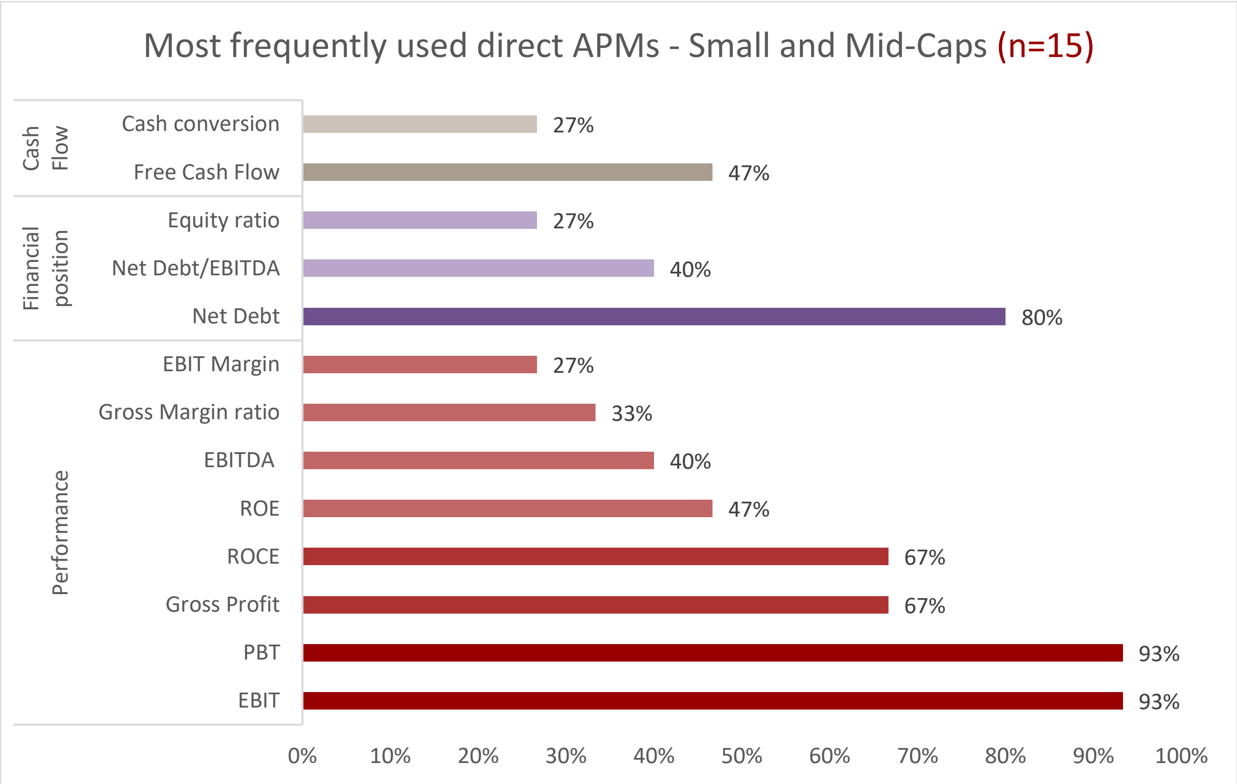
- 5 direct indicators are used by more than 50% of the overall sample:
  - 3 **performance indicators**: Gross profit, EBIT and EBT which are predominantly presented on the face of the income statement;
  - Net debt as an **indicator of financial position**, which, however, is rarely presented on the face of the financial statements and if it is, it is presented in the cash flow statement.
  - Free Cash Flow, as an **indicator of cash flow**, which is more frequently presented on the face of the cash flow statement by small & mid-cap issuers.

These findings are illustrated hereafter:



The direct APMs used by more than 20% of each sample are as follows:



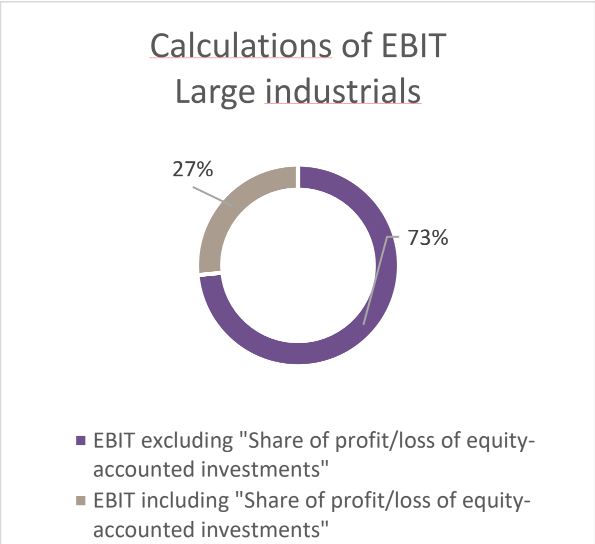


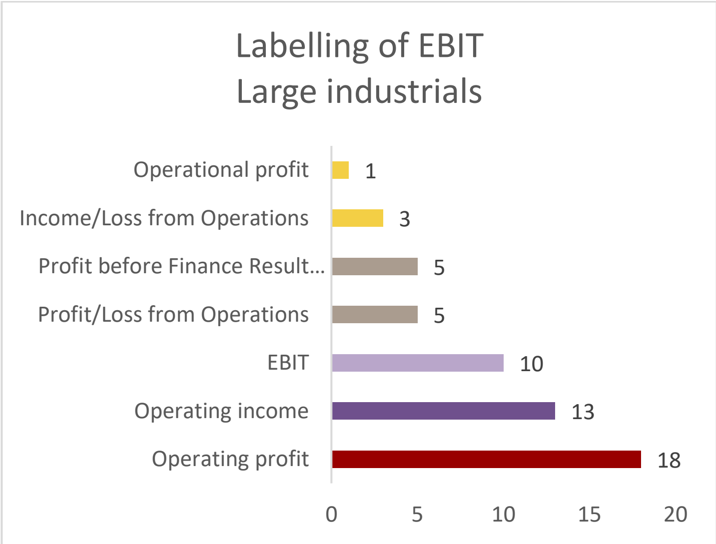
EBIT

As illustrated in the graphs below:

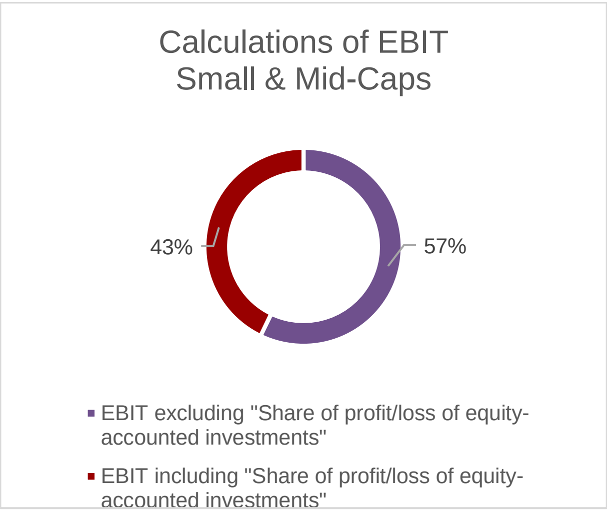
- Differences in EBIT calculation are due to the classification of the share in P&L of equity-accounted investments as these are either included or excluded from EBIT.
- A number of different labels are used for EBIT: 7 for the large industrials sample and 4 for the small & mid-caps sample.

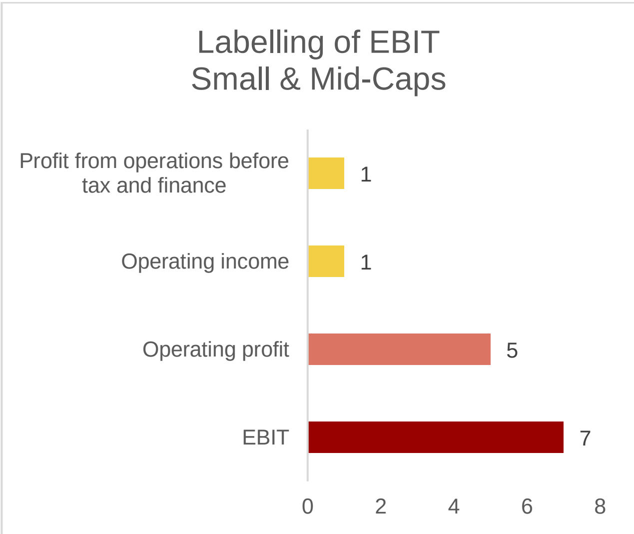
LARGE INDUSTRIALS





SMALL & MID – CAP INDUSTRIALS





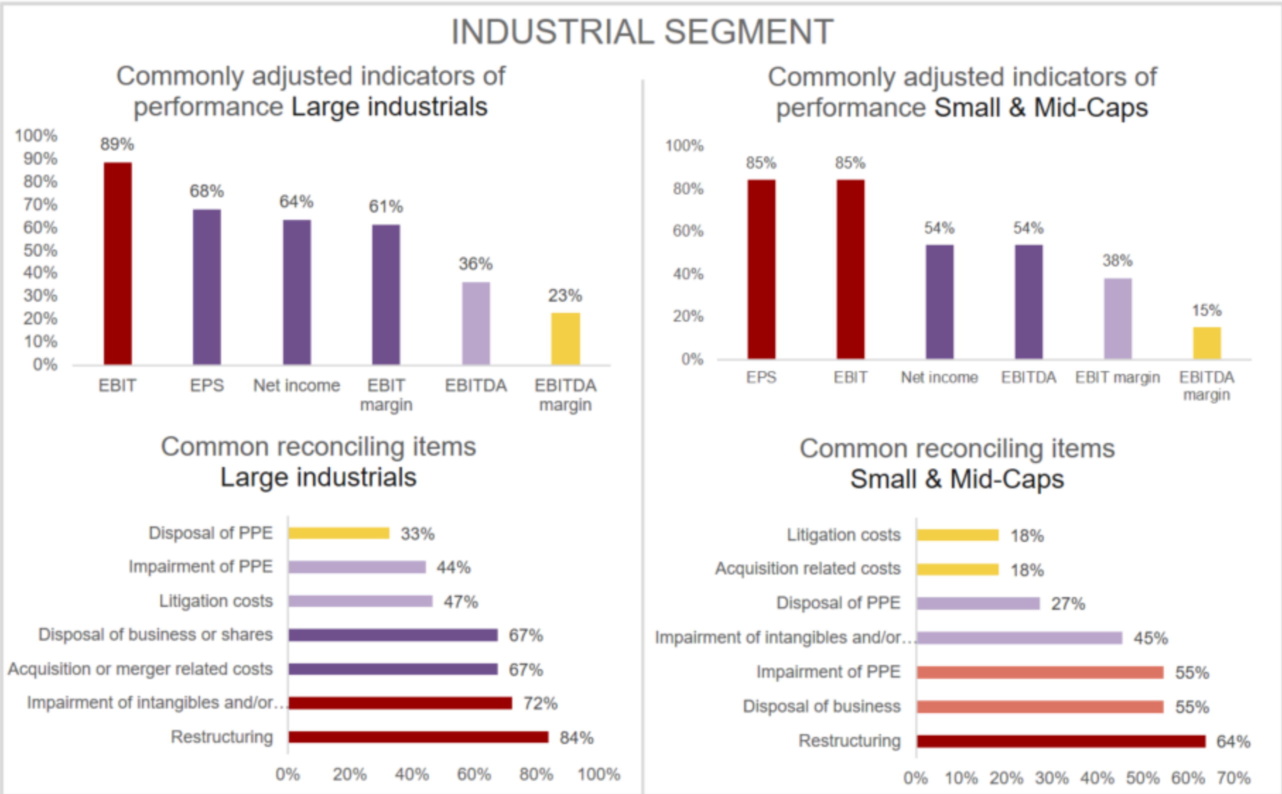
Adjusted indicators

Entities focus their communication on adjusted earnings.

There are similarities across samples in the types of adjusted APMs as well as in the frequency of use, with, however, small & mid-caps using adjusted EPS more than large industrials.

The reconciling items are also of the same types, however with different occurrence levels. This is explained by their nature which is very linked to facts and circumstances, although some companies will present some of these items such as restructurings more or less every year.

The commonly adjusted indicators of performance for each sample as well as the common reconciling items are presented below:



Adjusted EBIT

The following provides an analysis of the labels used as well as of the impact of the adjustments to EBIT for each sample:

INDUSTRIAL SEGMENT

Large industrials

- 39 entities out of 51 use an adjusted EBIT
  - With 15 on the face of the income statement (10 different labels)
    - 10 French, 3 UK
    - 80% of the adjustments result in positive effect
- 2 entities changed from negative to positive
- 4 French companies use the "recurring operating income label" (of which 3 follow ANC recommendation)

Small & Mid-Caps

- 11 entities out of 15 use an adjusted EBIT
  - With 4 on the face of the income statement (4 different labels)
    - 2 Danish, 1 UK, 1 Spanish
    - 75% of the adjustments result in positive effect
- 1 entity changed from negative to positive

Return on Equity

Where used, ROE is based on varying formulas and also appears under varying labels:

INDUSTRIAL SEGMENT

Large industrials

- Used by 13 entities out of 51
- 8 different formulas
  - Inclusion and exclusion of minorities from either numerator or denominator or both
  - average vs. year-end equity
- 6 different labels for the same performance indicator

Small and Mid-Caps

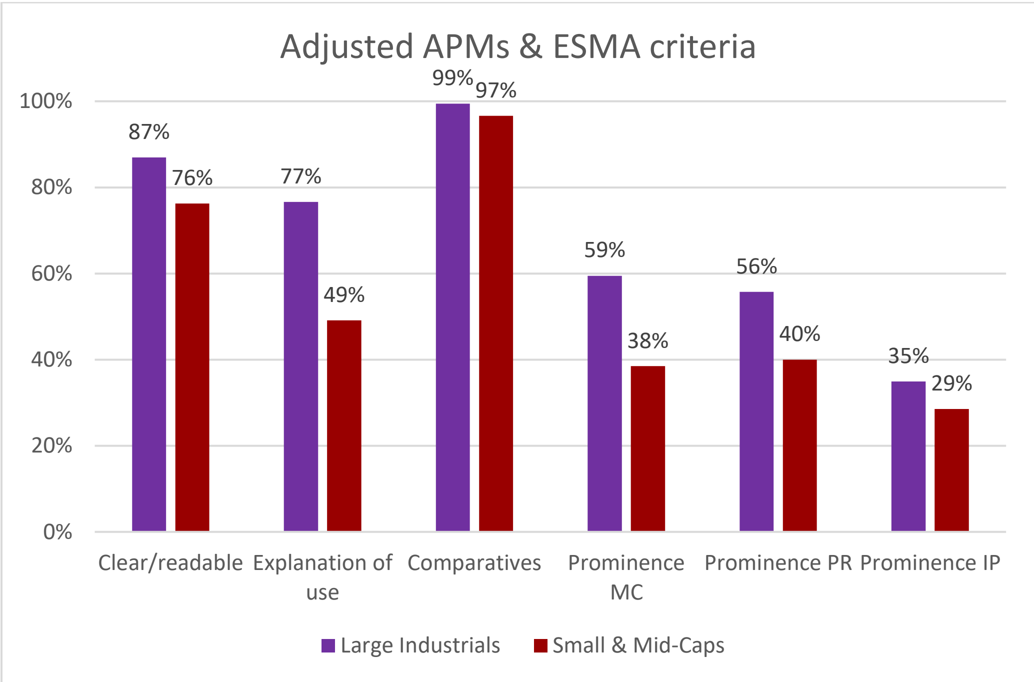
- Used by 6 entities out of 15 companies
- 4 different formulas
  - Adjustment for bank activity
  - Calculation on portion attributable to shareholders
- 1 label

Compliance with ESMA criteria

For industrials, the non-adjusted APMs are usually quite compliant with ESMA's guidelines.

The graph below therefore focuses on the adjusted APMs:

- There is generally less compliance with the Guidelines at small & mid cap level.
- However, averages can be misleading: results are generally better by decreasing order for the following adjusted APMs: adjusted net income, adjusted EBIT and adjusted EPS, and usually in the following decreasing order for the management commentary, the press releases and then the investor presentations.

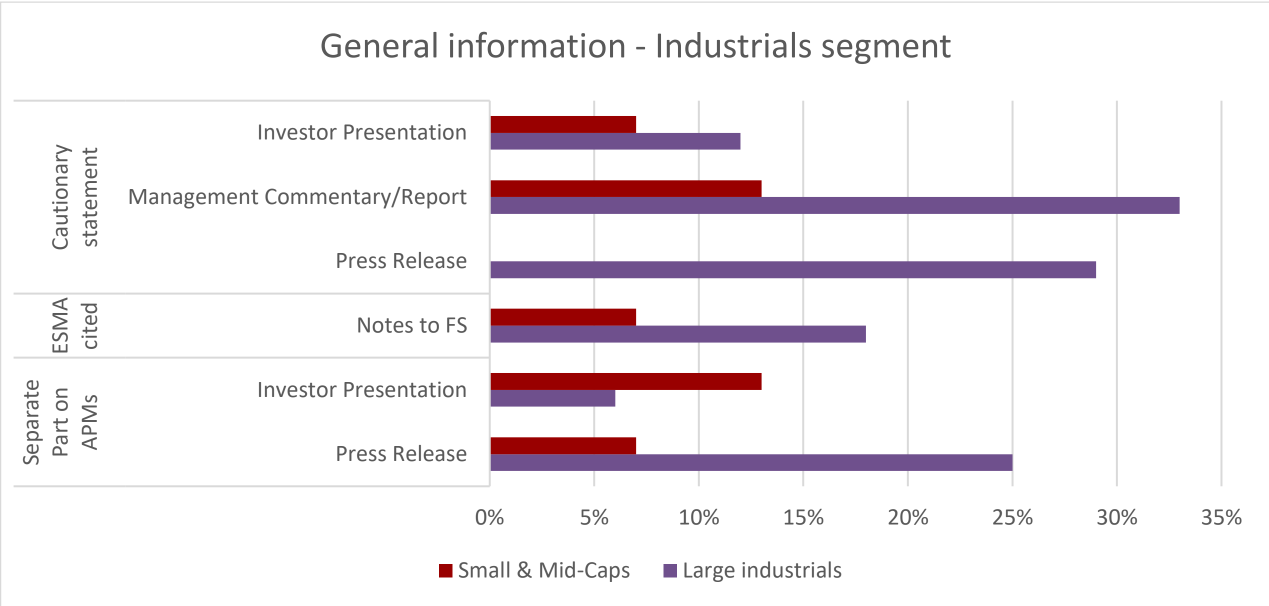


- As regards reconciliations:
  - For large industrials, reconciliations are always provided in the report but not always in press releases and investor presentations;
  - For small and mid-cap industrials, only 80% of them provide the reconciliation in the report.

As regards general information, as indicated in the second graph hereafter:

- If ESMA is cited, which is not frequent, it is usually more in the notes to the financial statements than elsewhere but ESMA remains not mentioned often at all.
- Cautionary statements are not frequent. A statement was considered a cautionary statement when it made mention of the use of APMs which are different from IFRS and from APMs displayed by other companies (and not when it related to the uncertainty attached to forward-looking information).
- There usually is no separate part on APMs or glossary for the industrials in our sample.

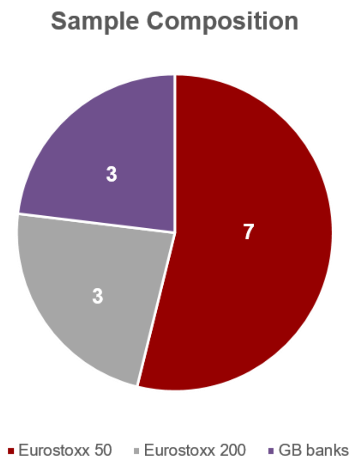
It should be noted that these types of general information are not required by ESMA's Guidelines.

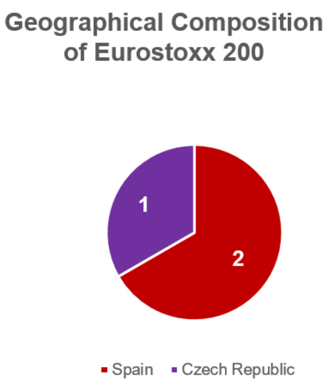


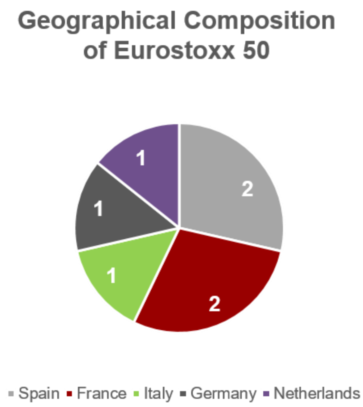
Banking segment

With reference to issuers belonging to the Eurostoxx 50, the findings are consistent with the prior year findings: no significant changes were observed in comparison with last year

- 13 Banking groups are included in the segment and they use more than 100 different indicators in their financial information. This sample is wider than in the previous year because it includes both UK banks and 3 banks belonging to the EuroStoxx 200 index to enhance the analysis. Indicators were analysed when used by at least 3 banks.



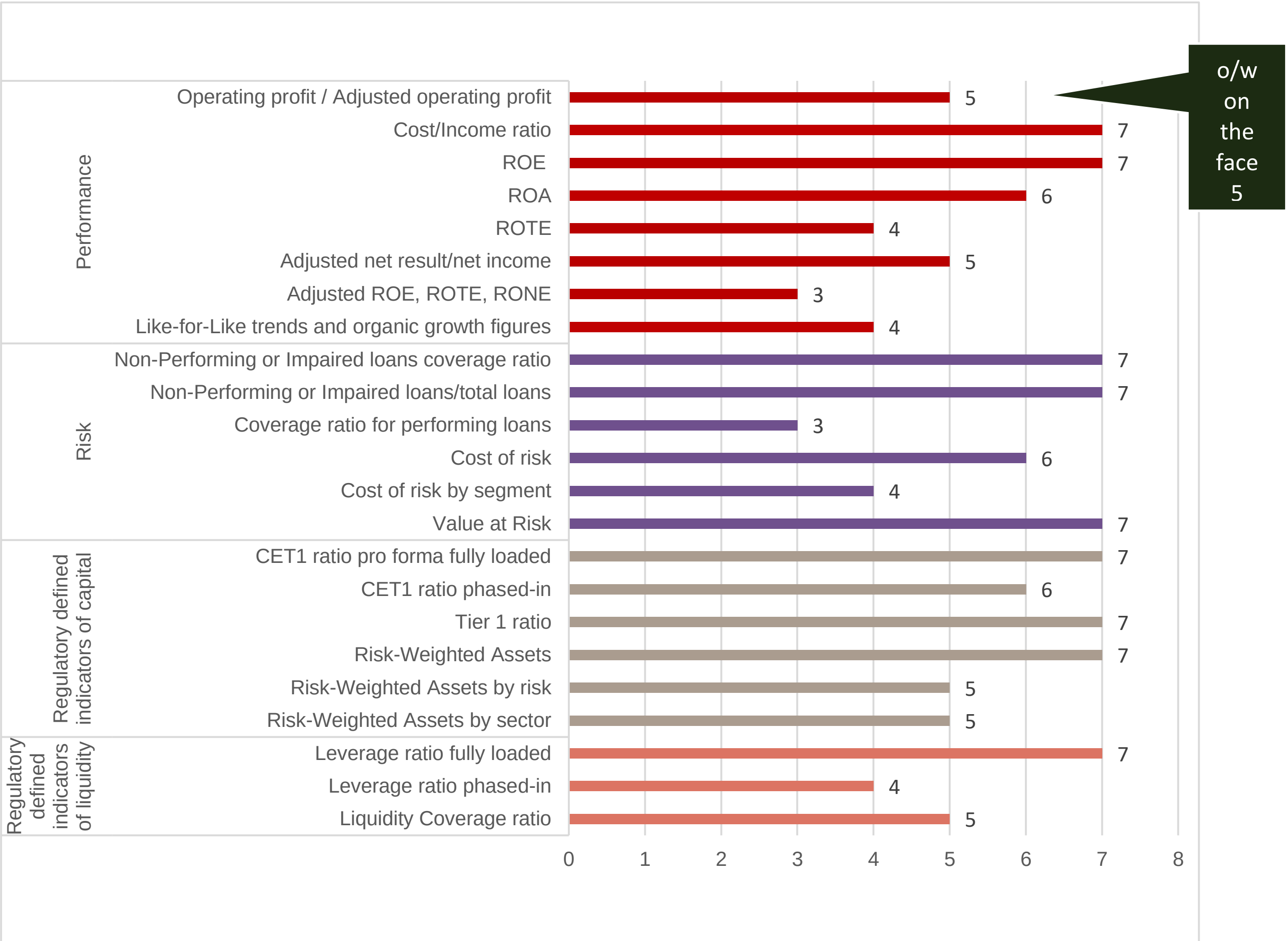




Performance measures in the primary financial statements

Eurostoxx 50 banks

With reference to issuers belonging to the Eurostoxx 50, no significant changes were observed in comparison with the previous year: divergences exist in EBIT calculation and labelling; a significant consistency is observed in terms of most frequently used APMs; the only APM presented on the face is "operating profit" but not all the banks present it on the face of the income statement.

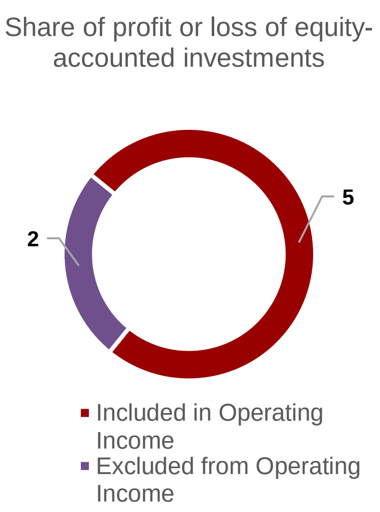


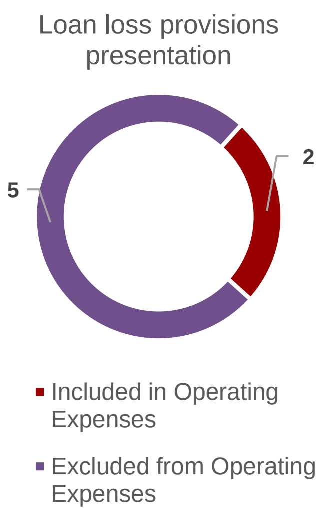
- All the entities use **condensed or managerial templates** derived by summarising and aggregating items presented in the IFRS primary financial statements as a basis to comment on their performance. For banking groups based in Italy (1 group) and Spain (2 groups), templates for IFRS primary financial statements are **regulated by local authorities,** thus leading to extensive use of reclassification between IFRS primary statements and "managerial templates".

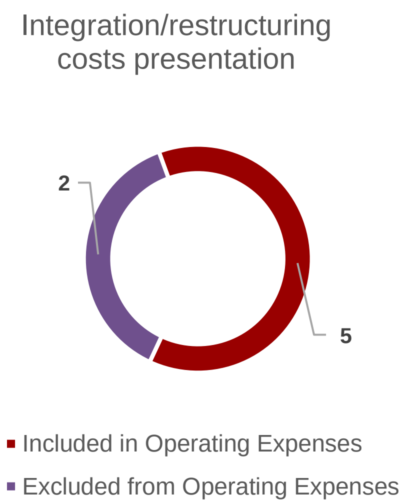
EBIT

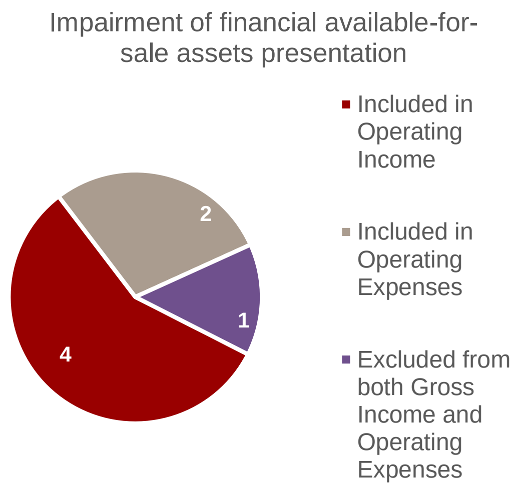
- As regards the Income Statement used as a reference for commenting on performance divergences in practice exist with reference to EBIT. In terms of labelling, this indicator is never labelled EBIT in this segment, but labels used are either operating income, operating margin or operating profit. In terms of composition, divergences exist regarding the presentation of the following items, which in turn results in the main source of divergences in the calculation of the cost/income ratio:

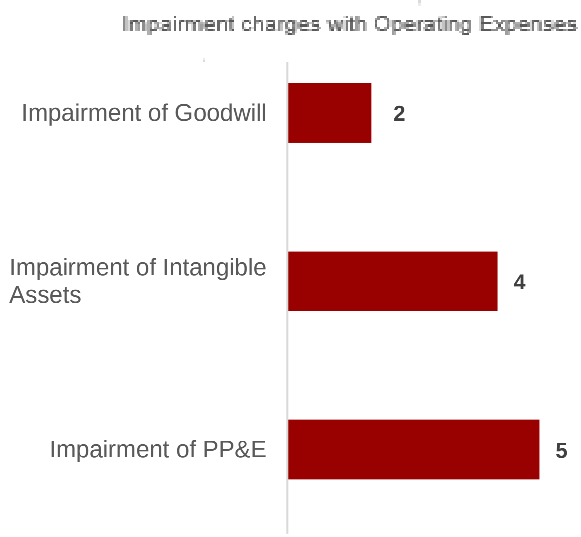
  - share of profit and loss of investments accounted for using the equity method (included in operating income by 6 entities);
  - impairment of available for sale financial assets (included in operating income by 4 entities);
  - integration and restructuring costs (excluded from operating expenses by 6 entities);
  - loan loss provisions, (excluded from operating expenses by 6 entities);
  - impairment on goodwill (included in operating expenses by 2 entities), intangibles (included in operating expenses by 4 entities) property, plant and equipment (included in operating expenses by 6 entities)
  - contributions to the single resolution funds (excluded from operating expenses by 1 entity).





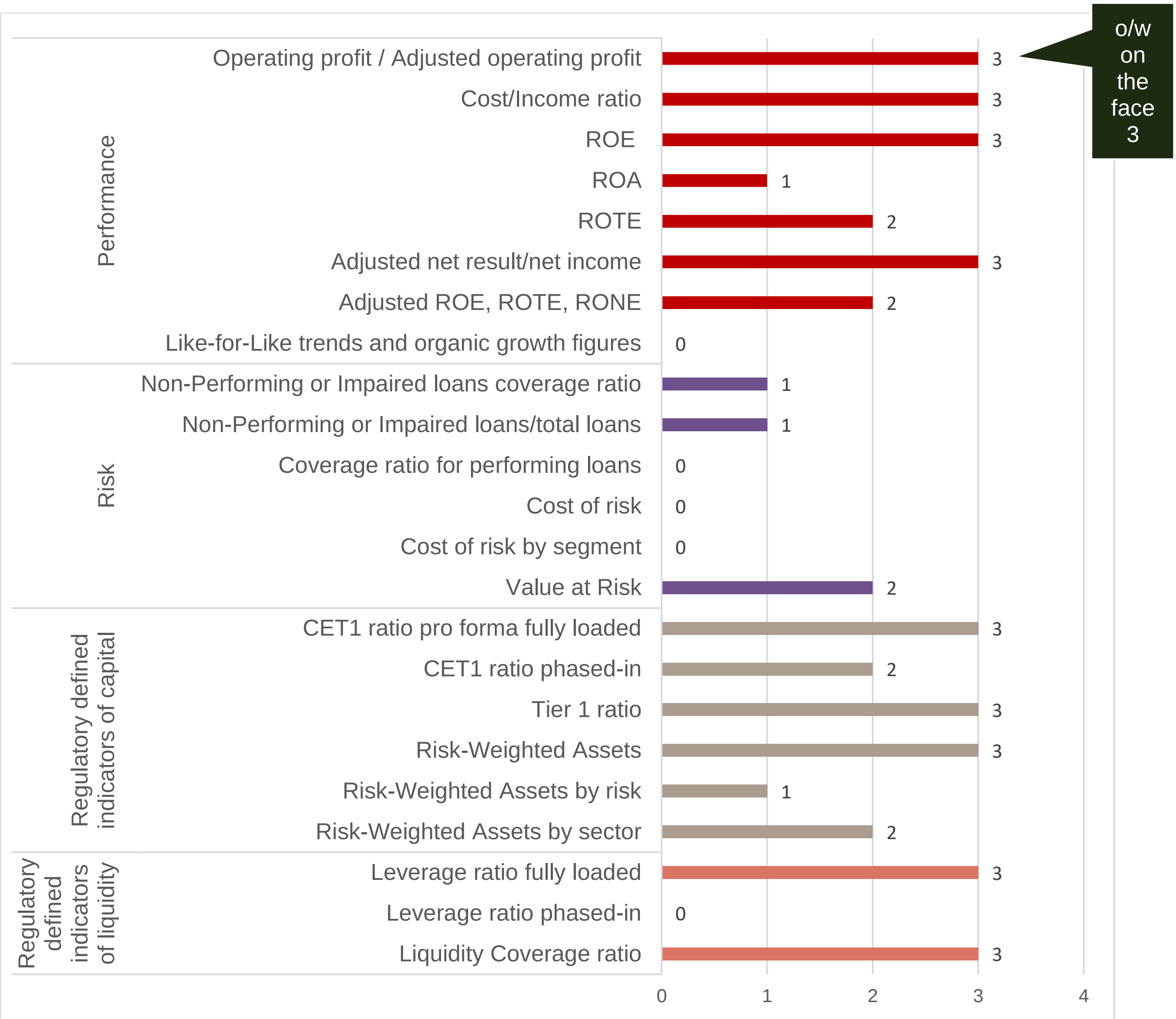




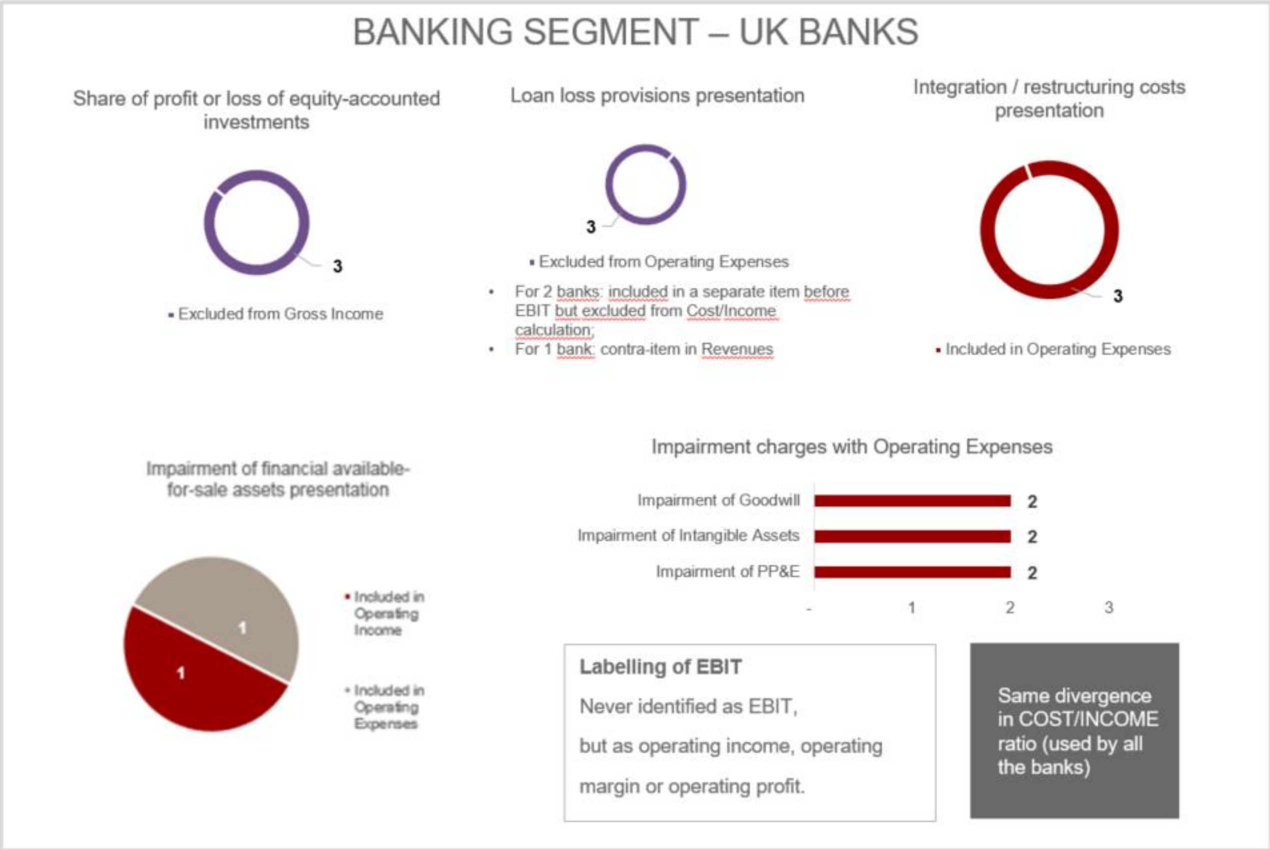


UK banks

- For UK banks the indicators used are substantially the same as for the EU big cap banks. However:
  - We observe that a lower number of indicators of asset quality are used compared to the EU banks, probably reflecting the lower impact of the non-performing issue compared to other EU jurisdictions;
  - In addition, the leverage ratio "phased-in" is not used by the banks in the UK sample;

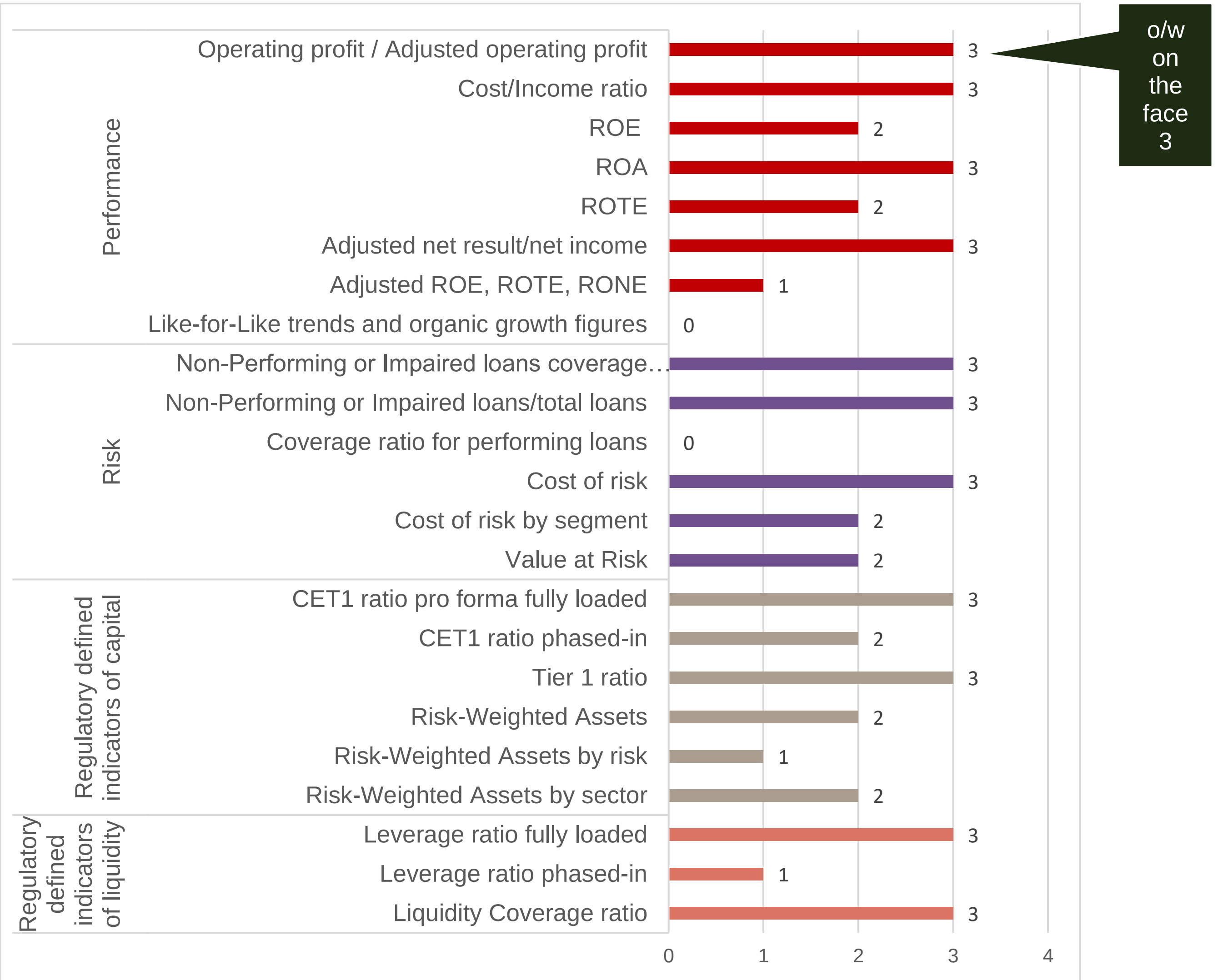


- We observe, as one of the most important points, a higher level of comparability in items included in operating profit than in the EU sample: in fact, for all 3 banks the share of profit or loss of equity-accounted investments and loan loss provision are excluded from operating income and operating income respectively.


BANKING SEGMENT – UK BANKS
Share of profit or loss of equity-accounted investments
3
Excluded from Gross Income
Loan loss provisions presentation
3
Excluded from Operating Expenses
For 2 banks: included in a separate item before EBIT but excluded from Cost/Income calculation;
For 1 bank: contra-item in Revenues
Integration / restructuring costs presentation
3
Included in Operating Expenses
Impairment of financial available-for-sale assets presentation
1
1
Included in Operating Income
Included in Operating Expenses
Impairment charges with Operating Expenses
Impairment of Goodwill
Impairment of Intangible Assets
Impairment of PP&E
2
2
2
-
1
2
3
Labelling of EBIT
Never identified as EBIT,
but as operating income, operating
margin or operating profit.
Same divergence in COST/INCOME ratio (used by all the banks)

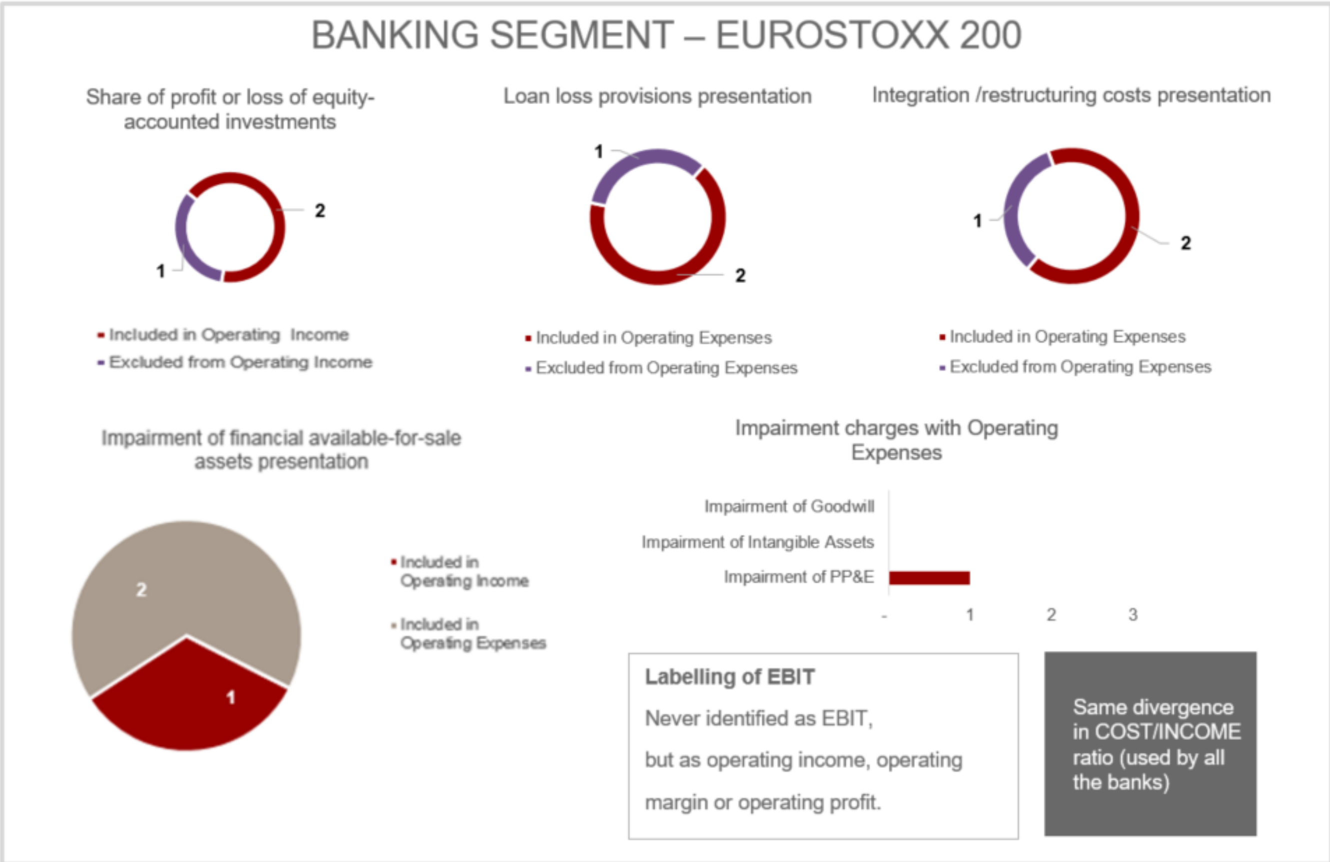
Eurostoxx 200 banks

- We do not observe a different approach in the use of APMs in the 3 Small/Medium-cap banks compared to the large banks. The indicators used are substantially the same as for large banks. We do however observe that the indicator of “like for like” is missing, reflecting the simpler group structure of small/medium banks.



- As regards the Income Statement used as a reference for commenting on performance and similar to the other samples, divergences in practice exist with reference to EBIT. In terms of labelling, this indicator is never labelled EBIT in this segment, but labels used are either operating income, operating margin or operating profit.
- In terms of composition, divergences exist regarding the presentation of the following items, which in turn results in the main source of divergences in the calculation of the cost/income ratio:

- share of profit and loss of investments accounted for using the equity method (included in operating income by 2 entities);
- impairment of available for sale financial assets (included in operating income by 1 entity);
- integration and restructuring costs (excluded from operating expenses by 2 entities);
- loan loss provisions, (excluded from operating expenses by 1 entity);
- while impairment on goodwill and on intangibles is consistently presented (excluded from operating expenses by all 3 entities), impairment on property, plant and equipment is presented differently (included in operating expenses by 1 entity and excluded by 2 entities).



Adjusted indicators

Entities focus their communication on adjusted earnings, net of special/one-off transactions.

There are similarities across the samples in the types of adjusted APMs as well as in the frequency of use.
In addition, no significant changes were observed in comparison with last year for the Eurostoxx 50 sample while the same pattern was observed for UK banks and small/medium banks as for EU large banks.

The reconciling items are also of the same types, however with different occurrence levels. This is explained by their nature which is very linked to facts and circumstances, although some companies will present some of these items such as restructurings more or less every year.

Adjusted net income and adjusted net result

The following table shows the approaches to presentation of this indicator that were observed in the 3 samples:

Frequency	Eurostoxx 50	UK Banks	Eurostoxx 200
On the face of condensed/managerial income statements and labelled “underlying” result	1	1	2
Press released and/or in the presentations to investors and in the management commentary	2	1	2
Press released and/or presentations to investors	5	3	3
Absent	3	0	0

The following table shows the items for which the reported result was adjusted respectively in the 3 samples:

Frequency	Eurostoxx 50	UK Banks	Eurostoxx 200
Results of the disposal of an investment	5	3	1
Non-recurring or extraordinary transactions or non-recurring provisions	5	3	1
"Non-economic items", i.e. changes in own credit risk in fair value of derivatives (CVA/DVA) and financial liabilities accounted for at fair value	3	0	0
Provisions for "PEL/CEL", a specific financial product prevailing in a given country	2	0	0
"Non-economic items" and write-downs	0	2	1
Restructuring costs	0	1	1
Contributions to single resolution fund	0	1	0

One UK bank gives prominence to adjusted revenues and costs at the beginning of the annual report, with reconciliation between adjusted items and reported indicators provided in the rest of the document.

Return on Equity

ROE is used by all 7 entities belonging to the Eurostoxx 50, by 2 (out of 3) entities belonging to the Eurostoxx 200 and by all 3 UK banks.

Where used, ROE is based on varying formulas and also appears under varying labels:

- Minority interests are included or excluded from either the numerator or the denominator or both;
- Differences exist in the components of equity that are taken into account in the denominator;
- It is unclear in one case how negative reserves were considered.

For entities belonging to the Eurostoxx 50, we did not observe material changes from last year.

Problem loans

The table below shows the frequency of use of the two main asset quality KPIs:

Frequency	Eurostoxx 50	UK	Eurostoxx 200
Coverage ratio	All the entities	All the entities	All the entities
Ratio of problem loans (problem loans over total loans)	All the entities	All the entities	All the entities

Divergences exist in the labelling and scoping of the problem loans, as shown in the table below:

Eurostoxx 50	UK	Eurostoxx 200
▪ 4 entities refer to Non Performing Loans ("NPL"): 1 Italian bank states definition is consistent with EBA's standards and 3 banks do not clarify if reference is made to EBA's standards; ▪ 2 French entities refer to "Doubtful Loans" and not to NPL.	▪ 1 entity refers to impaired allowances as a % of loans impaired; ▪ 1 entity refers to loan impaired charges (LICs); ▪ 1 entity refers to impaired loans as a % closing advances, provisions as a % of impaired loans and provisions as a % of impaired excluding run-off.	▪ All 3 entities refer to NPL: 1 includes also another indicator (NPA Coverage ratio); ▪ 1 entity reports the NPL ratio within the presentation to investors but not in the management commentary.

With reference to banks belonging to the Eurostoxx 50 and Eurostoxx 200, we observed **divergences in the calculation of the coverage ratio**. In particular, all the Spanish banks included in the two samples adopted an approach that differs from all the other entities: Spanish banks take into account both the allowances for problem loans and the provisions for contingent liabilities on off-balance exposures, whilst the other banks only include loans (on-balance sheet items only).

Compliance with ESMA criteria

- Within the Eurostoxx 50 sample, no major changes were observed in comparison with last year;
- Overall **definitions of APMs are presented and the disclosure provided is satisfactory**. Many APMs are regulatorily defined (within Capital and Liquidity regulations), which reduces the need for detailed illustration and helps comparability. Nevertheless, different labels are used, such as "transitional" or "phased-in" regulatory ratios, to define the same indicator. In addition, for the "fully loaded" regulatory ratios the qualifier "pro-forma" is not always present;
- In terms of prominence, APMs and their most reconcilable IFRS item are stated together. With reference to presentation in the press releases and in the presentation to analysts, indicators affected by managerial adjustments are presented with equal and, in some cases, with more prominence than the IFRS equivalent measures;
- As regards presentation, the analysis evidences a doubling of the number of entities in the Eurostoxx 50 that have a separate section on APMs compared to last year (4 vs 2);
- All the entities present comparative figures for key APMs.

The following table shows the frequency of entities in the 3 samples that present a separate section dedicated to APMs or an Appendix/Glossary within their Annual Report:

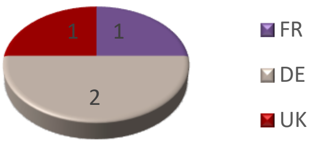
Frequency	Eurostoxx 50	UK	Eurostoxx 200
Separate section	4 (out of 7)	2 (out of 3)	1 (out of 3)
Appendix/Glossary	3 (out of 7)	1 (out of 2)	2 (out of 3)

Insurance segment

No significant changes were observed in comparison with last year, except as regards the Solvency II ratio, which is now disclosed by all the entities under the same label

- Our analysis covered the 3 insurance groups included in the EUROSTOXX 50 index plus a UK company. 1 entity operates life-only business, while the other 3 are active on both life and non-life.

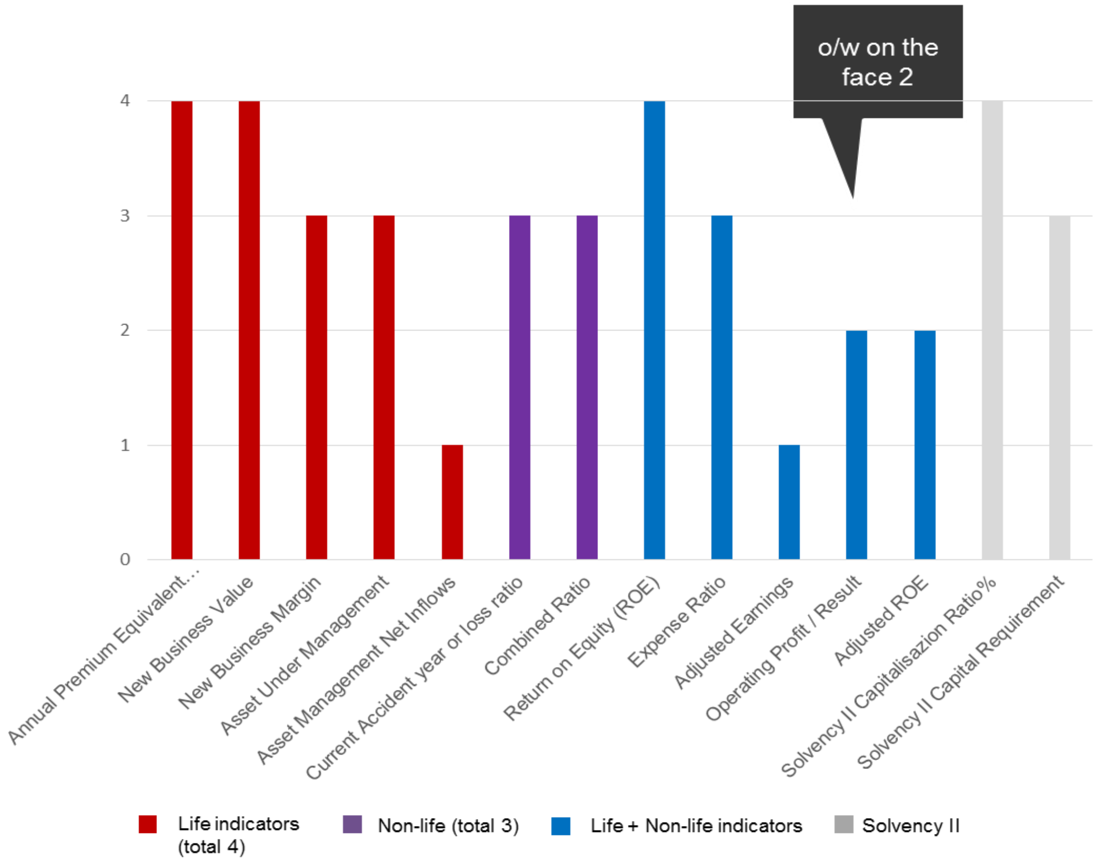
Sample: geographic breakdown



Most frequently used indicators

- The use of APMs plays a crucial role in the illustration of financial performance of insurance entities. The most frequently used APMs differ in the two sub-segments: Non-life and Life. The table below shows the list of the most frequent indicators by sub-segment. The following graph illustrates their frequency of use in the sample.

Sub-segment relevance	Indicator
Life only	Annual Premium Equivalent (APE) New Business Value New Business Margin Asset Under Management Asset Management Net Inflows
Non-Life only	Current Accident year or loss ratio Combined Ratio
Both Life and Non-Life	Return on Equity (ROE) Expense Ratio Adjusted Earnings Operating Result Adjusted ROE
Solvency II	Solvency II Capitalisation Ratio Solvency II SCR



- The segment is characterised by a significant degree of **consistency** in the indicators used.
- Alternative Performance indicators used to comment on performance are mainly **non-reconcilable** by nature, except for operating profit, adjusted earnings and ROE.

Presentation on the face

- The structure of IFRS Income Statements presented by the 4 insurance companies included in the sample differs. This patter reflects the use of different local standards allowed by IFRS 4 – Insurance Contract – standard.
- **All entities make extensive use** of APMs not presented on the face of their Income Statement to illustrate performance. Only the indicator of Operating Result/Profit is presented on the face by two entities and labelled respectively "Operating Result" and "Operating Profit".

Divergences in labelling, definition and presentation of Operating profit

- One insurance company presents 3 different indicators: “Net operating income”, “Underlying earnings” and “Adjusted earnings”, the first is presented on-the-face of primary statements and the second and third presented on a managerial detailed income statement.
- 2 (out of 4) present operating profit in the notes. One of them has a specific definition of “EEV Operating profit”, that is: “EEV operating profit is provided as an additional measure of profitability. This measure includes EEV new business profit, the change in the value of Group’s long-term in-force business, and profit from our asset management and other businesses. As with IFRS, EEV operating profit reflects the underlying results based on longer-term investment returns.

Adjusted indicators

- 1 out of 4 entities uses Adjusted earnings, excluding P&L on Fair Value and derivatives, exceptional operations and goodwill and other related intangibles
- 1 of the entities uses “IFRS operating result” as one of the key APMs and the nature of this indicator is equivalent to an adjusted indicator (not labelled as adjusted).

Other Comprehensive Income

- None of the entities comment OCI in their management commentary, in the press release nor in the presentation to the analysts
- No APMs were presented with reference to components of OCI in the documents analysed

Return on equity

- 3 of the 4 entities in this segment use a **ROE indicator**, however **significant deviations** exist in the definition of this indicator.
  - For one entity RoE is calculated on the basis of the consolidated result, including the result attributable to non-controlling interests.
  - For one entity ROE represents the ratio of net income to the average total equity, excluding unrealised gains/losses on bonds, net of shadow accounting, at the beginning of the year and at the end of the year.
  - One entity presents 3 different indicators: Net Income-based ROE, Adjusted ROE and Underlying ROE.
    - The numerator reflects the respective APM (i.e. Net Income, Adjusted Earnings and Underlying Earnings).
    - The denominator for used Net Income ROE is based on consolidated financial statements, i.e. shareholders' equity including undated subordinated debt and Other Comprehensive Income and net income not reflecting any interest charges on undated subordinated debt.
    - The denominator used for Adjusted ROE and Underlying ROE, differently from what is described above, excludes all undated subordinated debts, which are treated as financing debt; interest charges on undated subordinated debt are deducted from earnings and OCI is excluded from the average shareholders' equity.
- The 4th entity uses Return on Embedded Value.

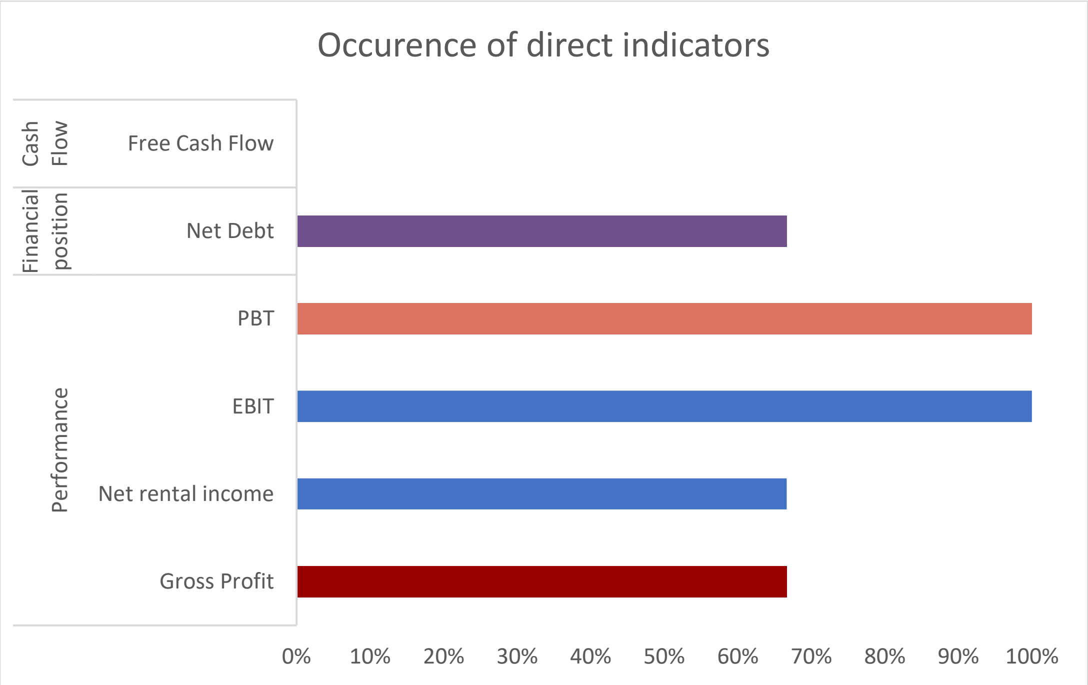
Compliance with ESMA criteria

- Comparatives for key APMs are in general presented.
- In terms of changes introduced in 2016 in order to enhance the compliance with ESMA guidelines we observe that, except in 1 case, the 3 remaining entities have adjusted their reporting: 1 entity introduced a separate report on the IR website in 2016 with definitions and reconciliations of APM used. Similarly, 1 entity introduced a separate section in 2016 Annual Report on APM used. Finally 1 entity declares that specific amendments to the disclosures have been done following ESMA guidance.

Real estate segment

The sample now includes 1 company in each subsample: 1 large, 1 mid and 1 small cap. 2 mainly communicate with indicators in compliance with EPRA's "Best Practices recommendations".

- The large and mid-cap companies communicate on EPRA[1] performance measures as they are pure real estate players. They also use similar quantities of performance measures (around 20). The small cap company, on the contrary, whilst it does use the measures of NAV (Net Asset Value) and NAV per share, states compliance with ESMA's guidelines and uses less performance measures (10). It does not refer to EPRA.
- The 3 companies commonly use few direct indicators (the table below only takes into account direct indicators used by 2 or more of the 3 entities):



  - Gross profit and profit before tax are always presented on the face of the income statement
  - Interestingly, whilst detailed in the notes, net rental income is not presented on the face of the income statement by one of the two companies that communicate on this indicator.

[1] European Public Real estate Association: « EPRA Best Practices Recommandations » : http://dev.epra.com/application/files/7415/0306/4407/EPRA_BPR_Guidelines_2017.pdf

  - EBIT is presented on the face of the income statement under three different labels: net operating result before financing cost, profit from operations, operating profit. It should be noted that the label 'net operating result before financing cost' omits to mention that it is also before tax.

- The companies use a very small quantity of adjusted indicators.

EPRA Performance measures

- Both the large and mid cap companies use the following performance measures:
  - EPRA earnings
  - EPRA NAV per share
  - EPRA Triple NAV per share
  - EPRA Net Initial Yield and 'topped-up' Initial Yield
  - EPRA Cost ratios (respectively excluding direct vacancy costs or including direct vacancy costs)
  - Loan to Value
  - Interest cover

Compliance of 'EPRA companies' with ESMA's guidelines

- Even though neither company states compliance with ESMA's guidelines, our assessment of compliance is as follows:
  - EPRA measures are clearly given more prominence than IFRS measures as the latter are usually relegated to the appendices of the press release and investor presentation or to the financial statements and EPRA measures are not presented together with the most reconcilable IFRS measures.
  - Only a general explanation of the use of EPRA measures is provided to cover all of the EPRA measures.
  - All EPRA measures are presented in compliance with EPRA's recommendations: comparatives are provided, as well as reconciliations to IFRS for those measures that are reconcilable. Calculations are generally provided and if not, at least an explanation of the calculation is provided in the glossary. Therefore, their presentation is considered to be clear.
  - Both entities present a specific section on EPRA performance measures as well as a glossary, in addition to the presentation and comments of individual measures throughout the reports.

GLOSSARY

AIAF = ASSOCIAZIONE ITALIANA DEGLI ANALISTI FINANZIARI (ITALIAN ASSOCIATION OF FINANCIAL ANALYSTS)

ANC = AUTORITÉ DES NORMES COMPTABLES

APE = ANNUAL PREMIUM EQUIVALENT

APMS = ALTERNATIVE PERFORMANCE MEASURES

CEL = COMPTE EPARGNE LOGEMENT

CET 1 = COMMON EQUITY TIER 1

CVA = CREDIT VALUATION ADJUSTMENT

DVA = DEBIT VALUATION ADJUSTMENT

EBA = EUROPEAN BANKING AUTHORITY

EBIT = EARNINGS BEFORE INTEREST AND TAXES

EBITDA = EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTISATION

EEV = EUROPEAN EMBEDDED VALUE

EFFAS = EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

EPRA = EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

EPS = EARNINGS PER SHARE

ES = SPAIN

ESMA = EUROPEAN SECURITIES AND MARKETS AUTHORITY

EU = EUROPEAN UNION

GAAP = GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

IASB = INTERNATIONAL ACCOUNTING STANDARDS BOARD

IFRS = INTERNATIONAL FINANCIAL REPORTING STANDARDS

MLN = MILLIONS

NAV = NET ASSET VALUE

NNNAV = TRIPLE NET ASSET VALUE

NPL = NON PERFORMING LOANS

OCI = OTHER COMPREHENSIVE INCOME

PEL = PLAN EPARGNE LOGEMENT

PP&E OR PPE = PROPERTY, PLANT AND EQUIPMENT

ROA = RETURN ON ASSETS

ROACE = RETURN ON AVERAGE CAPITAL EMPLOYED

ROCE = RETURN ON CAPITAL EMPLOYED

ROE = RETURN ON EQUITY

ROTE = RETURN ON TANGIBLE EQUITY

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