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Case Study

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Non-GAAP and IFRS Earnings Disclosure Case of French Companies

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ARTICLE INFO	ABSTRACT

The purpose of this paper is to investigate the recent trend in the disclosure of non-GAAP earnings (NGE) by French listed companies and to examine competing explanations for their disclosure. The annual reports of forty listed companies are examined for the period from 2004 to 2013 to identify those emphasising a NGE measure rather than the audited net profit after tax (NPAT) figure, as prepared under GAAP. We find that The number of companies reporting NGE figures has increased substantially over this period of time, and in 2009 and 2010 NGE figures were significantly higher than the audited NPAT figures. We conclude the motivation for reporting NGE figures is likely to result from management's desire to convey a more favourable impression of performance rather than simply explaining the changes resulting from the initial adoption of IFRS. The increasing trend in the number of companies reporting NGE figures in French has resulted in the Financial Markets Authority issuing draft guidelines to reduce the likelihood that users of this information will be misled by managers acting opportunistically.

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KEYWORDS*: non-GAAP earnings, IFRS, signalling and manipulation hypothesis*.

Introduction

This study investigates the recent trend in the disclosure of alternative earnings by French listed companies and examines competing explanations for their disclosure. While the financial information required by generally accepted accounting practice (GAAP) is present in the financial statements of listed companies, these alternative figures are often the ones emphasised in management's comments in the annual report such as in the Chairperson's Report.

Following the adoption of International Financial Reporting Standards (IFRS) Deloitte (2010, 2011) notes an increase in the reporting of alternative non-GAAP earnings (NGE) figures in the annual reports of French companies. Similar trends have been reported in Australia (KPMG, 2010). Financial commentator Brian Gaynor (2010) claims that the practice of reporting NGE figures in French arises because directors and managers believe that IFRS does not give an accurate portrayal of company performance and that there is a "crisis of accounting's double standards" (p. 2).

We begin by examining whether managers have increased the use of non-GAAP earnings post IFRS adoption as a means of communicating information about (or signalling) the impacts of IFRS adoption. With the adoption of IFRS it may be that users unaccustomed to it needed more 'useful' information during the transition phase. If the motivation was to provide NGE information only during the implementation or transitional

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phase to help users become more accustomed to IFRS reported results, then we expect to see the use of NGEs to decline over time and secondly that NGE figures would be different from those reported under GAAP but with no observable pattern in being either higher or lower.

An alternative explanation is that managers' report opportunistically, using NGE to manage investor expectations (manipulation hypothesis). So we also examine whether French companies are using non-GAAP earnings measures to explain adverse results or to cover bad news (i.e. mask losses). IFRS may make it harder for managers to report favorable results under statutory reporting, and therefore they may use NGEs as a way to influence users' perceptions of managerial performance. If this is the reason for the increase in reporting NGE then we expect that the reporting of NGEs will remain the same or increase over time and secondly that NGE figures will, on average, be higher than those reported under GAAP.

This paper examines the reporting of NGE over the period encompassing the adoption of IFRS in French. It uses financial reports from the years 2004-2013 to determine whether signaling or manipulation better explains the pattern of reporting. Forty of French's larger listed companies are included in the study, 58 percent of which reported NGE in one or more of the eight years. The results show that reporting of NGE increased substantially with the adoption of IFRS and does not appear to have significantly abated since. Additionally 64.6 percent of the NGE figures are higher than the reported net profit after taxation (NPAT) figures. These findings support the suggestion that French companies are reporting NGE to present a more favourable picture of performance to their stakeholders.

This research complements the existing NGE literature which has focussed primarily on larger markets, particularly the United States. Evidence from other jurisdictions such as French's smaller capital market will contribute to the generalisability of the signaling versus the manipulation hypothesis. Its findings are of relevance to policy makers in French and other smaller capital markets where no regulations for the disclosure of NGE currently exist.

The remainder of the paper is divided as follows. Section two provides a literature review. Hypotheses are developed in section three, and section four describes the sample and research methodology. Descriptive information is provided in section five with the results of hypothesis testing are summarized and discussed in section six. The final section presents the conclusion.

2. Literature Review

2.1 Non-GAAP Earnings (NGE)

Non-statutory performance measures are reported by companies in audited financial statements in press releases and other documents. These non-GAAP measures are variously referred to as "Performa earnings", "underlying profits", "street earnings", "normalized profits", "core earnings", "non-GAAP earnings" or "non-conforming financial information" (The Committee of European Securities Regulators (CESR) 2005; Christensen, Merkley, Tucker and Venkataraman, 2010; FMA 2011). NGE can include measures such as earnings before interest and tax (EBIT) or earnings before interest, tax, depreciation and amortisation (EBITDA).

For the purposes of this paper, NGE are measures of earnings other than the profit measure (net profit after tax (NPAT)) determined in accordance with generally accepted accounting practice under the requirements of the Financial Reporting Act 1993. NGE are derived by making adjustments to the statutory NPAT figure prepared in accordance with GAAP. The adjustments can include non-recurring items such as expenses arising from major business reorganisation activities such as restructurings, business unit closures, mergers or

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acquisitions (Entwistle, Feltham and Mbagwu, 2005). The adjustments may also include one–off asset impairments and write-offs, gains or losses from asset sales and legal settlements, fair-value adjustments, research and development expenses, stock-based compensation, and tax-related items (Christensen et al., 2010).

2.2 Regulatory Background

Regulators and professional accounting bodies have raised concerns about the use of alternative performance measures reported outside the audited financial statements in press releases and other documents (McLaughlin, 2010; Financial Markets Authority (FMA), 2011). Regulators acknowledge that while NGE may provide useful information to users there is also the potential to mislead them (FMA, 2011; FMA, 2012). In order to maintain market confidence various regulators have introduced requirements, recommendations or guidelines for issuers to follow when disclosing non-GAAP earnings.

In the United States the Sarbanes Oxley Act 2002 required the Securities and Exchange Commission (SEC) to address non-GAAP disclosures. SEC Regulation G (SEC, 2003) requires that, when a non-GAAP measure is disclosed, the issuer must provide the directly comparable GAAP measure and a reconciliation of the non-GAAP and GAAP financial measures.

There are currently no regulations in Europe governing non-GAAP earnings but recommendations were issued by the Committee of European Securities Regulators1 (CESR) in 2005. Issuers making non GAAP disclosures are recommended to define the components of the NGE measure and explain the differences from the GAAP figure. Non-GAAP earnings should be disclosed consistently over time along with comparable figures from prior periods (CESR, 2005).

In Australia and French there are currently no regulations with res[3]pect to the disclosure of non-GAAP earnings, but both countries have guidelines. Australian listed companies are encouraged to follow guidelines issued by the Australian Institute of Company Directors and the Financial Services Institute of Australasia (2009). In addition, the Australian Securities and Investment Commission (ASIC, 2011) Consultation Paper 150 proposes that NGE should not be included in the statutory financial statements and only in the notes to the financial statements when it is necessary to give a true and fair view of the financial statements. NGE are permitted in other communications such as directors' reports, press releases and analyst briefings but they must not be misleading or be given greater prominence than the GAAP financial information. A reconciliation between the non-GAAP and GAAP earnings is also required along with explanations of the adjustments. Consistent with the European recommendations the measures must be prepared consistently from period to period and comparative figures provided.

In September 2012, French's FMA released a guidance note on disclosure of non-GAAP financial information for issuers, their directors and preparers of financial information. The guidelines set out expectations on the use of financial information in corporate documents and are similar to the guidelines in ASIC's Consultation Paper 150, with the additional guideline that the "non-GAAP financial information should be unbiased and not used to remove or disguise 'bad' news" (FMA, 2012, p. 7).

2.3 Motivations for reporting non-GAAP earnings

The first of the two competing reasons advanced for reporting NGEs is the signalling hypothesis which suggests that the disclosure of non-GAAP

[1]Now reformed as the European Securities and Markets Authority

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earnings conveys additional information of relevance to users of financial statements. A previous study by Bhattacharya, Black, Christensen, and Larson (2003) finds that NGE are more informative and persistent than GAAP earnings, supporting the view that NGE give a better picture of permanent earnings. Brown and Sivakumar (2003) also find that NGE provide more relevant information than GAAP measures. Other studies show that firms with less value-relevant earnings, specifically technology firms and firms with prior losses (Bowen, Davis and Matsumoto, 2005) and less informative earnings (Lougee and Marquardt, 2004), are most likely to emphasise non-GAAP earnings. These studies suggest that NGE can provide additional information to users about firm performance.

However, with the adoption of IFRS it is claimed that the disclosure of NGE is increasing as IFRS accounting standards do not accurately portray company performance, and that NGE figures provide a better insight into a company's underlying operational performance. An Ernst & Young (2006) study on the implementation of IFRS by a group of companies noted an increase in the use of NGE figures in press releases and company presentations signifying "a gap between IFRS and what managers believe is necessary in order to communicate to the markets information which enables underlying performance and sustainable cash flow to be assessed" (p.3). However, that trend was considered at the time to be short term until IFRS reporting improved and analysts became more familiar with IFRS reporting.

A second reason suggested for the disclosure of NGE is the manipulation hypothesis - that managers operate opportunistically, using NGE to manage investor perceptions. Bhattacharya, Black, Christensen and Mergenthaler (2004) find that firms that disclose NGE are more likely to be less profitable than other firms, have higher debt, higher liquidity, and higher price to earnings, and book to market ratios.

Non-GAAP reporting appears to increase when firms have share price and earnings declines (bad news) and when there are analysts' predictions to meet (Bhattacharya et al., 2004). Bowen, Davis and Matsumoto (2005) show that in press releases firms emphasise the performance measure which portrays the better performance of the firm. NGE are disclosed first in press releases to emphasise a positive performance when GAAP earnings fall short of strategic benchmarks (Marques, 2010).

Research findings suggest that the opportunistic behaviour of managers has the potential to mislead investors. For example, the market does not appear to take into consideration expenses excluded from NGE which have a negative impact on future cash flows (Doyle, Lundholm and Soliman, 2003).

Unsophisticated investors are influenced by NGE and are more likely to assess earnings and stock performance as being higher and trade on this information while sophisticated investors do not (Fredrickson and Miller 2003; Elliott, 2006; Bhattacharya, Black, Christensen and Mergenthaler, 2007).

This manipulation has been tied into reporting under IFRS. IFRS has also been shown to sometimes create misleading results (Beattie, Fearnley and Hines, 2008; Pawsey, 2010). Wee, Tarca and Chang (2011) examine firm disclosures by 150 Australian companies following IFRS adoption and find that those with lower earnings under IFRS make additional disclosures, suggesting that preparers make the disclosures to explain adverse results.

3. Hypotheses

If the motivation for reporting NGE is to provide further, more relevant performance measures (the signalling hypothesis), it is expected that in the early years of IFRS adoption companies would feel the need to provide further explanations to

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investors about the factors that had impacted their bottom line, often providing adjusted profit figures. If this were the case then the level of adjustments, several years after adoption, should decrease noticeably. Additionally, we would not expect to see non-GAAP figures generally higher than earnings reported under GAAP.

Alternatively, if the motivation for reporting NGE is to enhance the appearance of management performance (the manipulation hypothesis) it may be expected that non-GAAP figures would be higher than NPAT and that the level of adjustments would continue at the same level post-IFRS.

First we test the assertion that reporting NGEs has increased under IFRS. The first hypothesis we test is:

Hypothesis 1: There is a positive association between the disclosure of non-GAAP earnings and the transition to the IFRS reporting regime

We then investigate whether the trend to report NGE has decreased with the increased time period after IFRS adoption. The second hypothesis that we test is:

Hypothesis 2: The reporting of Non-GAAP earnings figures has decreased with the increasing time interval since IFRS adoption.

We finally investigate whether managers may be using NGE to improve the earnings reported in annual reports. The third hypothesis that we test is:

Hypothesis 3: Non-GAAP earnings figures are higher than earnings reported under GAAP

4. Sample and Research Methodology

4.1 Sample

In this study we examine the annual reports of forty of French's largest companies. The sample was drawn from the EURONEXT Top 50 Index companies and companies with the highest market capitalisation outside the EURONEXT 50. The companies selected were those that published annual reports in all eight years of the time period under study (2004 to 2013). Firms that did not report in all eight years, cross-listed companies, and property trusts were excluded. Table 1 summarises the sample selection.

Table 1 - Sample selection

EURONEXT Top 50 Index	50
EURONEXT Small-cap Index	16
	66
Less Australian cross-listed	-6
Less overseas listed (UK)	-1
Less Property trusts	-5
Less companies with incomplete data	-14
Total	40

The ten years time period for the study is from 2004 to 2013. This time period covers pre and post IFRS adoption. French listed companies were required to adopt IFRS for financial accounting periods beginning 1 January 2007. However, firms were allowed to adopt the standards as early as 1 January 2005

The forty companies in this study adopted IFRS from as early as 2005 to as late as 2008. One company reported for the first time under IFRS in 2005 (2.5 percent), 14 (35 percent) in 2006, 7 (17.5 percent) in 2007 and the remaining 18 (45 percent) in 2008. After 2008 all companies were reporting under IFRS.

The data, hand collected from annual reports for the period, consisted of all reported NGE figures and the adjustments made to reach those figures in addition to the NPAT figure in the income statement. Particular attention was given to the income statement and notes referenced from the income statement and reports of the Chairperson of the Board of Directors and the Chief Executive Officer.

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4.2 Research method

The hypotheses were tested using descriptive analysis and logistic modelling. A logistic regression model is used to examine the association between the disclosure of NGE and reporting under IFRS, controlled by a number of identified factors.

The full model is:

$$NON\text{-}GAAP = \beta_0 + \beta_1 REPREG + \beta_2 MKTBK + \beta_3 LEV + \beta_4 GROWTH + \beta_5 \Delta PROFIT + \beta_6 \Delta SHAREPRICE + \beta_7 LOSS + \beta_8 IND + \varepsilon$$

Where:

NON - GAAPDisclosure of non-GAAP earnings - Binary (Yes (1)/No (0)

REPREG: Reporting regime – Binary (IFRS (1) /Prior NZ GAAP (0)

MKTBK: Market-to-book value of equity

GROWTH: Sales growth – percentage change from prior year

LEV: Leverage (Total liabilities/Total assets)

ΔPROFIT: Percentage change in profit from prior year

ΔSHAREPRICE: Percentage change in year end share price from prior year

LOSS: Loss-reported in current year – Binary (Yes (1)/No (0))

IND: Industry indicator variables (Broad industry categorisation)

ε: Error term

The dependent variable NON-GAAP represents whether or not a company reports non-GAAP earnings (NGE). It is a binary variable coded 1 if a company reports NGE and zero otherwise.

The independent variable of interest is the reporting regime (REPREG). This is also a binary variable coded 1 if a company is reporting under IFRS and 0 if not. A positive coefficient for this variable would indicate that IFRS adoption is associated with reporting of NGE.

The regression equation is controlled by several factors that could impact on the disclosure of NGE as highlighted in the research literature.

Lougee and Marquardt (2004) suggest that high-growth companies are more likely to report non-GAAP earnings, although Epping and Wilder (2011) find that low-growth companies make more adjustments to GAAP earnings to arrive at NGE. Although different in outcome, growth impacts on disclosure. Similar to Lougee and Marquardt (2004) growth is measured using market-to-book (MKTBK) at the financial year end reflecting the market anticipating future growth and the percentage change in sales growth (GROWTH) over the prior year.

Leverage (LEV) is positively associated with NGE (Hodgson and Stevenson-Clarke, 2000; Bhattacharya et al., 2004; Lougee and Marquardt, 2004) because companies with high leverage are perceived to have less informative earnings, so those companies are more likely to report NGEs.

Companies are more likely to report NGE if there is volatility in profit, earnings per share or share price (Bhattacharya et al., 2004). Control variables are used for the percentage change in profit from the prior year (ΔPROFIT) and the percentage change in share price (ΔSHAREPRICE). Likewise if companies are showing a loss (LOSS) there is a greater likelihood of use of NGE, particularly if this improves the perceived performance (Bhattacharya et al., 2004; Bowen et al., 2005).

Where companies are operating in fast-changing sectors, such as technology, the usefulness of financial reports is less than it is where there is more stability (Lev and Zarowin, 1999; Bowen et al., 2005). This means that it is important to control for industry type (IND).

5. Descriptive information

5.1 Companies reporting adjusted profit figures

The distribution of NGE reporting from 2004 to 2013 inclusive is given in Table 2.

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Table 2 – Frequency of reporting

Panel A - Frequency of companies reporting non-GAAP earnings (NGE)

Year	Total companies	Companies reporting NGE	
		Number	Percentage of total companies
2013	40	16	40.0%
2012	40	16	40.0%
2011	40	16	40.0%
2010	40	17	42.5%
2009	40	14	35.0%
2008	40	10	25.0%
2007	40	8	20.0%
2006	40	6	15.0%
2005	40	4	10.0%
2004	40	4	10.0%
Overa	**400**	**111**	**24.7%**

** Included three and six companies that only had tax-related adjustments in 2011 and 2010,*

Panel B - Frequency of total profit adjustments made by NGE reporting companies

Year	Total adjustments	Non-tax	Tax-	Total adjustments
2013	42	30	12	2.625
2012	39	27	10	2.654
2011	36	32	6	2.456
2010	36	21	15	2.118
2009	36	31	5	2.571
2008	25	20	5	2.500
2007	14	12	2	1.750
2006	7	7	0	1.167
2005	6	6	0	1.500
2004	4	4	0	1.000
Overal	245	190	55	2.152

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Panel A of Table 2 shows that there are 79 cases of NGE being reported over the eight year period. The number of companies reporting NGE is low in 2004 and 2005, but begins to climb from 2006 with a significant increase from 2007. Ten per cent of companies report NGE in 2004 compared to 40 per cent in 2011, with the peak in 2010.2

Companies reporting adjustments in 2010 and 2011 were affected by French tax changes which included a drop in the company tax rate from 33% to 30% and depreciation on buildings with useful lives of over 50 years no longer deductible for tax purposes (resulting in large deferred tax adjustments). The effects of these changes can be seen in Panel B of Table 2 which reports the number of NGE adjustments distinguishing between tax-related and non-tax related adjustments. However, despite the large numbers of tax-related adjustments in 2010 and 2011, the number of non-related adjustments remains high. Additionally the average number of adjustments per company remains high from 2008 to 2011.

Table 3 categorises companies reporting NGE relative to the number of years a company has been reporting pre- and post-IFRS adoption

Table 3 – Frequency of NGE reporting companies for years before and after IFRS adoption

	Reporting years before (-) and after (+) IFRS adoption for individual companies									
Number	**-4**	**-3**	**-2**	**-1**	**0**	**+1**	**+2**	**+3**	**+4**	**+5**
Total companies	18	25	39	40	40	40	40	40	22	15
NGE reporting companies	1	4	5	5	12	13	13	5	6	4
Percentage NGE reporting companies /Total companies	**6%**	**16%**	**12.5%**	**12.5%**	**30%**	**32.5%**	**32.5**	**12.5%**	**27%**	**27%**

The highest relative numbers of companies reporting NGEs occur in the two years post-IFRS adoption (+1 and +2); with a drop back in the third year indicating that perhaps the need to disclose NGEs is diminishing. However, years 4 and 5 pos[2]t-IFRS adoption indicate that NGE reporting rises again and remains steady at 27 per cent of all companie

[2]These percentages are lower than those reported by the Deloitte survey (2011) because the focus of this study is on non-GAAP earnings reported in place of the audited NPAT figure, or statutory profit. The Deloitte survey includes all alternative profit figures reported such as EBIT and EBITDA, which are commonly used by companies to report on operations. However, the findings of this study support those of the Deloitte survey (2011).

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5.2 NGE compared to NPAT

Table 4 provides the frequency of NGE figures that are higher than the corresponding statutory NPAT figures.

Table 4 - Frequency of companies reporting NGE higher than net profit after tax (NPAT)

Year	Total NGE reporting companies	NGE greater than NPAT	
		Number	Percentage
2013	16	11	68.8%
2012	17	14	82.4%
2011	17	14	82.4%
2010	17	14	82.4%
2009	14	11	78.6%
2008	10	2	20.0%
2007	8	4	50.0%
2006	6	4	66.7%
2005	4	3	75.0%
2004	4	2	50.0%
Overall	**79**	**51**	**64.6%**

Fifty-one of the 79 NGE figures (64.6 per cent) are higher than the corresponding NPAT figures, with the greatest number of instances occurring in 2009 and 2010.

6. Results of hypothesis testing

6.1 Hypothesis one

The results of the logistic model as described in section 4.2 testing the association between the disclosure of NGE and reporting under IFRS are presented in Tables 5 and 6

Table 5 - Pearson correlations

	NON-GAAP	REPREG	MKTBK	GROWTH	LEV	△PROFIT	△SHAREPRICE	LOSS
NON-GAAP	1.000							
REPREG	0.226***	1.000						
MKTBK	-0.035	-0.197***	1.000					
GROWTH	-0.048	-0.032	0.012	1.000				
LEV	0.159**	0.100*	0.143**	0.093	1.000			

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ΔPROFIT	-0.032	0.044	-0.040	-0.007	-0.039	1.000		
ΔSHAREPRICE	-0.063	-0.175***	0.028	-0.043	-0.031	0.006	1.000	
LOSS	0.112**	0.156***	-0.080	-0.124**	0.017	-0.015	-0.056	1.000

Where:

NON-GAAP: Disclosure of non-GAAP earnings - Binary (Yes (1)/No (0))
REPREG Reporting regime – Binary (IFRS (1) /Prior NZ GAAP (0))
MKTBK Market-to-book value of equity
GROWTH Sales growth – percentage change from prior year
LEV : Leverage (Total liabilities/Total assets)
*ΔPROFIT :*Percentage change in profit from prior year
ΔSHAREPRICE : Percentage change in year end share price from prior year
LOSS Loss-reported in current year – Binary (Yes (1)/No (0))

Table 6 - Logistic regression results for association with disclosure of Non-GAAP Earnings

	Model 1	**Model 2**
Test Variable		
REPREG		1.092 (0.002)**
Control Variables		
MKTBK	-0.154 (0.089)	-0.088 (0.335)
GROWTH	-0.003 (0.398)	-0.003 (0.436)
LEV	2.546 (0.001)**	2.399 (0.002)**
ΔPROFIT	0.000 (0.888)	0.000 (0.879)
ΔSHAREPRICE	-0.003 (0.349)	-0.001 (0.665)
LOSS	0.854 (0.121)	0.597 (0.285)
IND (Industry dummies)	Included	Included
Constant	0.596 (0.477)	-0.038 (0.966)
N	320	320
Cox & Snell R^2	0.140	0.168
Nagelkerke R^2	0.208	0.249

* and ** highlight significance at the 0.05 and 0.01 levels where the level of significance is two-tailed

NON-GAAP	Disclosure of non-GAAP earnings - Binary (Yes
REPREG	Reporting regime – Binary (IFRS (1) /Prior NZ
MKTBK	Market-to-book value of equity
GROWTH	Sales growth – percentage change from prior year
LEV	Leverage (Total liabilities/Total assets)
ΔPROFIT	Percentage change in profit from prior year
ΔSHAREPRICE	Percentage change in year end share price from

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LOSS	Loss-reported in current year – Binary (Yes (1)/No
IND	Industry indicator variables (Broad industry

The Pearson correlations given in Table 5 show that NON-GAAP is significant and positively correlated with the reporting regime (REPREG), leverage (LEV) and loss (LOSS).

Table 6 reports two variations of the logistic model. Model 1 includes all variables except reporting regime (whether or not the company is reporting under IFRS) whereas Model 2 includes the reporting regime variable (REPREG). The models are significant and the pseudo R^2 are 20.8 and 24.9 percent respectively. Including the reporting regime variable (REPREG) into Model 2 increases the strength of the model.

In Model 1 disclosure of NGE is significantly positively associated with leverage (LEV). This confirms prior research findings that firms with higher leverage are more likely to disclose NGE (Hodgson and Stevenson-Clarke, 2000; Bhattacharya *et al.*, 2004; Lougee and Marquardt, 2004; Bowen *et al.*, 2005).

Model 2 incorporates the test variable REPREG. The coefficient is positive and significant at the 0.01 level and consistent with Model 1 the control variable leverage (LEV) is positive and significant.

The results support Hypothesis one which predicts a significant association between the use of NGE and reporting under IFRS.

6.2 Hypotheses two and three

Hypothesis two tests whether the reporting of NGE figures has decreased with the increasing time interval since IFRS adoption. Using the data in Table 4, a correlation between the time period post-IFRS adoption and the proportion of NGEs gives a figure of -0.319 with a p-value of 0.601 which is not significant. This indicates that there is not a clear downward trend in NGE reporting as the time interval from IFRS reporting increases.
Hypothesis three predicts that reported NGE figures are higher than the NPAT figures reported under GAAP. Table 7 reports the results of a test on the means and medians of NGE and NPAT for each of the eight years.

Table 7 - Tests for differences on means and medians between net profit after tax (NPAT) and reported non-GAAP earnings (NGE)

		$ million		**Scaled by number of shares**	
Year	**N**	**Test on means**	**Test on medians**	**Test on means**	**Test on medians**
		t-stat *(p-value)*	**Z-stat *(p-value)***	**t-stat *(p-value)***	**Z-stat *(p-value)***
2013	16	-1.328	-1.655	-1.646	-1.551
		(0.204)	*(0.098)*	*(0.121)*	*(0.121)*
2012	17	-2.466*	-2.769**	-3.160**	-3.195**
		(0.025)	*(0.006)*	*(0.006)*	*(0.001)*
2011	4	0.046	-0.365	0.912	0.000
		(0.966)	*(0.715)*	*(0.860)*	*(1.000)*

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2010	6	-0.101	-0.314	-0.213	-0.135
		(0.923)	*(0.753)*	*(0.840)*	*(0.893)*
2009	14	-2.053*	-2.605**	-2.268*	-2.668**
		(0.061)	*(0.009)*	*(0.041)*	*(0.008)*
2008	10	1.051	-1.376	0.742	-1.274
		(0.321)	*(0.169)*	*(0.477)*	*(0.203)*
2007	8	1.133	-0.840	0.510	-0.507
		(0.295)	*(0.401)*	*(0.626)*	*(0.612)*
2006	6	-0.101	-0.314	-0.213	-0.135
		(0.923)	*(0.753)*	*(0.840)*	*(0.893)*
2005	4	0.046	-0.365	0.912	0.000
		(0.966)	*(0.715)*	*(0.860)*	*(1.000)*
2004	4	0.221	-0.365	0.911	-0.535
		(0.839)	*(0.715)*	*(0.429)*	*(0.593)*

* and ** indicate significance at the 0.05 and 0.01 levels where the level of significance is two-tailed

The tests are conducted on both actual value ($million) and scaled values. There are significant differences between NPAT and NGE for 2009 and 2010 for both means and medians based on t-tests and Wilcoxon tests. Prior to 2009 and in 2011 the results are not significant. This finding partially supports Hypothesis three. The tests are also completed excluding those companies with only tax adjustments in 2010 and 2011 but the results are the same.

7. Conclusion

There are two competing reasons for the disclosure of alternative profit measures: either that managers provide additional information they believe is relevant to users (the signalling hypothesis) or that they seek to emphasise aspects of performance to investors which reflect well on management (the manipulation hypothesis). Past research on testing the signalling and manipulation hypotheses has been concentrated on the US capital market and has provided mixed evidence. Research in other jurisdictions with different sizes of capital market, such as French, can contribute to the existing literature.

This study investigates the reporting of NGE in company annual reports for a sample of French listed companies that adopted IFRS. Our research found that there is an increasing trend over the eight-year period in the number of companies reporting NGE: increasing from 10 percent in 2004 to 40 percent in 2011. Multivariate analysis confirms that the disclosure of NGE is positively associated with the adoption of IFRS, i.e. that this increase is likely to be due, in part at least, to the introduction of IFRS. The impact of IFRS adoption provides an opportunity to test the two alternative explanations.

The results indicate that while there is some decline in the number of companies reporting NGEs post-IFRS period, the decline is not significant. Additionally, while 51 of the 79 NGE figures reported are higher than the corresponding NPAT figure these differences are significantly different only for 2009 and 2010. Thus the study provides weak support for the manipulation hypothesis.

The reporting of higher NGE figures than NPAT figures and the rate of reporting of NGEs may both decline in the future with the introduction of the guidelines by the FMA. These guidelines state that NGE information must not be misleading and should be unbiased and not used to remove or

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disguise 'bad news.' This is an interesting area for future research. Additionally, a qualitative study involving interviews with the people who are responsible for deciding what information should be included in the companies' annual reports would provide insights into management's stated motivations for reporting NGE figures.

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