



Beyond the bottom line – unpacking IFRS 18



With You Today

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Polling question

Which of the following best describes your implementation status of IFRS 18 which will take effect from 1 January 2027 and apply retrospectively?

- A. (Substantially) completed
- B. In progress
- C. Not started yet



Main changes

Subtotals and categories in the income statement

2 new defined subtotals

- operating profit
- profit before financing and income taxes

3 new categories for classifying income and expenses

- operating
- investing
- financing

Additional requirements for classification of income and expenses by **companies with specified main business activities**

Management-defined performance measures (“MPMs”)

MPMs are defined: some but not all ‘non-GAAP’ measures are captured

Disclosure of information about MPMs in the notes to financial statements

Aggregation and disaggregation of information

Consider **roles of primary financial statements and notes** when deciding where to provide information

Enhanced principles of aggregation vs disaggregation based on **shared vs non-shared characteristics**

Some companies will be required to disclose **specified expenses by nature** in the notes

Labelling items as ‘other’

Subtotals and categories in the income statement

Illustrative example on IFRS 18 (extract)

Statement of profit or loss

XYZ Group—Statement of profit or loss for the year ended 31 December 20X2

		(in thousands of CU)	
	Note	20X2	20X1
Revenue		367,000	353,100
Cost of sales	1	(241,600)	(224,100)
Gross profit		125,400	129,000
Other operating income	2	12,200	4,100
Selling expenses	1	(28,900)	(27,400)
Research and development expenses	1, 2	(25,100)	(25,900)
General and administrative expenses	1, 2	(20,900)	(22,400)
Goodwill impairment loss	1, 2	(4,500)	—
Other operating expenses		(1,200)	(5,600)
Operating profit	2	57,000	51,800
Share of profit and gains on disposal of associates and joint ventures ^(a)	2	5,300	7,300
Profit before financing and income taxes		62,300	59,100
Interest expenses on borrowings and lease liabilities		(13,000)	(13,200)
Interest expenses on pension liabilities and provisions		(6,500)	(6,000)
Profit before income taxes		42,800	39,900
Income tax expense	2	(10,700)	(9,975)
Profit from continuing operations	2	32,100	29,925
Loss from discontinued operations		—	(5,500)
PROFIT		32,100	24,425

Categories

Operating
(‘residual’ category)

Investing

Financing

Income tax

Discontinued operation

Not aligned with
classifications in
the cash flow
statement

 New items
 Required items

General requirements: **investing** category

Income and expenses from **assets**

Investments in associates,
joint ventures and unconsolidated subsidiaries

Cash and cash equivalents

Other assets that generate a return
individually and largely independent of the
company's other resources ('non-operating'
assets)



Examples of 'non-operating' assets:

- debt or equity investments
- investment properties
- receivables for rent generated by investment properties

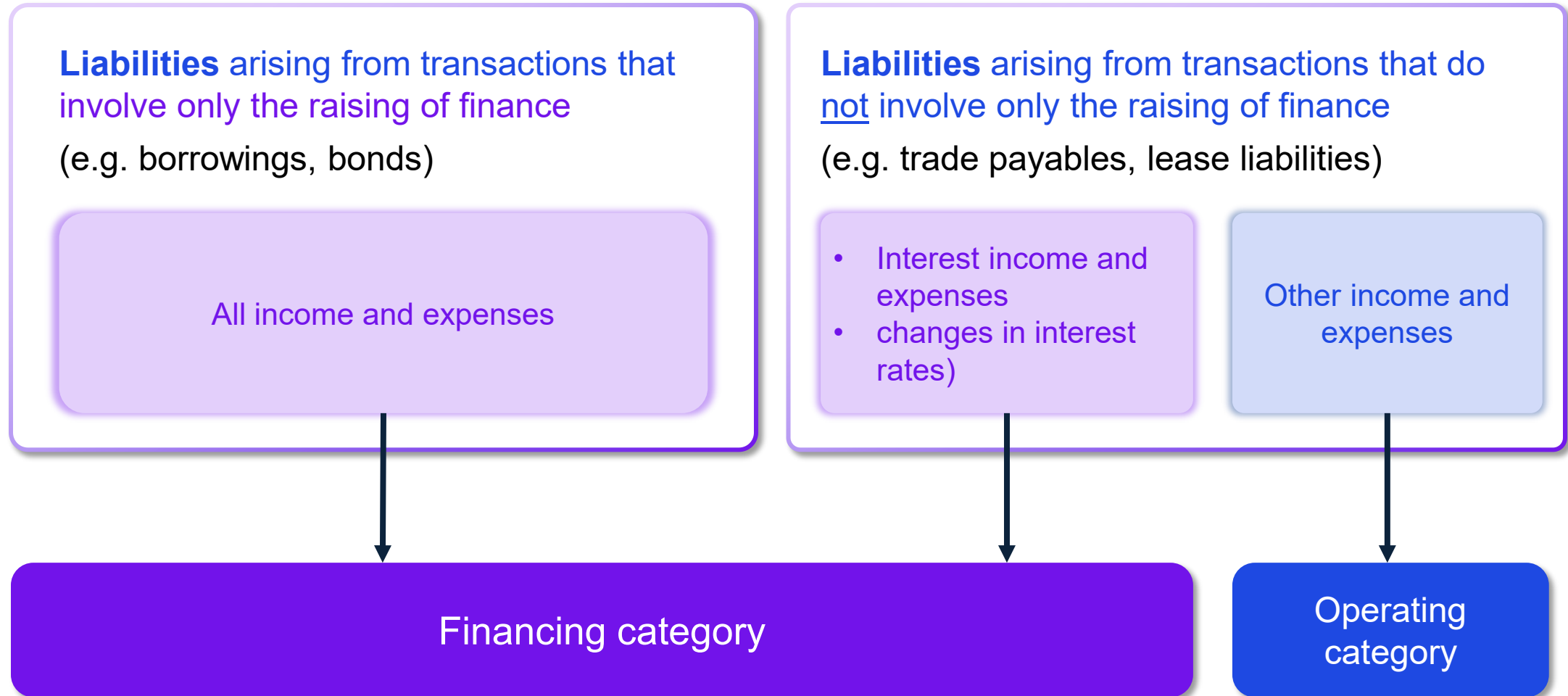


Examples of operating assets:

- Property, plant and equipment
- Trade receivables



General requirements: **financing** category



Specific requirements for companies with specified main business activities ('SMBA')

Assessment of SMBA

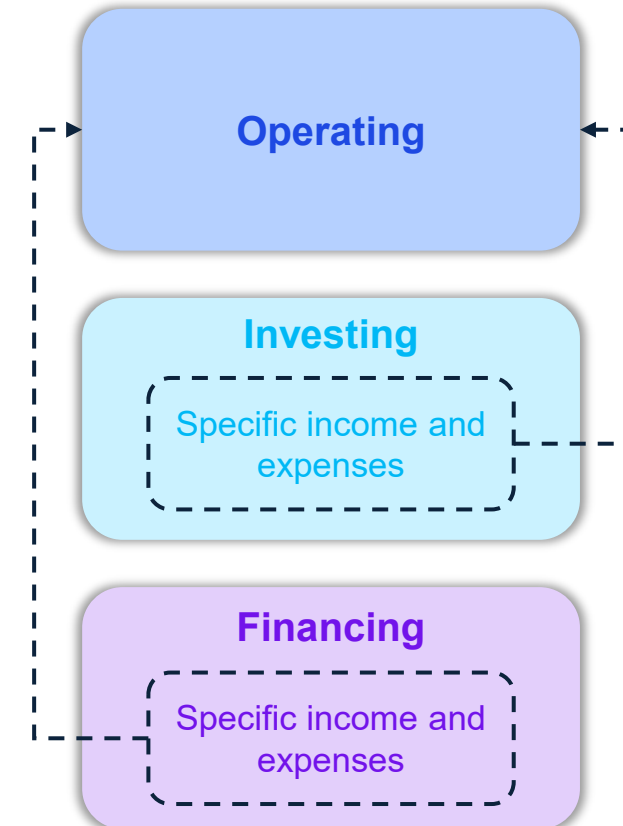
Investing in assets
(e.g. insurers, investment property companies)

Providing financing to customers
(e.g. banks and other lending institutions)

- Assessment is performed from the perspective of the **reporting entity as a whole**: group vs standalone financial statements
- Does the company use a subtotal similar to gross profit as an important indicator of its operating performance
- Consider segment information for evidence of SMBA

Evidence-based assessment; judgement required

Classification of income and expenses by companies with SMBA



IFRIC discussion: classification of a foreign exchange ('FX') difference from an intragroup monetary liability (or asset)

Fact pattern:

- An entity enters into a loan with its subsidiary who has a different functional currency
- The intragroup loan:
 - is denominated in the functional currency of either the entity or the subsidiary
 - is not part of the entity's net investment in the subsidiary
- In the entity's consolidated financial statements, the asset, liability, income, expense and cash flow relating to the intragroup loan are fully eliminated, except for the FX difference

Question: How to classify the FX difference arising from the intragroup loan?

View 1: In the operating category which is the default category

View 2: In the same category in which the income and expenses from the intragroup loan would have been classified before their elimination on consolidation, or, if doing so would involve undue cost or effort, in the operating category

Requirements for classifying FX differences

- In the **same category** as the income and expenses from the items that gave rise to the FX differences
- In the **operating** category if require **undue cost or effort**

Polling question

How to classify the FX difference arising from the intragroup loan that is eliminated in the consolidated financial statements?

- A. In the operating category which is the default category
- B. In the same category in which the income and expenses from the intragroup loan would have been classified before their elimination on consolidation, or, if doing so would involve undue cost or effort, in the operating category



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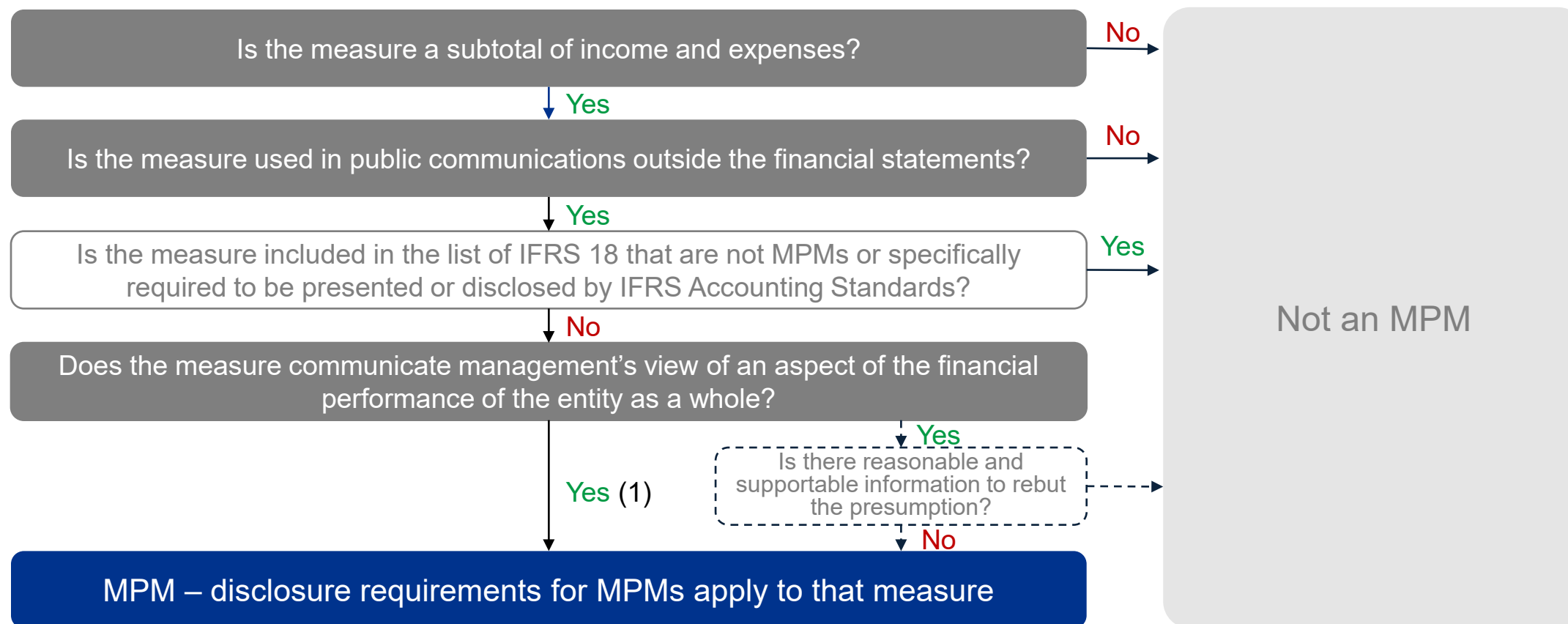
Status of the discussion

- 7 Committee members concluded that view 1 is the only reasonable reading of IFRS 18.B65
- 7 Committee members concluded that both view 1 and view 2 are reasonable readings of IFRS 18.B65

Tentative agenda decision open for comments by **25 November 2025**

Management- defined performance measures ('MPMs')

Identifying MPMs



(1) It is presumed that a subtotal of income and expenses used in public communications communicates management's view.
---> A company is not required to consider whether to rebut the presumption.

Subtotals of income and expenses

Performance measures		
Subtotals of income and expenses		Other measures that are <u>not</u> subtotals of income and expenses, e.g.
MPMs, e.g.	Specified or required subtotals, e.g.	
- Operating profit before restructuring costs - Adjusted EBITDA	- Gross profit and similar subtotals - Operating profit before depreciation, amortisation & impairments within IAS 36 - Operating profit - Profit or loss before income taxes - Profit or loss from continuing operations	- Adjusted revenue - Free cash flow - Financial ratios,* e.g. return on assets - Non-financial measures, e.g. customer satisfaction index, ESG scores

* A subtotal that is the **numerator** or **denominator** in a financial ratio is a MPM if it would meet the definition of a MPM if it were not part of a ratio.

Public communications



Scope



- Management commentary
- Press releases
- Investor presentations
- A regulatory filing with authorities that is available to the general public

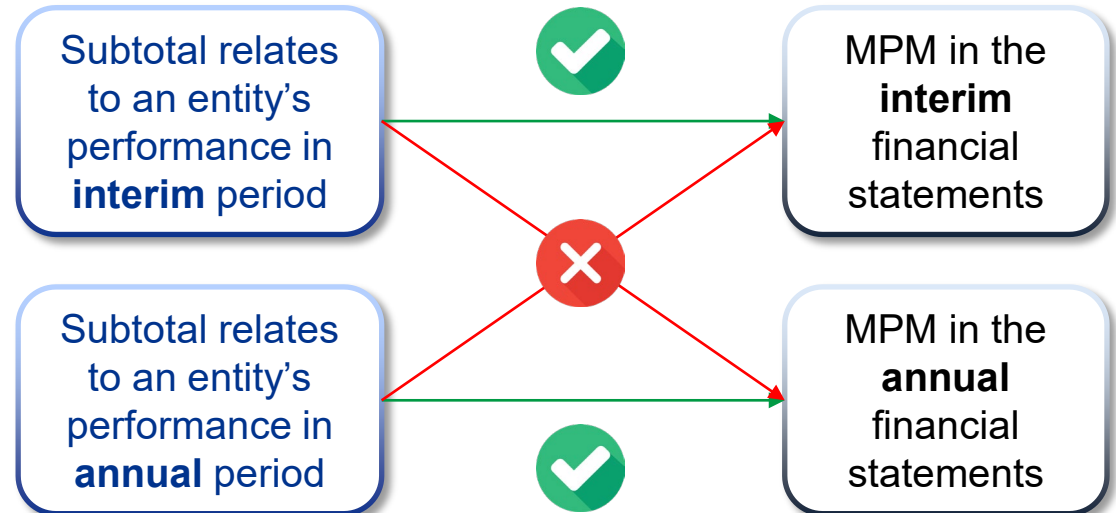


- Oral communications
- Written transcripts of oral communications
- Social media posts



Timing

Consider only public communications **related to the reporting period** to identify MPMs for the reporting period



Disclosures of MPMs

In a single note

State

- MPMs provide management's view of an aspect of the entity's financial performance
- MPMs are not necessarily comparable with other entities' measures that share similar labels or descriptions

Describe

- the aspect of financial performance that the MPM communicates
- why the MPM provides useful information about the entity's performance
- how the MPM is calculated, including whether and how the measure differs from accounting policies in IFRS Accounting Standards

Reconcile

- between the MPM and the most directly comparable subtotal listed in IFRS 18 or total/ subtotal required to be presented or disclosed by IFRS Accounting Standards

For each reconciling item, disclose

- the amounts related to each line item presented in the income statement
- how the reconciling item is calculated and contributes to the MPM providing useful information
- tax and non-controlling interest effects

- Comparative information required.
- Any changes in MPMs need to be explained and comparative information must be restated, unless impracticable.

Practical implications

Practical implications



Changes to processes and systems



Effects on contracts, agreements and compensation

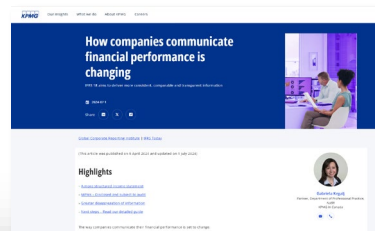


Internal education and external communication

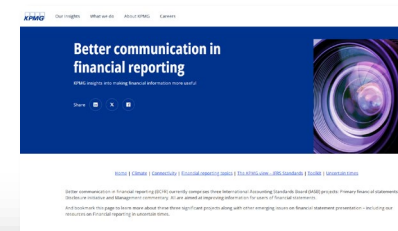
Useful resources



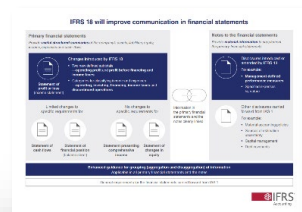
[Presentation and disclosure – IFRS 18](#)



[How companies communicate financial performance is changing](#)



[Better communication in financial reporting](#)



[IFRS 18 on one page](#)



[Effects Analysis: IFRS 18 Presentation and Disclosure in Financial Statements](#)



[Feedback Statement: IFRS 18 Presentation and Disclosure in Financial Statements](#)



[Project Summary: IFRS 18 Presentation and Disclosure in Financial Statements](#)



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