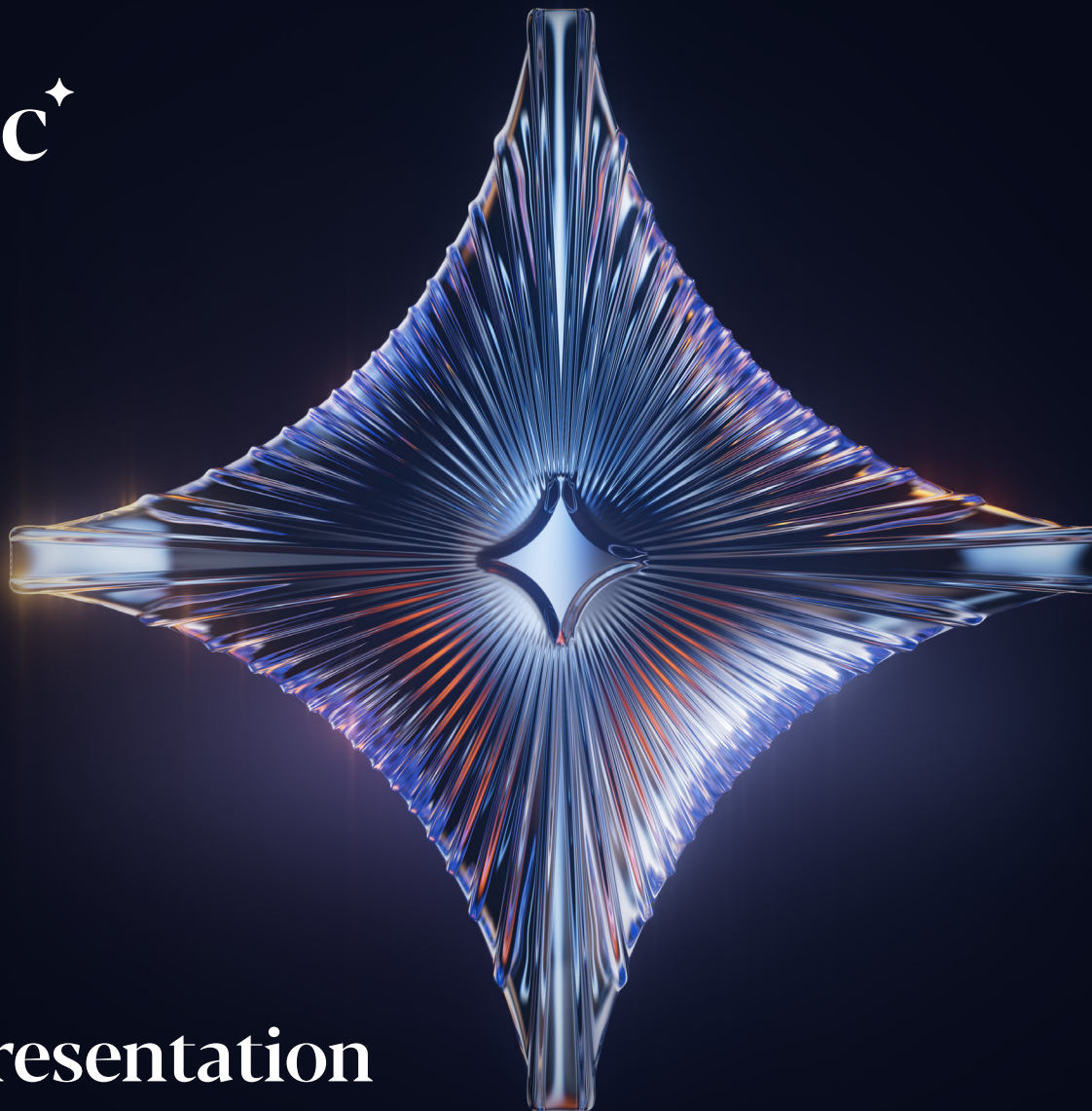




IFRS 18: Presentation and disclosure in financial statements

A detailed guide for directors, audit committees and finance teams

Effective date

IFRS 18 applies for annual reporting periods beginning on or after 1 January 2027, with retrospective application. For a 31 December year-end, 2026 will form the comparative period and be restated meaning entities should assess the impact now and ensure the necessary information is captured during 2026. The requirements will also apply from the first interim reporting period in 2027. Early adoption is permitted.

1. Background and purpose

IFRS 18 replaces IAS 1 Presentation of Financial Statements. Its primary objective is to improve the comparability and transparency of how entities communicate financial performance. The standard introduces a more defined structure for the statement of profit or loss, new requirements for management-defined performance measures (MPMs), and enhanced principles for aggregation and disaggregation. Recognition and measurement requirements for assets, liabilities, income and expenses are not changed by IFRS 18, but where and how items are disclosed and presented can change materially.

For listed groups, this is therefore more than a financial statement formatting exercise. Changes in operating profit and other subtotals can affect investor communication, analyst models, remuneration arrangements, debt covenant calculations and internal performance reporting. Implementation may also require changes to charts of accounts, consolidation mappings, data capture and financial reporting controls. For some entities, the impact of IFRS 18 may be relatively limited, with certain requirements formalising existing good reporting practices. However, all entities will experience some degree of change and should assess the implications for their financial statements, disclosures, systems and reporting processes.

2. Statement of profit or loss: new categories and subtotals

IFRS 18 requires income and expenses to be classified into five categories: operating, investing, financing, income taxes and discontinued operations. The operating category is a residual category. In other words, income and expenses are included in operating unless IFRS 18 requires them to be classified elsewhere. This is important because management cannot simply designate unusual, volatile or non-recurring costs as non-operating.

Operating category

The operating category is intended to capture the results of an entity's main business activities. It is defined as the residual category after applying the specific requirements for investing, financing, income taxes and discontinued operations. The operating category is not intended to show only normalised or recurring levels of performance and so will include volatile or unusual items of income or expense, if they occur. Similarly as it includes income and expenses not captured by the other categories, it will include items that may not intuitively feel like "operating" items. Items such as restructuring costs, impairments and provisions may therefore remain within operating profit even where management excludes them from an adjusted performance measure.

Investing category

The investing category generally includes income and expenses from assets that generate returns largely independently of the entity's other resources, together with specified returns from cash and cash equivalents and investments in associates and joint ventures. Classification can differ where investing in particular types of assets is a specified main business activity.

Financing category

The financing category captures specified income and expenses arising from liabilities that involve only the raising of finance, and certain interest effects on other liabilities. The detailed rules require close attention to debt instruments, lease liabilities, pension liabilities, provisions, derivatives and hybrid arrangements.

Mandatory subtotals

- ✦ Operating profit or loss.
- ✦ Profit or loss before financing and income taxes, subject to relevant exceptions for entities with specified main business activities.
- ✦ Profit or loss, together with the existing income tax and discontinued operation presentation requirements.

Practical tip: income statement and statement of cash flow classification differences

The operating, investing and financing categories under IFRS 18 are not aligned with those in IAS 7. Entities should therefore assess classification separately for the income statement and statement of cash flows. For example, proceeds from the disposal of property, plant and equipment are investing cash flows, while the related gain or loss is generally classified as operating in the income statement.



Example income statement (for an entity that does not have specified main business activities of investing in assets or providing finance to customers):

Revenue	
Cost of sales	
Gross profit	
Other operating income	
Selling expenses	
Research and development expenses	
General and administrative expenses	
Goodwill impairment loss	
Other operating expenses	
Operating profit	Operating
Share of profit or loss of associates and joint ventures	
Other investment income	
Profit before financing and income tax	Investing
Interest expense on borrowings and lease liabilities	
Interest expense on pension liabilities and provisions	
Profit before tax	Financing
Income tax expense	
Profit from continuing operations	Income taxes
Loss from discontinued operations	
Profit for the year	Discontinued operations

Key	
	New items
	Required items

3. Specified main business activities

IFRS 18 introduces specific classification requirements for entities for which investing in assets or providing financing to customers is a specified main business activity. There are only two specified main business activities:

1. Investing in assets
2. Providing financing to customers

An entity may have one, both or neither of these activities.

For most entities, returns from investments and financing activities are shown outside operating profit. However, if generating those returns is actually the entity's main business, excluding them from operating profit would make operating profit meaningless so IFRS 18 requires entities to make this assessment and prepare the income statement on this basis.

The assessment is fact-specific and is made at the reporting-entity level. Consequently, a subsidiary may classify an item differently in its own financial statements from the classification required in the consolidated financial statements of the parent.

Director focus

Consider if there is a specified-business-activity assessment early. It can materially affect operating profit and may create consolidation reclassifications for diversified groups, financial services operations, those that lease assets and investment-led businesses.

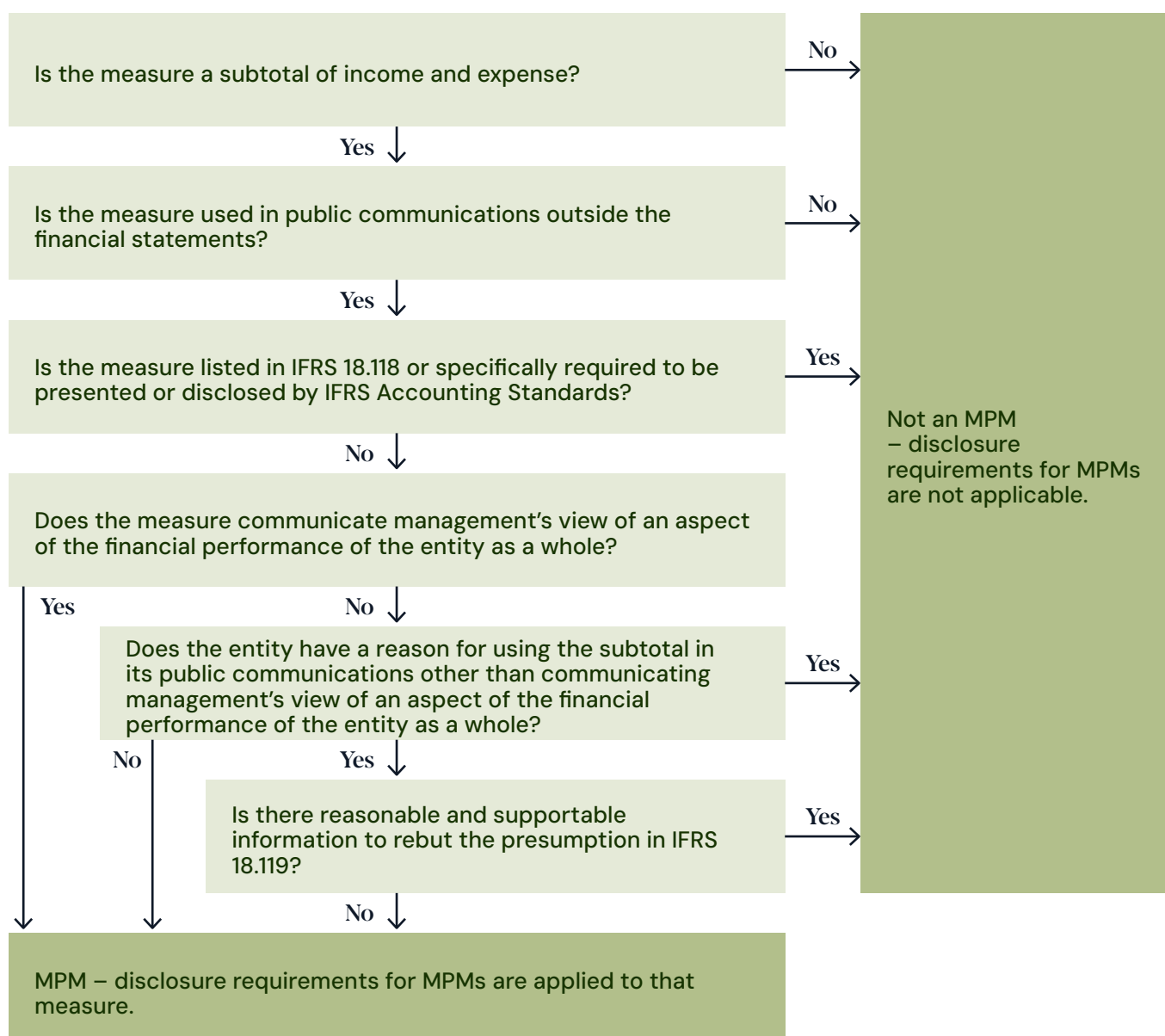
4. Management-defined performance measures ("MPM")

One of the most significant changes for listed entities is the introduction of MPM requirements. An MPM is, broadly, a subtotal of income and expenses that is used in public communications outside the financial statements, communicates management's view of an aspect of the entity's financial performance as a whole, and is not a subtotal specifically required by IFRS Accounting Standards.

Common measures that may require assessment include adjusted operating profit, adjusted EBIT, adjusted EBITDA and similar profit-based measures. However, not every KPI or alternative performance measure is an MPM. For example, revenue measures, balance sheet measures and cash-flow measures do not meet the definition solely because they are alternative performance metrics.

MPMs are a subset of the performance metrics an entity may choose to present, and do not include all measures that an entity may present. MPMs do not include:

- ✦ subtotals required by IFRS Accounting Standards.
- ✦ subtotals of only income or only expenses;
- ✦ subtotals explicitly excluded from being MPMs by IFRS 18, including gross profit or similar subtotals. A subtotal is similar when it depicts the difference between a type of revenue and a directly related expense incurred in generating that revenue;
- ✦ metrics that are not subtotals of income and expenses such as financial ratios; or
- ✦ subtotals that management only uses internally.



Required MPM disclosures

- ✦ A description of the aspect of financial performance that the measure communicates and why management considers the measure useful.
- ✦ How the MPM is calculated.
- ✦ A reconciliation between the MPM and the most directly comparable subtotal or total specified by IFRS Accounting Standards.
- ✦ The income tax effect and the effect on non-controlling interests for each reconciling item, where required.
- ✦ Explanations of changes to the calculation of an MPM, introduction of a new MPM or cessation of an existing MPM.

The disclosures are brought within the financial statements and therefore MPMs published in other communications. Will now fall within the scope of the audit. Finance teams will need appropriately controlled data and evidence supporting the calculation, reconciliation, tax effects and explanations of why the measure is useful.

5. Aggregation, disaggregation and expense information

IFRS 18 strengthens the principles for determining whether information should be aggregated or disaggregated in the primary financial statements and notes. Entities must consider whether items share characteristics and whether aggregation could obscure material information. Labels must faithfully represent the items included, increasing scrutiny over broad captions such as "other expenses" or "other income".

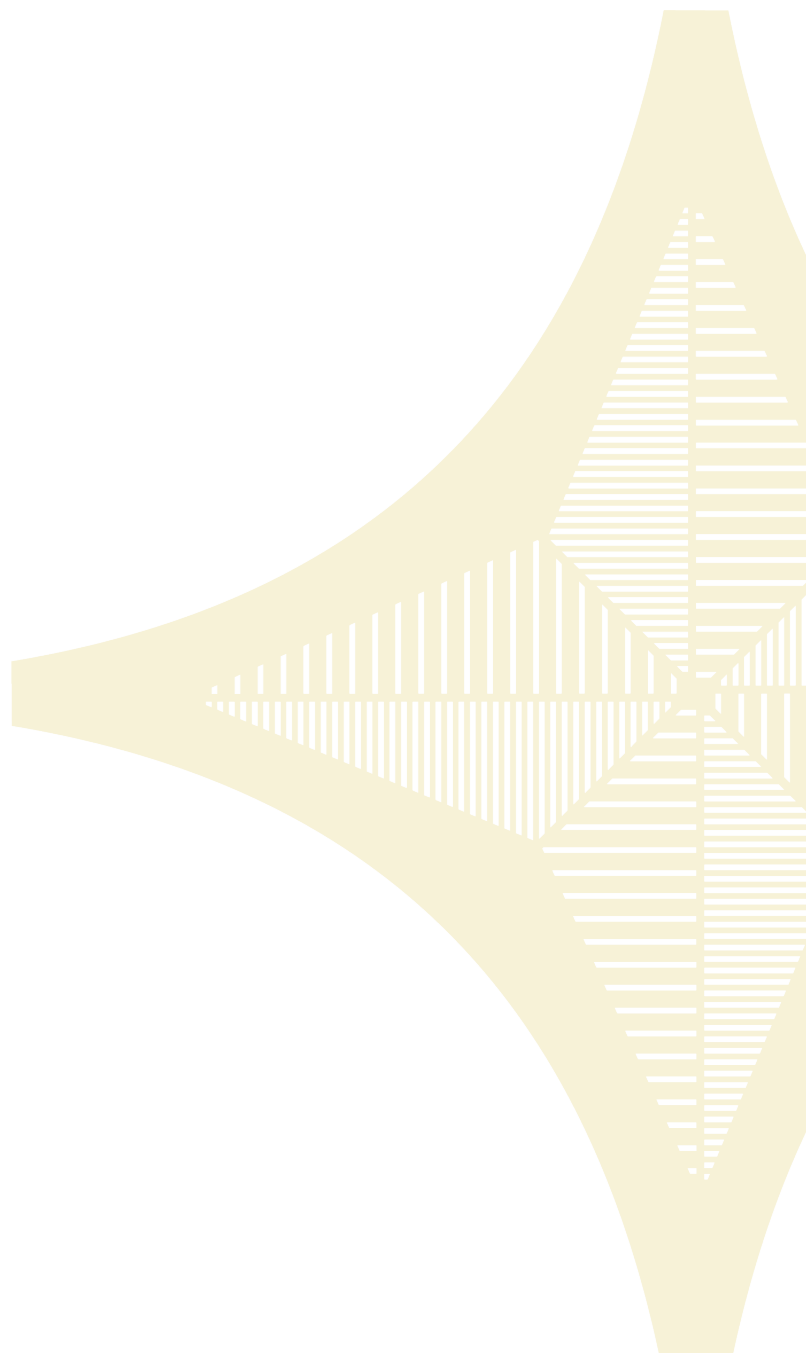
There are also enhanced requirements where operating expenses are presented by function. Entities must present operating expenses using classification by nature, by function, or both, according to whichever presentation provides the most useful structured summary of their expenses. This is a judgement-based requirement, not an unrestricted choice.

Where an entity presents operating expenses by function, it must also provide a single note showing a breakdown of certain expenses by nature, including depreciation, amortisation, employee benefits, IAS 36 impairment losses and inventory write-downs. This could create a significant systems and data challenge where ledgers are primarily structured around cost centres or functions.

6. Statement of cash flows and other consequential amendments

IFRS 18 makes consequential amendments to IAS 7. For entities using the indirect method, operating profit is generally the starting point for reconciling to cash flows from operating activities. The existing classification choices for interest and dividend cash flows are reduced. For many entities without relevant specified main business activities, interest and dividends received will be classified as investing cash flows, while interest and dividends paid will be classified as financing cash flows.

There are also consequential amendments affecting IAS 33. Additional earnings per share measures disclosed in the financial statements are more constrained and link to specified IFRS subtotals or MPMs. IFRS 18 also introduces or relocates certain presentation requirements, including the requirement to present goodwill separately on the balance sheet. Goodwill can therefore no longer be aggregated within a broader intangible assets line item.



7. Areas likely to be impacted most

Area	Why it requires attention
Foreign exchange	FX differences generally follow the classification of the underlying item. Groups may need more granular data to trace FX to operating, investing or financing items.
Associates and joint ventures	Share of profit or loss from equity-accounted investments is classified in investing, which may change existing operating subtotals.
Funding and treasury	Interest, derivatives, hybrid instruments and financing components need detailed classification analysis. Treasury mappings may no longer align automatically with IFRS 18 categories.
Impairments and provisions	Management may historically describe certain charges as exceptional or non-operating, but the IFRS 18 operating category can still include them.
Functional expense presentation	Entities will need to reassess whether presentation by function remains appropriate and, where it is used, provide additional disclosures of specified expenses by nature. This may require more granular expense information and changes to existing reporting processes and systems.
Adjusted profit measures	Measures used publicly must be inventoried and assessed for MPM status. Changes to definitions need governance and may affect market messaging.
Groups with diverse activities	Main-business-activity assessments can differ by reporting entity, requiring consolidation adjustments and clear policies.



8. Practical implementation guidance

1. Establish an IFRS 18 project owner

Assign clear responsibility across technical accounting, group reporting and investor relations, with audit committee visibility. Agree milestones for accounting conclusions, systems changes, comparative dry runs and external communication.

2. Map every material income and expense stream

Start from the current chart of accounts and consolidation pack. Identify the expected IFRS 18 category for each material account and flag items that require transaction-level analysis rather than account-level mapping.

3. Perform the main-business-activity assessment

Consider external and internal evidence and document the conclusion separately for relevant reporting entities. Revisit the assessment if business activities change.

4. Build an MPM inventory and track MPMs

Review annual reports, results announcements, investor presentations, websites and other public communications. Determine which measures are MPMs and whether management wishes to continue using them once the additional disclosure and audit requirements apply.

5. Complete a systems and data gap analysis

Assess whether current systems capture classification by category, FX by underlying item, expenses by nature and function, and the information necessary to reconcile MPM adjustments including tax and NCI effects.

6. Prepare 2026 shadow reporting

For calendar year-end entities, prepare the 2026 comparative information under IFRS 18 before the first 2027 reporting deadline (which may be the interim reporting date). Test both the annual-report presentation and the first interim reporting requirements.

7. Update controls and governance

Introduce controls over classification, main-business-activity conclusions, MPM completeness, reconciliation accuracy, public communications and transition disclosures. Ensure new or unusual transactions are considered before period end.

8. Assess wider commercial impacts

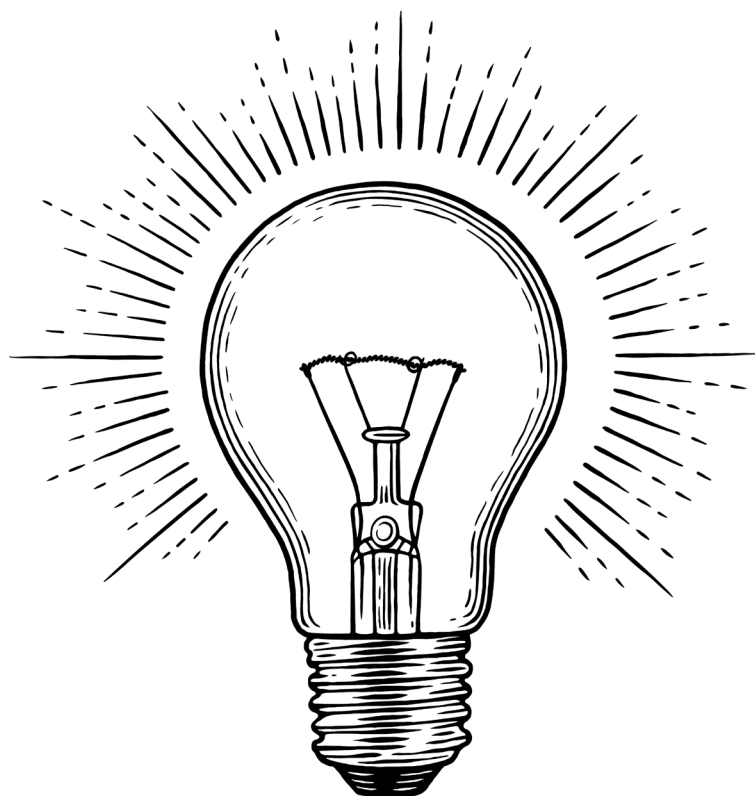
Review debt agreements, remuneration arrangements, earn-outs, forecasts, valuation models and internal KPIs for references to operating profit, EBIT, EBITDA or other measures that may be affected by changed presentation.

9. Transition and interim reporting

IFRS 18 is applied retrospectively in accordance with its transition requirements. This means comparative information is restated. For a 31 December year-end group, the 2027 annual financial statements will present 2026 comparatives on an IFRS 18 basis. The new requirements also affect interim reporting under IAS 34, meaning the transition work cannot be deferred until the 2027 year-end process.

Entities should plan for the required transition information explaining changes between amounts presented under the previous IAS 1 structure and the IFRS 18 presentation. In the first annual financial statements applying IFRS 18, an entity discloses a reconciliation for each line item in the comparative statement of profit or loss, from the amounts previously reported under IAS 1 to the restated amounts. The same reconciliation is required in interim financial statements in the year of adoption.

Preparing this reconciliation during the 2026 shadow-reporting exercise will help identify classification and data issues early.



10. What directors and audit committees should look out for

- ✦ Whether management has quantified the effect on operating profit and other headline measures before external guidance or market communication is updated.
- ✦ Whether all potential MPMs used in public communications have been identified, rather than only measures currently disclosed in the annual report.
- ✦ Whether changes to EBITDA or operating profit definitions have consequences for covenants, remuneration schemes or contractual arrangements.
- ✦ Whether there are specified main business activities, even where those are incidental to the main trade, for example manufacturer lessors.
- ✦ Whether significant classification judgements, particularly main business activities, financing arrangements, FX and derivatives, are supported by clear accounting papers.
- ✦ Whether systems and controls are capable of producing the new information with an appropriate audit trail, including tax and NCI effects for MPM adjustments.
- ✦ Whether investor relations, finance and the board are using consistent definitions and explanations across the annual report, results announcement and presentations.
- ✦ Whether the first 2027 interim timetable allows sufficient time for the new presentation, comparative information and MPM disclosures to be reviewed and audited/reviewed as applicable.
- ✦ Whether implementation has been treated as a proactive cross-functional project rather than solely as a reactive disclosure checklist exercise.

Practical takeaway

The most effective implementation approach is to use 2026 as a controlled dry-run period. Resolve classification judgements, produce a shadow IFRS 18 income statement and MPM note, test the supporting systems and controls, and brief directors on changes to reported performance well before the first 2027 interim reporting deadline.



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