IFRS Insights | IFRS 18

Management Performance Measures - A New Disclosure Requirement Under IFRS 18

Your "Adjusted EBITDA" Is Walking into the Audit Room: IFRS 18 Decides Whether It Gets In

01 Scope & the MPM test

Who does this apply to?

Any entity applying IFRS 18 that uses such measures in public communications outside the financial statements: press releases, investor presentations and management commentary.

No such measures? Nothing extra to disclose.

What is an MPM? 3-part test

1. Used publicly, outside the financial statements
2. Communicates management's view of performance of the entity as a whole
3. Not a para 118 subtotal, nor one IFRS specifically requires

Fine print. Test 2 is presumed met. To rebut it, show both: management does not stress or use it internally, and you publish it for another reason (law or regulation, non-IFRS accounts, an outsider's request, non-financial info). Oral comments, transcripts, social media posts and internal-only measures do not count. If any test fails, the measure is not an MPM.

02 Outside the MPM perimeter

Excluded MPM (Para 118)

- Gross profit
- Operating profit before depreciation, amortisation and impairments (IAS 36)
- Operating profit + income and expenses from equity-accounted investments
- Operating profit + all investing-category income and expenses (entities applying para 73)
- Profit before income taxes
- Profit from continuing operations

Gross profit Equivalent (Para B123) – Not MPM

Any subtotal showing a type of revenue minus its directly related expenses is treated like gross profit. Banks and insurers, this one is for you:

- Net interest income
- Net fee and commission income
- Insurance service result
- Net financial result
- Net rental income

03 MPM Checklist

A measure needs both income AND expenses in it. Check the boxes: Then check all three MPM tests.

MEASURE	INCOME	EXPENSES	MPM?
Adjusted operating profit (income + expenses)	✓	✓	YES*
Adjusted revenue alone (only income)	✓	✗	NO
Net debt, equity, assets (balance sheet)	–	–	NO
Return on assets, ratios (a ratio)	–	–	NO
Free cash flow (cash, not P&L)	–	–	NO
Churn, headcount, NPS (not financial)	–	–	NO

**An MPM only if it also passes the 3-part test.*

Catch: a ratio is not an MPM, but if its top or bottom part is one (e.g. adjusted EBIT in "adjusted EBIT margin"), that part must be disclosed as an MPM.

04 What You Will Have to Disclose

ONE SINGLE NOTE for every MPM, clearly labelled if it shares space with other information. Everything about MPMs lives in one note: the story, the bridge and the tax trail.

1 *What the number is*

- A clear, non-misleading label; define terms like "non-recurring"
- Why it is useful: the aspect of performance it shows
- How it is calculated

2 *Reconciliation*

- Reconcile to the closest IFRS subtotal
- e.g. adjusted operating profit back to operating profit

3 *Tax effect and NCI*

- Tax and NCI effect of every reconciling item
- How tax was determined: statutory rate, pro-rata allocation or another more appropriate method

Health warning: management's view; may not be comparable with other entities

Change, add or drop an MPM? Explain why and restate comparatives where practicable

1 Jan 2027
Effective date: annual periods beginning on or after

1 note
All MPMs disclosed in a single note in the financial statements

Per item
Tax effect and NCI effect for every reconciling item

Illustrative MPM disclosure note

ABC Group's management-defined performance measures

ABC Group uses the management-defined performance measure, adjusted operating profit, in its public communications. This measure is not specified by IFRS accounting standards. Therefore, it might not be comparable to apparently similar measures used by other entities.
To provide management's view of ABC Group's financial performance, operating profit has been adjusted for items of income or expense that ABC Group does not expect to arise for several future annual reporting periods. ABC Group's management believes adjusting operating profit for such items provides information that is helpful in understanding trends in ABC Group's underlying profitability.

ABC Group generally adjusts for these items of income or expense:

- Impairment losses (or reversals thereof) of property, plant and equipment (including right-of-use assets) and intangible assets (for information related to impairments, refer to Note X Property, plant and equipment, Note Y Intangible assets and Note Z Research and development expenses)
- Restructuring expenses (for information related to restructuring expenses, refer to Note U Employee benefits and Note V General and administrative expenses)
- Non-recurring litigation expenses (for information related to litigation expenses, refer to Note W Provisions and Note V General and administrative expenses)
- Gains or losses on disposal of property, plant and equipment and of intangible assets (for information related to disposal of property, plant and equipment and intangible assets, refer to Note X Property, plant and equipment, Note Y Intangible assets and Note T Other operating income)
- Gains or losses on disposal of subsidiaries, associates and joint
- ABC Group assesses non-recurrence of litigation expenses on a case-by-case basis. ABC Group generally categorises litigation expenses arising from intellectual property disputes, regulatory violations and employee claims as 'non-recurring'.

This classification is based on ABC Group's proactive approach of having in place measures designed to prevent such events from occurring.

Management-defined performance measures 20X2

PARTICULARS	AMOUNT RS. MILLION	INCOME TAX EXPENSE	PROFIT ATTRIBUTABLE TO NCI
Operating profit (IFRS-specified)	68,400		
Gains on disposal of property, plant and equipment (included in 'Other operating income')	(2,100)	(315)	-
Impairment losses:	5,900		295
Included in 'Research and development expenses'	1,700		
Included in 'Goodwill impairment loss'	4,200		
Restructuring expense (included in 'General and administrative expenses')	4,300	(645)	182
Adjusted operating profit (MPM)	**76,500**		

Impairment losses Impairment losses incurred in 20X2 did not yield any tax benefits because they were not eligible for tax deductions in Country A and Country B.

Restructuring expenses The restructuring expenses in 20X2 are related to ABC Group's restructuring programme "Alpha 20X2". These expenses include redundancy expenses, employee retraining expenses and relocation expenses, all related to the closure of several factories in Country C. The tax effect of these restructuring expenses is calculated based on the statutory tax rate applicable in Country C at the end of 20X2, which was 15.0%.

Gains on disposal of property, plant and equipment The tax effect of gains on disposal of property, plant and equipment is calculated based on the statutory tax rate applicable in Country D at the end of 20X2, which was 15.0%

This article was originally researched and written by Hoorain Jahangir, Senior Associate at ProConsult International, based on her independent research into IFRS Standards and other relevant publications. AI tools were used solely to enhance the article's presentation, structure, and readability.